



**PERFORMANCE AUDIT OF
UTILITIES WASTEWATER
BILLING & PAYMENT OPERATIONS**

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

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Performance Audit of Utilities Wastewater Billing & Payment Operations

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September 19, 2019

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EXECUTIVE SUMMARY

Dofia Ana County has undertaken an ambitious and far-reaching initiative to provide wastewater service to rural residents of the county, particularly in areas where the water table is close to the surface. Using grant funding and federal/state partnerships, the county has taken thousands of septic systems off line from the Sierra County border to the U.S./Mexico border. More details about the department can be found by accessing the following link: [Utilities | Dofia Ana County, NM \(donaanacounty.org\)](http://Utilities | Dofia Ana County, NM (donaanacounty.org))

The Audit was based upon a financial analysis of the Utilities Department's wastewater treatment operations. Results suggested that Dofia Ana County (DAC) Senior-level Management assess the short- and long-term costs/benefits of remaining in the wastewater treatment business versus exiting this industry. Evidentiary material supporting the results of this report point to degrading wastewater treatment equipment, which carries a huge expense to maintain and replace; the evidence further indicates the difficulties of securing the scarce, skilled and credentialed labor needed to maintain and improve future operations; and the income for providing such services currently lags behind costs. While the acquisition of government grants aid in equipment refurbishment/replacement efforts, when operating costs consistently exceed operating income it can result in an economically untenable situation for the County.

This report is intended for the management of Dofia Ana County, and highlights areas that were determined as needing improvement within the County's Utilities Department. Internal controls are processes or procedures designed to provide management with reasonable assurance of accomplishing efficiency of operations, reliability of financial/non-financial data, and compliance with laws and ordinances. Thus, management is responsible for establishing, maintaining, and enforcing adequate internal controls to protect both the County as well as its most important asset, staff. It is the Internal Audit Function's responsibility to evaluate those internal controls. Herein, the Audit revealed current circumstances within the Utilities Department wherein County and staff are exposed to risks that could be mitigated by taking measures to enhance the Department's breadth and depth of knowledge.

Commonly, audits of Utility Programs focus upon internal controls within the department's billing and collection functions. This audit not only evaluated controls over billings and collections, but also reviewed the completeness of Standard Operating Procedures (SOP) manuals and client folders, current debts and the repayment of those debts, accounting software in use, and anticipated future capital expenditures. While an evaluation of SOPs is a part of each audit, the Audit's assessment of client folders, debt payments, and accounting software was directly related to a material amount of delinquencies in payment collections (\$634,000.00) from 2005 to present, which was discovered during the initial stages of the audit. The delinquencies are attributed to approximately 1,367 (39% of the active customer base) active accounts, which average \$463.88 per account in unpaid debts. Finally, a review of probable future capital

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expenditures was deemed prudent in light of the recent expenditure of some \$1,200,000.00 to repair collapsed manholes that had fallen into a state of disrepair.

Multiple conversations with Management about a number of findings below unfailingly concluded with a lack of staffing as a major challenge. Management may perform a cost-vs-benefits analysis to determine if a staffing increase (temporary or permanent; full-time or part-time) would efficiently allow for the backlogs of noted delinquencies to be adequately addressed. The option of requesting in-house staffing who have been placed on desk/light duty to assist in curtailing any backlogs should not be ruled out.

AUDIT SCOPE & OBJECTIVES

The Audit endeavored to determine if written procedures covering operations are maintained; the accounting software in use efficiently and effectively meets staff needs; cash receipts are promptly recorded and deposited; account reconciliations are supported by detail that is reviewed and approved; aged accounts receivables are periodically reviewed and appropriate follow up action is taken on overdue balances; financial and statistical reports are prepared and reviewed; and required debts are paid in a timely manner. Thus, the scope of the audit focused upon assessing the internal controls over the following areas:

- (1) Billing for wastewater services
- (2) Receipt of payments from residential and nonresidential customers
- (3) Payment agreements
- (4) The internal accounting software system utilized by the Utilities Department
- (5) Aging and exception reports
- (6) Delinquent payment collections process
- (7) Anticipated capital expenditures and monitoring of expenses/debts

The audit objectives were to **1)** evaluate the system of internal controls utilized in the Utilities Department's billing and collection functions, **2)** test the accuracy of utility bills, **3)** assess the County's ability to recover amounts owed/billed, and **4)** analyze expenses/debt and estimated expenditures. This audit focused primarily on utility expenses over the past two calendar years, from January 1, 2017 through December 31, 2018.

OPERATING & INTERNAL CONTROL RISKS

This report contains no (0) High-level risks, four (4) Moderate-level risks, and eight (8) Low-level risks. This report also includes the auditor's Recommendations, Management Responses, and Auditor Comments (as applicable).

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DETAIL OF AUDIT FINDINGS

Risk ratings are based on professional judgment to assess the extent to which deficiencies could adversely affect the performance of systems and controls of a process. More details about the risk rating in this report can be found by accessing this link:

[Audit Risk Ratings | Doña Ana County, NM \(donaanacounty.org\)](http://donaanacounty.org)

FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, & AUDITOR COMMENTS

The evidence obtained provides a reasonable basis for the findings and conclusions below, based on audit objectives. As a result of interviews, observations, reviews of New Mexico Statutes > Chapter 3 > Article 23 – Public Utilities, New Mexico Environment Department Inspection Reports, Utilities Department SOPs, Industrial Wastewater Ordinance, and tests performed, the following results were recorded. While management responses are included within this report, the Audit takes no responsibility for the sufficiency of said responses, nor for the effective execution of corrective actions taken or to be taken by management. **NOTE:** Manager Responses below are written in *italics*.

1. **Lacking SOP Updates. High.**

Condition:

A. - The Wastewater and Water Applications SOP references filling out applications for water connections.

- The General Job Duties SOP references processing billings for water.

However, Utilities currently does not offer water services.

B. The Wastewater and Water Applications SOP states, “The person requesting the connection needs to be notified that it will take a maximum of 2 weeks before we contact them...”

Utilities staff confirmed that this information is inaccurate, as the normal notification period required is 6-8 weeks.

C. Utilities has recently began accepting credit card payments, however no SOP exists as written guidance for accepting such payments and running applicable reports.

D. The Daily Cash Drawer Duties SOP is lacking in detail. Specifically, this SOP does not outline the segregation of duties necessary when accounting for the daily income intake, i.e. assigning income intake accounting, verification, and posting duties to separate individuals. This SOP also references a Cash Receipting binder, which is no longer utilized.

E. Current SOPs fail to indicate that a second person should be in the office/room when mail is opened, to protect both the staff and the client.

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F. An SOP is needed for the posting of payments; SOPs for creating monthly reports that are sent to Finance are also non-existent.

Effect: SOPs that are lacking information or contain inaccurate information, not only underserve staff, but also belies its purpose as a reliable reference. In addition, when knowledgeable staff leave County service without chronicling that knowledge in SOPs, inefficiency is created as the learning curve for the next employee can be elongated.

Criteria: It is a sound practice to review and update SOPs on at least an annual basis, to keep them current. When new processes are incorporated into daily, weekly, monthly, quarterly, or annual functions, then SOPs should be created to specify how these processes are implemented or applied.

Cause: *We acknowledge that the SOP's need to be updated, and that staff needs to find time to do this and that this would also aid in training new staff.*

Recommendation: The Audit recommends that Utilities management require the review, update, and addition of SOPs accordingly, addressing the conditions noted above, as well as other applicable SOP shortfalls. The use of screenshots when appropriate should also be considered to clarify otherwise confusing guidance within SOPs.

Utilities' Manager Response: *We acknowledge that the SOP's need to be updated and that staff needs to find time to do this. Our plan is to have SOP's updated and new SOPs implemented by winter of 2020; our plan is to prioritize the SOP's and do two or more SOP's a month. We are currently working with Lower Rio Grande Public Works Authority to take over the sewer billing for Dona Ana County Utilities in their service area. This project is going to take up a tremendous amount of staff time. This will be because we have to make sure that their customer info matches ours, and [allow] time for legal [to] finalize the contract and get Board approvals.*

Approximately 70% (2500 of 3500) of Dona Ana County Utilities costumers are in the Lower Rio Grande Public Works Service area. We are estimating that it will take a year to get the agreement with Lower Rio Grande in place and up and running. When the agreement is in place with Lower Rio Grande, staff will have more time to update and implement new SOPs.

Auditor Comments: The Audit acknowledges that since the discovery of this finding (#1F), Utilities has already created a Caselle Payment SOP. This is positive evidence that steps are being made to remedy the discrepancies above, as the Internal Audit Function cannot overemphasize the importance of completing, following, and maintaining updated SOPs.

A cost-vs-benefits analysis, wherein management analyzes the benefit of bringing on temporary staff to learn and carry on normal office functions while experienced staff

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adequately addresses the issues above, is advisable. This analysis is particularly relevant in light of management's assumption that the Lower Rio Grande transition will take up a tremendous amount of staff time.

NOTE: Reference Manager's Response in bullet #12, to specifically address discrepancy #1B, above.

2. **Delinquent A/R Notifications, Moderate.**

Condition: A persistent challenge for the Utilities Department is delinquent account receivables, as some 10% -15% of clients are more than 120-days delinquent in paying for wastewater services. Utilities is currently inconsistent in notifying clients and property owners of past due debts, as well as placing and enforcing liens on properties that have unpaid delinquencies. Herein, 84 liens were levied against property in 2013, 106 liens were levied against property in 2014, however only 1 lien was levied in 2016, and 7 in 2018. The cumulative delinquencies since 2005 are in excess of \$634,000. These delinquencies are attributed to approximately 1,367 (39% of the active customer base) active accounts, which average \$463.88 per account in unpaid debts.

Effect: When clients and property owners are not properly notified of billing delinquencies or liens, they are not given fair and equal opportunities to correct such deficiencies. In addition, when delinquencies are allowed to exist for a specified period of time, the NM Statute of Limitations on Debt Collection (37-1) can abolish the County's ability to recover the debts owed.

Criteria: Clients and property owners should be notified in a timely manner of delinquencies and liens, and the notification and enforcement process should uniformly address such matters.

Cause: *We acknowledge that we lack in placing liens of properties of delinquent bills. In 2014 and 2015, we had 5 office personnel and this gave us the personnel to consistently research and file the liens. In 2016 the office personnel was reduced to 3. With this amount of personnel, it was more difficult to get liens done with the day-to-day operations of the department. In our department, we have 2 veteran staff members that receive 4 weeks of vacation a year; with the newest employee we go down to only 2 staff members for 10 weeks of the year.*

Recommendation: The Audit recommends that Utilities establish and enforce policies and practices that will allow for the following -

- Prompt and consistent 30-day payment delinquency notifications for clients and property owners
- Reporting of delinquencies of non-paying clients to the proper credit bureaus
- As it is the current practice of Utilities to place liens on properties for lack of payment, follow established procedures by consistently placing liens against properties that reach the

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criteria for such actions to be taken. Establishing the contents of proper lien packets should be discussed with the Legal Department
- If management decides to enforce liens to obtain payment for services rendered, the Legal Department should be consulted

Utilities' Manager Response: *We are currently working with Lower Rio Grande Public Works Authority to take over the sewer billing for Dona Ana County Utilities in their service area. This project is going to take up a tremendous amount of staff time. This will be because we have to make sure that their customer info matches ours.*

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 our staff will have more time to go after past due debt. Now with Rio Grande Public Works taking over the billing they will have the authority to shut off the water meter when the sewer bill is not paid. This alone will take care of the majority of future delinquencies in the Lower Rio Grande Public Works Authority. Once this agreement is in place this will free up personnel to send delinquent notices and file liens. We will also look into asking for a budget increase to hire temporary staff or go to an outside agency to go after bad debt.

Auditor Comments: As there are circumstances wherein the Statute of Limitations would not allow for the collection of delinquent billings unless the client takes certain actions, it is important that Utilities personnel understand client rights before trying to collect on such payments. Therefore, the Audit recommends that Legal is consulted concerning taking bill collection actions if DAC staff is involved.

The Audit acknowledges that Utilities has consulted with and received a response from the Legal Department, since the discovery of this finding. While the enforcement of liens against delinquent properties is a management decision, the Audit recommends that if taken, such actions are consistently applied so as not to give false perceptions of favoritism for nor animosity against any clients. In essence, management is expected to have well-trained and knowledgeable staff when it comes to collection efforts.

3. **Limited Staff Knowledge. Moderate.**

Condition: Repeatedly during the audit, the internal auditor was compelled to wait for and work with the Office Supervisor, as other staff and management were not able to fully address many questions. This Office Supervisor is extremely knowledgeable of office duties, and serves as an essential component of Utilities operations.

Effect: A large knowledge base held by one individual, combined with out-of-date SOPs leaves the Utilities Department at an elevated and unnecessary level of risk for loss of knowledge, in the event the Office Supervisor leaves County service. In addition, it also exposes the individual to an unnecessary risk of blame, in the event of errors (un/intentional).

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Only this individual knows multiple office functions in detail, while others (to include current management) have not yet acquired this knowledge.

Criteria: Office personnel should have the knowledge to carry on full office functionality, in the absence of one member. This knowledge of daily, weekly, monthly, quarterly, and annual functions should also be chronicled in SOPs.

Cause: *With the hiring of a new Accounting Specialist, we are in the process of cross training her. The Accounting Specialist that left the office was fully cross-trained and was able to fill in when the Office Manager was gone.*

Recommendation: The Audit recommends that management enforce a cross-training program of current office personnel within the Utilities Department while maintaining internal controls and segregation of duties, as a priority. Training other personnel not only prepares them for possible promotion when the opportunity arises, but it also allows non-supervisory duties to be shared, ensuring the retention of office knowledge in the absence of key personnel. In addition, Utilities management should also partake in cross-training activities in areas wherein there may be a current lack of knowledge.

Manager's Response: *It will take us about a year to fully cross train the new Accounting Specialist. Again, with the relief of Lower Rio Grande billing, this will free up staff to be cross-trained and SOPs to be developed.*

4. **Aging Wastewater Equipment. Moderate.**

Condition: Per a March 2019 Lift Station Rehabs report from Bohannon Huston, Inc., at least 10 DAC lift stations are listed as being of 'critical' importance for repairs, while 6 lift stations are listed as being of 'high' importance for repairs.

In addition, Utilities management has expressed the need for an additional generator at a designated wastewater treatment facility.

Effect: A recent experience with collapsing manholes that costed the County approximately \$1,200,000.00 serves as an indication to support taking proactive rather than reactive measures, to maintain wastewater treatment facilities and related equipment. When unexpected (thus unbudgeted) capital expenditures are required, the budget can be negatively impacted, as limited resources may need to be redirected, which can result in the County leaving planned projects incomplete.

In the event of an extended power outage, a generator would be needed to continue main wastewater treatment facility operations. Without a generator, the County would need to decide how to dispose of its untreated sewage.

Criteria: A Bohannon Huston report was produced for the County, which has Utilities on track to bring up billings to match daily operating expenses, as the wastewater service is

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currently operating at a deficit. However, that report did not include capital outlay estimates that would account for the refurbishment of current wastewater related equipment.

While the County's website informs the public of state-of-the-art wastewater treatment facilities, much of the wastewater equipment in use by the County is in need of repairs (per the report). Thus, it is prudent that management plan for and acquire the capital needed for repair and replacement of this equipment. The report from Bohannon Huston can serve as a guide to focus and prioritize wastewater maintenance and repair efforts. In addition, generators allow for wastewater facility operations to continue until electrical power is restored.

Cause: *The cause of the lack of equipment replacement has always been money. Until 2017, there had not been a rate increase in over 14 years. Utilities budget has always been subsidized by the DAC's general fund. Utilities budgets across the US in general always work to support fully the operation costs and money to replace equipment. It was not until the manhole collapse in Vado that shined a light on the aging wastewater infrastructure.*

A majority of the lift stations that are in critical condition where [sic] installed around the same time thus all need repair at the same time. Deterioration of the lift stations and infrastructure in general is due to the high amounts of Hydrogen Sulfide that is present in the sewage. When the hydrogen sulfide combines with moisture, it changes into sulfuric acid and is detrimental to the infrastructure.

Recommendation: It is recommended that Utilities management take proactive measures to acquire data for estimating future capital expenditures, and continue taking steps to acquire the funding needed to meet those projected future capital outlays. Because the Bohannon Huston report contains an estimated lifespan for new or refurbished equipment, Utilities management is encouraged to consider the cost vs benefits of repairing versus replacing aging equipment, prioritizing its refurbishment efforts to concur with the report's critical and high importance equipment repair listings. Also, management should have in place a plan for continued operations in the event of an extended loss of electrical power at any of their wastewater treatment facilities.

Manager's Response: *During the past two years, we have had preliminary engineering reports done to point out needs for the lift stations and South Central Treatment Plant. This is considered a planning document and aids us in obtaining funding. In 2018, our first priority was to rehab all of the manholes that we deemed to be in critical condition so that we would not have another manhole collapse. Upper management allotted that money in the 2018 budget (\$300,000) and this part of the sewer infrastructure is now in good condition.*

Currently [we] are rehabbing the backflow/distribution side of Lift Station #7 to the cost of \$135,000. We will be going out to bid for the rehab/upgrades to lift stations 4 and 5 in the

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Vado area; the engineers estimate is \$280,000. Another \$125,000 was spent on influent piping to 5 lift stations this past year. An additional \$100,000 dollars will be spent this fiscal year on the rehabbing of lift stations. The past two fiscal years we have been investing money in the upkeep the sewer system.

The next priority was to stop accepting septic waste at the South Central Waste Water Treatment Plant, as the strength of this type of waste was detrimental to the Plant. With Upper Management's backing and approval by County Commission, we will stop taking septic waste at the Treatment Plant in April of 2020. We also stopped managing the Talavera domestic water system and stopped taking in sludge at the South Central Waste Water Treatment plant earlier this year. The old Mesquite septic receiving station was officially closed out with New Mexico Environmental Department this year.

We currently were awarded a \$4.7 million grant for rehab and upgrades to the South Central Plant. DAC was also awarded a \$750,000 grant with the Colonias Board for the design of South Central Waste Water Treatment Plant improvements. We are currently working with North American Development Bank on a grant to rehab and upgrade the main lift station (#7) in Vado area. We also are asking for a 3.1 million dollar grant through the State's ICIP program for the rehab/improvement of the lift stations in South Central collection system.

We were given a timeline by the Design Engineer for completion of the Improvements at the South Central Waste water to be done by May of 2021. These improvements will have a 20-year design life.

5. **Incomplete Client Files. Moderate.**

Condition: Approximately 234 client files have been scanned-in, but have not been attached to the Caselle (accounting) system; approximately 544 additional files have neither been scanned-in nor attached to Caselle.

Effect: The un-scanned file folder data that are stored in boxes within a cubicle is more susceptible to loss as it is in paper format only, and vulnerable to fire and water (sprinkler system) hazards. In addition, the files that have not been attached to Caselle must be accessed manually, creating inefficiency when needed as a reference.

Criteria: Physical client file folders should contain pertinent data such as the client's contact, property owner information, applications submitted, etc. The data in these file folders should be scanned-in and attached to the accounting system, Caselle, so that they can be efficiently referenced and updated. In addition, the system serves as an additional safeguard for client data in the event the physical file folders are damaged or destroyed.

Cause: *We acknowledge that we lack scanning files. In 2014 and 2015 we had 5 office personnel and this gave us the personnel to consistently have personnel scanning in customer files. In 2016 the office personnel was reduced to 3. With this amount of personnel, it was*

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more difficult to get scanning done with the day-to-day operations of the department. In our department, we have 2 veteran staff members that receive 4 weeks of vacation a year, with the newest employee we go down to only 2 staff members 10 weeks of the year. We do get additional help scanning files from time to time with employees that are on light duty.

Recommendation: Utilities currently has a material amount of outstanding Account Receivables, due from clients. Completed file folders allow for timely processing of notifications and lien documentation, an area wherein Utilities has not consistently kept current. It is recommended that Utilities management take the steps necessary to update (scan-in and ensure completeness of) client file folder data.

Manager's Response: *We do get additional help scanning files from time to time with employees that are on light duty. Again, with Lower Rio Grande taking over billing for about 2500 or 70% customers it should free up time for this also. We do have a contract to have these items scanned but with our budget being so tight, we do not have the money to get this done by an outside agency. We think that if we had about \$15,000 for temporary help or hire an outside agency we should be able to get all files scanned in.*

6. **Inconsistent Folder Data. Low.**

Condition: A random review of 91 client file folders revealed one or more discrepancies in 64 of the folders (70%). Discrepancies normally stemmed from missing data.

Effect: Incomplete client file folders can result in misinformation about clients, which speaks to the effectiveness of operations. This also prolongs the time it requires to take delinquent account enforcement measures, as the correct data must be collected first, resulting in an inefficient use of time.

Criteria: Completed client file folders allow for access to accurate and timely information, which is pertinent when official notifications need to be remitted to both clients and property owners.

Cause: *Due to the age of customer files, different things are required now that were not required 10 to 15 years ago. This fact can be attributed to the discrepancies in the files.*

Recommendation: With a 70% discrepancy rate obtained from a review of random client file folders, it is recommended that Utilities management create an applicable checklist of items that should be in client folders and then review all client file folders for missing data. Consider the need to contact clients to acquire external data, and query electronic records to acquire internal data that is missing.

Manager's Response: *We will take the Auditor's recommendation and create an applicable checklist of items that should be in a customer's file and start a review of files. This SOP will*

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be one [of] the first couple done and will be in place within the 1st three months.

7. **Bad Debt Write-Off. Low.**

Condition: There were no write-offs of bad debt for calendar years 2017-2018.

Conversations with staff revealed that the Aging Report is only utilized for balancing the A/R account.

Effect: When uncollectible debts are not written-off it can result in an overstatement of assets, as the debt is presumably still collectable. Employing the Aging Report only in the capacity of balancing Account Receivables is an underutilization of this report.

Criteria: According to the Account Receivable Past Due Policy & Procedures SOP acquired from Finance, "All Accounts that are past due after four years will be written off based on the Statue of Limitations..." In addition to reconciling and balancing the A/R report, the Aging of A/R report could be utilized in taking collection measures, as well as for gauging write-off eligibility for uncollectable debts. As the Utilities Department carries a material amount in delinquent accounts, it would not be unusual for bad debts to be written-off on an annual basis.

Cause: *We acknowledge that we have not wrote [sic] off bad debt that is over 4 years old.*

Recommendation: It is recommended that management follow the standard as to when and how often bad debt is to be written-off. Coordination with Finance may be prudent in this matter.

Manager's Response: *We will follow the recommendations of finance and legal with regard to debt being written off. This process will happen immediately, the Office Supervisor has already gotten with legal.*

Auditor Comments: The Audit acknowledges that Utilities has consulted with and received a response from the Legal Department, since the discovery of this finding. When applicable (when ownership changes), management should verify possible title company liability for clients who have title insurance. Herein, title insurance may cover a portion or all of the bad debt of the property showing the delinquency, allowing for the collection of these monies in the event the property changes ownership.

8. **Support Documentation Discrepancies. Low.**

Condition: A review of the documentation used to post payments, revealed such discrepancies as missing dates on receipts, receipts missing initials (to indicate who entered the data), and missing initials/signature to confirm that a reconciliation was performed or verified.

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Effect: Missing support data can call into question the accuracy of information posted. In many cases, SOPs chronicle and establish procedures to be followed when performing certain duties and tasks. When no SOP exists, inconsistencies for performing the same duties may occur amongst staff.

Criteria: While there is a normal procedure in place that is followed when posting payments, the internal auditor was not given an SOP that explains the process. In such cases, the internal auditor relies upon common practices employed by staff, as the standard to which duties are to be performed. Support documentation should confirm that standard procedures were followed.

Cause: *Right now we use hands on training to accomplish these tasks. We do have an instruction manual from the manufacturer of the billing software.*

Recommendation: It is recommended that standard procedures be consistently followed when posting payments, updating support documentation that leaves an audit trail. An SOP should be established to address the posting of payments, allowing for uniform standards of performance for this task/duty. This may require that a checklist is added so that important details are addressed. In addition, the Audit recommends that management perform random oversight measures of records to ensure completeness of an audit trail.

Manager's Response: *Auditor was asking that we create specific SOP's for each of our tasks that we use the billing software for. We are capable of taking payments for 25 different entities and under each entity, there are on the average of 3 subsets in each entity. In addition to the estimated 75 SOP's we would need an additional 25 SOP's for taking credit cards in person and another additional 25 for taking credit cards over the phone. That would be a total of 125 SOP's for the billing software alone.*

I do understand the need for SOP's but what we are planning on doing is to create several generic type SOP's for these tasks. We are going to concentrate on the SOP's that apply to the Utilities Department only. After these are done we will look at other SOP's. We are going to do 2 to 3 SOP's per month. We will get the SOP's done in order of importance as listed by staff.

Auditor Comments: Please note that the Audit recommends "an" SOP, however the internal auditor concurs that amassing a suggested 125 SOPs is more than excessive. Herein, management should focus on the 'spirit' of the recommendation, which encourages developing SOPs that are necessary to establish the basic guidance needed, and measures to be performed for relevant tasks/duties. This could amount to multiple SOPs being written.

9. **Contract Discrepancies. Low.**

Condition: Discrepancies were found in 40% (11 of 27) of payment agreements reviewed. Discrepancies noted were: 1) No indication of the level of staff who authorized more than a
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6-month payment agreement. 2) Clients paid less than the SOP required 25% down payment. 3) No indication of the level of staff who authorized agreements for clients owing more than \$300.

Effect: For payment agreements, the internal auditor has no means of verifying if the SOP is being followed, as the appropriate level of staff cannot be determined for administering some agreements, nor can a determination be made that minimum down payment amounts were waived by management. Herein, the current documentation lacks the audit trail necessary to properly evaluate adherence to the policy.

Criteria: The Payment Plan policy sets the amount of arrears that can be approved by varying levels of staff, however the payment agreements reviewed did not indicate which staff/management members approved payment plans over the \$300 limit or for more than a 6-month period. In addition, the policy indicates that a minimum of 25% of what is owed should be collected when making payment arrangements, however this guidance was not always followed.

Cause: *In working with a lower income community, we normally take what they are capable of paying. The 25% was a verbal directive from a previous Utilities Manager. The approver is noted on the collection notes in the system electronically.*

Recommendation: The Audit recommends that Utilities management coordinate the payment agreement documentation with the Payment Plan SOP, so that discrepancies such as the ones above are greatly reduced or eliminated, allowing for the existence of a complete audit trail.

Manager's Response: *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 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. This SOP is one of the first ones that has been done by the Office Supervisor.*

Auditor Comments: The Audit recognizes that Utilities has updated the current Payment Plan Policy, and included a checklist that when implemented, should provide for management oversight as well as an audit trail.

10. **Software Underutilization. Low.**

Condition: Inquiries with staff revealed that they are unaware if Caselle performs the following functions, which are now completed manually:

- 1) Flag the accounts of clients who violate payment agreements
- 2) Distinguish and identify clients who should only receive late payment notices versus those

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who already have liens against their accounts

Effect: When staff has to devote time to manually perform the queries above, the result is an inefficient use of both human and electronic resources.

Criteria: The government accounting software currently in use by the Utilities Department should aid this department in efficiently and effectively accounting for client records. Amongst its functions may be the capability of performing the sorting above, which is currently performed manually.

Cause: *Staff did not know that the software was capable of these two items. These are features that may have not been able to do on previous versions.*

Recommendation: A brief conversation with a Caselle Support Representative confirmed that the software should already have the ability to flag and filter out accounts, in the manner desired by the user. The Audit recommends that management consult with Caselle Administrators to confirm how to input the collection codes needed to have the Caselle software conduct the sorting functions above. This should allow for accurate accounting of clients who are in violation of agreements or delinquent in payments, as well as for consistency in initiating follow-up measures to address deficient accounts.

Manager's Response: *We will ask for money in the budget to send office staff to training for the software. Currently our staff does call Caselle from time to time for support.*

Auditor Comments: Training staff is a positive and proactive endeavor that often reaps benefits for the investing organization. Thus, the Audit supports such an investment. The Audit recognizes that Utilities has contacted Caselle 1) to learn of the upgrading options available to flag the accounts of clients who violate payment agreements, and 2) have added the function necessary to distinguish and identify clients who should only receive late payment notices versus those who already have liens against their accounts.

11. **Staffing Need. Low.**

Condition: The Chaparral Wastewater Treatment Facility has a certified Wastewater Level I Operator on-hand.

Effect: The Utilities Department has received demerits from the New Mexico Environment Department for not having at least a certified Wastewater Level III Operator on-hand at this facility.

Criteria: New Mexico Statutes and Codes: Utility Operators Certification Act, Section 61-33-6 - Certification required; prohibition states, "It is unlawful to operate or allow the operation of a public water supply system or public wastewater facility unless the system or facility is operated by or under the supervision of a certified operator who meets or exceeds

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the appropriate certification level.” The Operation and Maintenance Manual states that “New Mexico Water Quality Control Regulations require that a certified Level III Wastewater Operator be on duty at all times.”

Cause: *There is a shortage of certified Wastewater Operators in the State. It is difficult to recruit due to the discrepancy in pay with surrounding states.*

Recommendation: As the position above has been advertised and re-advertised on a perpetual basis, management should reassess how this position could be filled. Herein, whether it be the training of a current staff to get that person certified up to a level III, expanding the current marketing efforts, or making the current offer more attractive to would be candidates.

Manager’s Response: *We have had the opening posted for over a year now. It was posted on DAC’s website along with various trade websites. We plan on lowering the posting from a level three to a level two and give them a year to receive the level 3 certification. Our approach to solve this dilemma is to build the operators from within. We provide laborers and lower certified operator’s time to attend trainings and to test for the different levels. DAC provides a raise in pay for each level accomplished.*

12. **Extended Connection Times, Low.**

Condition: The Utilities Department currently notifies clients of service connections within 6 – 8 weeks. This is actually 3 – 4 times longer than the time period outlined in the current SOP.

Effect: Extended waiting periods for service could be indicators of process inefficiencies.

Criteria: The current Wastewater Application SOP indicates, “The person requesting the connection needs to be notified that it will take a maximum of 2 weeks before we contact them...”

Cause: *Due to the priority of the day-to-day operations and time frame of the service installation contractor to get us a service line estimate is [sic] the reasons that this time has increased.*

Recommendation: The SOP in use indicates a 2-week period before clients are notified. Thus, this was the normal waiting period in the past. The Audit recommends that management review the connection service process in its entirety to find and eliminate process bottlenecks so that efficiency of service can be improved.

Manager’s Response: *The Utilities Manager has currently taken over the responsibility of documenting, notifying and tracking the progress of these work orders. We expect the time to be within the two-week period. After 3 months if this new tracking system still does not*

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meet the 2-week turn around, we will look to change the timeline in the application to a longer lead-time.

Ernest Harvin

2 November 2023

Ernest Harvin, CIA Date
Internal Auditor – Doña Ana County

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