



**A Report to the
Audit Committee**

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Metropolitan
Nashville
Office of
Internal Audit

Audit of Metro Water Services Revenue Collections Process

June 16, 2022

EXECUTIVE SUMMARY

June 16, 2022



Why We Did This Audit

This audit was initiated due to the amount of time since the function was audited and the large amount of revenue collected.

What We Recommend

- Ensure revenues received in the Business & Finance and Development Services divisions are collected and retained in a secured, locked location prior to deposit.
- Ensure all revenue collections are deposited to the bank within one business day.
- Ensure all revenue collections are recorded in the Oracle R-12 accounting system within two business days of deposit.

Audit of Metro Water Services Collections Process

BACKGROUND

The mission of Metro Water Services is to provide drinking water, wastewater treatment, and stormwater services to Davidson County and portions of surrounding counties. Metro Water Services collects revenue from residential and commercial property bills, as well as through the issuance of permits, engineering, and stormwater services.

From November 1, 2019, through October 31, 2021, total Metro Water Services revenues from services were over \$730 million.

OBJECTIVES AND SCOPE

The objective of this audit was to determine if Metro Water Services has controls in place to provide assurance that revenue collections are properly collected, deposited, recorded, and safeguarded.

The scope of the audit included all customer payments made to Metro Water Services between November 1, 2019, and October 31, 2021.

In July 2021, Metro Water Services became responsible for waste and recycling services for portions of Davidson County. However, these services began at the end of the audit period and are not included in the scope of this audit.

WHAT WE FOUND

Processes and controls are generally in place to ensure revenue collections are properly collected, recorded, safeguarded, and deposited. Additionally, proper segregation of duties is in place and being implemented.

Bank deposits are not always made at the bank or recorded in the general ledger in accordance with Metropolitan Nashville Finance Policies. Processes can be improved in the Business & Finance and Development Services divisions to ensure cash collections are locked and secure until deposit.

GOVERNANCE

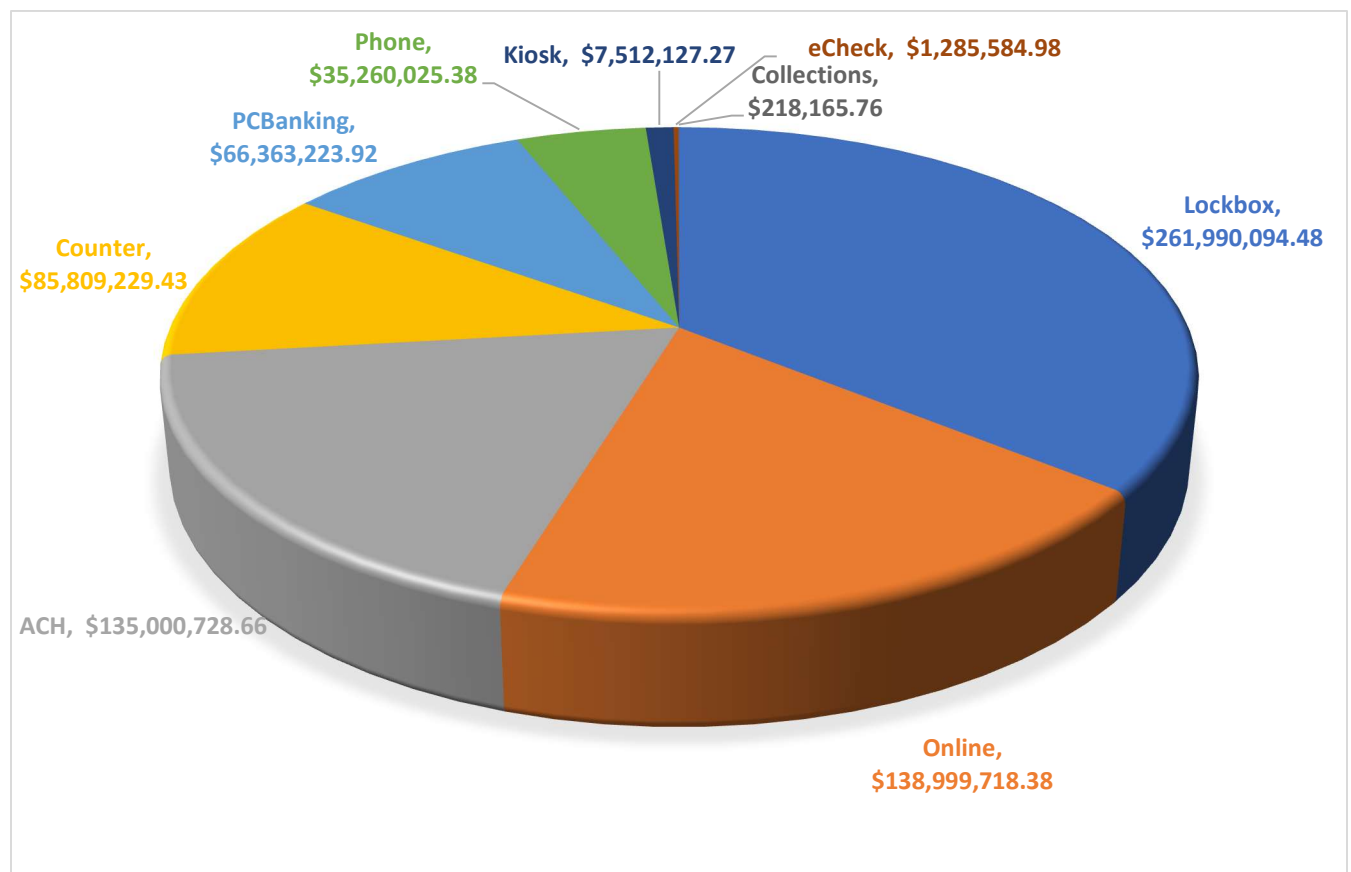
The Metropolitan Nashville Code of Laws, Chapter 15, Division I includes established water and sewer rates as well as billing and collections requirements. Metro Water Services is led by the Director of Water Services and is responsible for providing portions of Davidson County and surrounding areas with drinking water, wastewater treatment, stormwater, and waste and recycling services. The Customer Service department is responsible for customer billing and collections and is overseen by the Assistant Director, Customer Service.

BACKGROUND

During the audit period, revenues were received in three Metro Water Services divisions: Customer Service, Business & Finance, and Development Services.

Customers pay water bills online, in-person at a kiosk, over the phone, by mail, or through an automatic bank withdrawal. Development Services only accepts checks and credit card payments in-person. Metro Water Services collected over \$730 million during the scope period. Exhibit 1 below summarizes how revenue collections were received.

Exhibit 1 - Collections by Collection Point November 2019 through October 2021



Source: Metro Water Services Information Systems Department

All payments made to Metro Water Services are processed through the iNovah cashiering system. iNovah works with the enQuesta system to apply payments to customer accounts for water and sewer billing.

For Development Services, all payments collected are applied directly to a permit number in the CityWorks system. CityWorks and iNovah do not interact, and all payments are manually processed in each system.

All daily batch information is sent by interdepartment mail to the Business & Finance division for entry into the Oracle R-12 accounting system.

AUDIT OBJECTIVES AND CONCLUSIONS

Are controls in place to provide assurance that revenue collections are properly collected, deposited, recorded, and safeguarded?

Generally, yes. Metro Water Services has sufficient controls in place to protect revenue collections between receipt and deposit in the Customer Service building. However, policies and procedures could be strengthened to enhance security in the Development Services and Business & Finance areas. (See Observation A.)

Metro Water Services deposited and recorded all sample selections reviewed. However, the timing of these procedures did not always comply with the Treasury Department's policy. (See Observations B.)

Procedures are in place to ensure that payments are applied to the correct customer accounts in both enQuesta for water and sewer billing and CityWorks for development services in a timely manner. Of the 154 payments reviewed, all payments were applied to the correct customer accounts on an average of one business day. No payments were applied more than three business days past receipt.

AUDIT OBSERVATIONS

Internal control helps ensure entities achieve important objectives to sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision-making and governance of the organization. See **Appendix B** for a description of the observation *Assessed Risk Rating*.

Observation A – Safeguarding of Assets

The Business & Finance and Development Services areas were not properly safeguarding assets:

Development Services collects payments in one area and processes the payments in a second area. The employee who processes the payments will keep the checks collected throughout the day on the desk or unlocked in the drawers of the desk until the deposit is made. Only payments collected after the daily deposit each day are locked in a cabinet overnight until the next day's deposit is made.

The Business & Finance area has a safe and occasionally will collect checks. Staff stated in interviews that checks are held in the safe or secured in a drawer at the receiving employee's desk until they are taken to the bank for daily deposit. However, there may have been instances in which checks were kept unsecured at an employee's desk. The Office of Internal Audit did not observe unsecured checks during the audit, but this observation period was limited.

Without controls over the physical security of assets, payments can be misplaced or stolen. Additionally, identifying the individual responsible for misplacing or removing the payment is more difficult when all employees have access to the unsecured assets.

Criteria:

- COSO, Control Activities – Principal 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

Low

Recommendation for management of Metro Water Services:

Ensure cash or checks received are collected and retained in a secured, locked location prior to deposit.

Observation B – Collections not Deposited or Recorded in Accordance with Treasury Policy #9

Revenue collections received in the Customer Service, Business & Finance, and Development Services areas were not always deposited or recorded in accordance with Metropolitan Nashville Finance Policies.

Customer Service and Business & Finance Division

- A review of 47 revenue collections in the Customer Service and Business & Finance areas revealed that 11 deposits (23 percent) were made more than 1 business day after receipt. The timing of late deposits ranged between 2 and 7 business days.
- A review of 47 revenue collections in the Customer Service and Business & Finance areas revealed that 28 out of the 47 received (60 percent) were recorded more than 2 business days after deposit. On average it took 42 days for collections to be recorded in the Oracle R-12 system.

- A review of 47 electronic collections received in the Customer Service and Business & Finance areas revealed that 41 payments (87 percent) were recorded more than 2 business days after deposit. On average it took 38 days for the entry to be recorded in Oracle R-12.

Development Services Division

A review of 60 applicable collections received in the Development Services division revealed that 31 deposits (52 percent) were made more than 1 business day after receipt. The timing of late deposits ranged between 2 and 5 business days.

Of the 60 payments reviewed from Development Services, 47 payments (78 percent) were recorded more than 2 business days after deposit. On average it took 35 days for the recording entry to be made.

Collections not deposited or recorded in accordance with Treasury Policy occurred during the initiation of the COVID-19 pandemic. In March 2020, the Mayor of the city of Nashville declared a state of emergency in response to the spread of Covid-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations to in-person interactions and business operations. Recording deposits in a timely manner was adversely impacted by the rapid transition to a work-from-home environment.

Ensuring that revenue collections are deposited and recorded in a timely manner reduces the risk of loss, theft, and fraud.

Criteria:

- *COSO, Control Activities – Principal 12* – The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- *Metropolitan Government of Nashville Davidson County, Treasury Policy 9, Cash Deposits, Revision Date July 1, 2016*—Funds collected at agency locations must be deposited into the metropolitan depository bank account within one business day of receipt.

Assessed Risk Rating:

Low

Recommendation for management of Metro Water Services:

Ensure all revenue collections are deposited to the bank and recorded in Oracle R-12 in accordance with the Metropolitan Government of Nashville Davidson County, Treasury Policy 9.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To achieve the audit objectives, auditors performed the following steps:

- Reviewed Metropolitan Nashville Government Code of Laws and ordinances, and Metro Water Services policies and procedures.
- Interviewed key personnel within Metro Water Services.
- Reviewed prior audits performed by the Metropolitan Nashville Office of Internal Audit and by other jurisdictions.
- Reviewed and analyzed data to determine compliance with best practices.
- Evaluated internal controls currently in place.
- Considered risk of fraud, waste, and abuse and information technology risks.

AUDIT TEAM

Elizabeth Andrews, CFE, Assisting Auditor

Laura Henry, CFE, In-Charge Auditor

Bill Walker, CPA, CIA, CFE, Audit Manager

Lauren Riley, CPA, CIA, ACDA, CFE, CMFO, Metropolitan Auditor

APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

We believe that operational management is in a unique position to understand best their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Risk	Recommendation	Concurrence and Action Plan	Expected Completion Date
<i>Recommendations for management of Metro Water Services:</i>			
L	Ensure cash or checks received are collected and retained in a secured, locked location prior to deposit.	Cash and checks are immediately logged and secured in the safe when received. If access to the safe is not available, they are secured by lock and key at the individual's desk. Cash and checks are only taken out of the individual's desk to prepare the daily deposit or transfer to the safe for overnight storage. Finance will ensure compliance with this process using periodic site visits to Development Services.	May 1, 2022
L	Ensure all cash collections are deposited to the bank and recorded in Oracle R-12 in accordance with the Metropolitan Government of Nashville Davidson County, Treasury Policy 9.	Cash collections received from 7:00am to 2:00pm are deposited the same day received. Cash collections received from 2:00pm to 4:00pm are locked up in the safe overnight and deposited the following day. All cash is deposited with the bank within 24 hours of being received and recorded in R12 within 48 hours of being deposited. Recording into R12 reviewed daily by supervisors for compliance. Maintaining this policy is included in performance goals.	May 1, 2022

APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
HIGH	Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
MEDIUM	Moderate financial impact \$25,000 to \$10,000	Partial controls Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
LOW/ Emerging Issues	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems	Generally, complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
Efficiency Opportunity	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			