



**FOLLOW-UP AUDIT REPORT
UTILITIES WASTEWATER
BILLING & PAYMENT OPERATIONS**

**FOR THE PERIODS OF
JANUARY 1, 2017 - DECEMBER 31, 2018**

**Ernest Harvin, CIA
Internal Audit Function
Doña Ana County**

AUDIT FOLLOW-UP MEMORANDUM

DATE: September 25, 2020
TO: Fernando Macias, County Manager
FROM: Ernest Harvin, CIA, Internal Auditor
SUBJECT: Results of Follow-Up Review for the Utilities Wastewater Billing & Payment Operations Audit

EXECUTIVE SUMMARY

The Internal Audit Function issued an audit report on September 19, 2019, entitled *Performance Audit of Utilities Wastewater Billing & Payment Operations*, upon which it followed up in July-August of 2020. In response to the follow-up for the original Audit Report's eight Low-level risks and four Moderate-level risks, Utilities Department management indicated that it would be taking corrective actions to implement or respond to Audit Report recommendations.

Utilities Management's actions to implement the recommendations are summarized in the RESULTS section (pg. 3) of this report, and detailed in Exhibit A (pg. 7). The internal auditor assessed evidence of Utilities' implementation of recommendations from the September 2019 Audit Report, and determined the following:

- Recommendations/Corrective actions for four of the four Moderate-level risks are in progress
- Recommendations/Corrective actions for four of the eight Low-level risks were implemented; Corrective actions for three of the eight Low-level risks are in progress; Corrective action for one of the eight Low-level risks is still pending implementation.

BACKGROUND & METHODOLOGY

The internal auditor started an audit of the Utilities Wastewater Billing & Payment Operations on April 11, 2019. The fieldwork was completed on July 19, 2019. The audit resulted in an audit report containing twelve (12) risks/findings. This report contained eight (8) Low-level risks, and four (4) Moderate-level risks. As there were multiple Moderate-level risks, the auditor sought to conduct a 90-Day follow-up review as a means of gaging and reporting on management's progress in addressing audit findings and recommendations. However, the planned 90-Day follow-up review was delayed due to the COVID-19 Pandemic.

In the case of recommendations for Low-level risks, the auditor consulted with Utilities leadership for verbal confirmation of corrective actions taken, and/or performed limited testing. Herein, due to the low level of materiality of these risks, it was not deemed necessary to

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perform in-depth testing to verify the extent to which corrective actions had been taken. For recommendations of Moderate-level risks, the internal auditor both consulted with Utilities leadership verbally and took additional steps to verify the existence of procedures and processes that had been established since the issuance of the original audit report. The results of fieldwork risks/findings are outlined in the next section, and detailed below in Exhibit A.

RESULTS

Finding 1: Lacking SOP Updates. Moderate

Utilities Management committed to (1) prioritize the development of SOPs and produce two or more SOPs per month, and (2) have current SOPs updated and new SOPs implemented by the winter of 2020. *“Approximately 70% (2500 of 3500) of Dona Ana County Utilities costumers are in the Lower Rio Grande Public Works Service area. When the agreement is in place with Lower Rio Grande, staff will have more time to update and implement new SOPs.”*

Conclusion: The Audit notes that the Utilities Department has produced numerous SOPs, which chronicle their operating procedures. While more SOPS are pending, Utilities management has begun producing this necessary guidance.

When asked when more SOPs would be available, management purported, *“When the agreement is in place with Lower Rio Grande, staff will have more time to update and implement new SOPs. We are now anticipating that we will have an agreement with Lower Rio Grande ready to take to the BOCC by December 2020. The Office Supervisor has been working diligently on SOPs, and we anticipate completion by October 30, 2020.”*

Finding 2: Delinquent A/R Notifications. Moderate

Utilities management purported to be working with Lower Rio Grande Public Works Authority to take over the wastewater billing for Doña Ana County Utilities in their service area. *“When the agreement is in place with Lower Rio Grande, Utilities Staff will have more time to go after past due debt.”*

Conclusion: According to Utilities management, *“We have hired the two temps and [they] are currently being trained to start the collections process. Staff is already working with customers to set up payment plans, sending out delinquent account notifications, and currently filing liens against applicable properties.”*

Finding 3: Limited Staff Knowledge. Moderate

Utilities management confirmed that it would take about a year to fully cross-train the new Accounting Specialist.

Conclusion: According to Utilities management, *“The temp staff is hired and trained, and now cross training has begun.”*

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Finding 4: Aging Wastewater Equipment, Moderate

Utilities management confirmed that it is rehabilitating the backflow/distribution side of Lift Station #7 at a cost of \$135,000. Utilities will be going out to bid for the rehab/upgrades to lift stations 4 and 5 in the Vado area. An additional \$100,000 dollars will be spent in fiscal year 2020 on the rehabilitation of lift stations. With Upper Management’s backing and approval by County Commission, Utilities planned to stop taking septic waste at the Treatment Plant in April of 2020. They are currently working with North American Development Bank on a grant to rehab and upgrade the main lift station (#7) in Vado area. Utilities was given a timeline by the Design Engineer for completion of the Improvements at the South Central Waste Water to be completed by May of 2021.

Conclusion: According to Management, the following progress has been achieved: *“Lift station #7 was divided into two projects; one was the back/flow distribution side and the second project is the pumping side. The rehab of the backflow/distribution side was completed in November of 2019. Our engineering firm is currently working on the design for the pumping side for lift station #7 and construction is scheduled to be complete by July of 2021. We also have spent \$300,000 from our budget to rehab manholes in the South Central collections area, this was completed in the budget year of 2018-2019. The funding for this project is in place through North American Bank. We recently received a grant from the Colonias Board for 2.4 million dollars to rehab the rest of the lift stations. The grant is scheduled to be released in October of 2020 and we will have two years from that time to complete the project. We have also received \$4.7 million from the State Legislative fund to upgrade and rehab the South Central Waste Water Treatment Plant and another \$650,000 from Colonias for the design of the upgrades and rehab of South Central Waste Water Treatment Plant.”*

“The next priority is to stop accepting septic waste at the South Central Waste Water Treatment Plant. We were supposed to cease taking septic on April of 2020. We have made a temporary agreement with Envirotec, [thus] they will be hauling off the septic waste to their facility. Although we [the County] are still accepting septic waste, we are not running it through the Waste Water Plant.”

Finding 5: Incomplete Client Files, Low

Utilities management purported that they need approximately \$15,000 to hire temporary help or for the contracting of an outside agency to get all files scanned-in.

Conclusion: Utilities management has acquired additional staff, who have scanned-in the client files in question, and are attaching these files in Caselle as applicable.

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Finding 6: Inconsistent Folder Data. Low

Utilities management agreed to create an applicable checklist of items that should be in a client's file and to start a review of client files.

Conclusion: Utilities management implemented Payment Plan checklists as well as Wastewater Application checklists, which staff acknowledged in writing. This should allow for future uniformity and eliminate such discrepancies as noted in this finding.

Finding 7: Bad Debt Write-Off. Low

Utilities management agreed to follow the recommendations of finance and legal with regard to bad debt being written off. This process is to happen immediately.

Conclusion: *“For uncollectable debt, such as death of property owner, the debt can be written off with permission of the County Manager as per Resolution No. 2010-59. The County Manager is authorized to settle claims in matters where the County is either the claimant or the respondent where the value of the claim is \$50,000.00 or less”.*

“For all other debt and as per legal, the debt may fall under a statute of limitations as a defense against an action to recover debt older than 4 years, but that would be determined by the courts when enforced. Writing off any debt to an existing open account may send the wrong message to the consumer if we write off anything older than 4 years. We will compile a list of bad debt and submit it to the County Manager to Review.”

Auditor Comment: The Audit notes that the writing off of bad debt or uncollectable debt is often done for accounting purposes, to allow for accurate recordkeeping. Due to legal restrictions the County is not allowed to simply forgive delinquent debts (without proper authorization). Management has acknowledged its familiarity with County policy as well as legal restrictions, and will take the steps required to address the writing off of bad or uncollectable debts, as well as acquire authorization to forgive delinquent debts.

Finding 8: Support Documentation Discrepancies. Low

Utilities management plans to concentrate on the SOPs that apply to the Utilities Department only. After these are done they will look at other SOPs. Management is going to develop 2 to 3 SOPs per month, completing the SOPs in order of importance as listed by staff.

Conclusion: Accurate and updated SOPs should adequately address the discrepancies noted in this finding. While a Posting Payment SOP as well as a number of additional SOPs have been developed, management estimates completion of pending SOPs by 10/30/2020.

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Finding 9: Contract Discrepancies. Low

Per Management, *“We will follow the SOP and any one of three signatures will be allowed to sign off on the payment request for over 6 months or over \$300. The three signatures will be the Utilities Manager, Office Supervisor and Assistant Utilities Manager. We will write an SOP that states 25% down is required, anything less will require approval by Utilities Manager.”*

Conclusion: Management has produced (per the internal auditor’s request) listings of new customers as well as a listing of recently established payment plans, covering the timeframe of Nov 2019 – March 2020.

Auditor Comment: Tests of the listings above indicated that 75% of the payment plans reviewed were error-free, while 85% of new customer file folders agreed with the customer file checklists included in those folders. While this is a noted improvement from an earlier ratio of only 60%, acceptable auditing standards stand at 90%. The Audit noted a lack of consistency amongst staff who fill out the documents for payment plans. However, management has been made aware of this inconsistency, and will address it with retraining by October 30, 2020.

Finding 10: Software Underutilization. Low

Utilities management agreed to take the necessary steps for office staff to receive training for the software.

Conclusion: Utilities management has made inquiries and learned that DAC’s current version of the Caselle System does not have the ability to 1) flag the accounts of clients who violate payment agreements, however the system does allow for staff to 2) distinguish and identify clients who should only receive late payment notices versus those who already have liens against their accounts. Thus, Utilities management has begun utilizing the Caselle System to aid in this process.

Finding 11: Staffing Need. Low

Utilities management stated that their approach will be to solve the dilemma (failure to hire a Wastewater Level III Operator) by building the operators from within. Utilities will provide laborers and lower certified operators, time to attend trainings and to test for the different levels of proficiency.

Conclusion: The internal auditor followed up with management concerning this finding. The following is a written response from management. *“The opening for the level 3 operator has been open for 2 years without having an applicant. I determined that we will have to build operators from within. The City of Las Cruces is doing the same thing by offering to pay for school and books for an eight year commitment when they graduate. I changed the level 3 operator to a Utility Worker and had it posted. We had four applicants and decided to interview*

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them all. None of them showed up to the interview and only one called in and did not want to reschedule it. We reposted the job and it closed on 9/3/20. Interviews are currently pending.”

Finding 12: Extended Connection Times. Low

The Utilities manager has currently taken over the responsibility of documenting, notifying and tracking the progress of work orders. After 3 months, if this new tracking system still does not meet the 2-week turn around, management will look to change the timeline in the application to a longer lead-time.

Conclusion: Per Utilities Management, *“We will update the SOP to state approximately 20-25 working days.”*

Management Letter Items of Importance

After multiple visits to each of DAC’s wastewater treatment facilities and to several lift stations, the internal auditor noted a lack of signage to warn the public of the dangers of breaching each enclosure. Management would be prudent to consider signage for all of its fenced-in facilities.

Conclusion: *“The signs have been received and are mounted at all lift stations.”*

Auditor Comment: Management remitted a sample of pictures as confirmation.

Yet another area of concern to the internal auditor was that only one wastewater treatment facility had life preserver rings stationed, while the other facilities had no life preserver rings nor jackets that could be worn while working around the open effluent pools.

Conclusion: *“Life vest[s] have been received and distributed.”*

EXHIBIT A

Follow-Up Review Finding #	Recommendations	Management Actions Taken	Auditor’s Follow-up	Results
1 Lacking SOPs & Updates	Review, update, and add SOPs accordingly	Multiple SOPs developed/ updated; Pending BOCC approval of a final agreement with Lower Rio Grande	Reviewed newly developed SOPs and Forms	Corrective Actions are being implemented for this finding
2 Delinquent A/R Notifications	Establish and enforce policies and practices that will 1) allow for 30-day payment delinquency notifications, 2) Report delinquencies to credit bureaus, and 3) follow procedures to place & enforce liens	Management has hired additional staff, which have begun the collection process for delinquent accounts	Inquired with Management; Management has already begun the collection process	Corrective Actions are being implemented for this finding
3 Limited Staff Knowledge	Enforce a cross-training program of current office Personnel	Management has hired and begun training staff, to expand office operations knowledge to others	Inquired with Management; Management has begun cross training of staff	Corrective Actions are being implemented for this finding

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4 Aging Wastewater Equipment	Take measures to acquire estimated future capital expenditures; continue taking steps to acquire the funding needed to meet those projected future capital outlays; develop a plan for continued operations in the event of an extended loss of electrical power at wastewater treatment facilities	Management confirmed the rehabilitation of a main lift station; currently has plans and a timeframe for the rehabilitation of remaining lift stations	Inquired with Management; Reviewed approval documentation. Septic waste has ceased being inputted into the Waste Water Treatment Plant	Corrective Actions are being implemented for this finding Management has partially completed lift station repairs
5 Incomplete Client Files	Take the steps necessary to update (scan-in and ensure completeness of) client file folder data	Management has completed the document scan-in required	Inquired with Management; Recommendations accepted	Corrective Actions were implemented for this finding
6 Inconsistent Folder Data	Create an applicable checklist of items that should be in client folders and review client file folders for missing data	Checklists have been created, thus client folders should be more uniformed going forward	Reviewed checklists developed by Management; Reviewed sample of client folders	Corrective Actions were implemented for this finding
7 Bad Debt Write-Off	Follow the standard as to when and how often bad debt is to be written-off	Management will take the necessary actions to appropriately address uncollectable or bad debts	Inquired with Management; Management will take appropriate actions to address this matter	Corrective Actions are being implemented for this finding
8 Support Documentation Discrepancies	Standard operating procedures should be followed when posting payments, including supporting documentation that leaves an audit trail. An SOP should be established to address the posting of payments; perform random oversight measures of records to ensure completeness of an audit trail	Multiple SOPs developed/ updated; Some SOPs pending, however additional staff has been hired to assist	Reviewed the newly developed SOPs, which allow for an audit trail	Corrective Actions are being implemented for this finding
9 Contract Discrepancies	Coordinate the payment agreement documentation with the Payment Plan SOP	Management made adjustments to its Customer File Folders, beginning November 2019	The internal auditor tested Customer File Folders for updates beginning Nov. 2019	Management has begun implementation of recommendations for this finding
10 Software Underutilization	Establish how to input the collection codes needed to have the Caselle software conduct the needed sorting functions	Management implemented updates as allowed by the current system	Inquired with Management on the status of recommendations	Recommendation for this finding were implemented
11 Staffing Need	Reassess how the Wastewater Operator position could be filled	Management has resolved to hire at a lower level (Utility Worker) and then train and promote from within	Inquired with Management; Management has posted the job	Corrective Actions are pending for this finding
12 Extended Connection Times	Review the connection service process in its entirety to find and eliminate process bottlenecks so that efficiency of service can be improved	Management committed to adjust the SOP language to 3 weeks for an actual connection timeframe	Reviewed evidence of recent connection times, finding that notification estimates are actually 4-6 weeks	Corrective Actions were implemented for this finding

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