REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE WATER AND SEWERAGE CUSTOMER SERVICE WATER BILLING PROCESS

INTERNAL AUDIT REPORT (IAR) 080417-05

October 4, 2017

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Report Highlights	Page(s)
• Automatic Meter Reading is not functioning.	7
• 14% of meter repair issues sampled did not have timely corrective action.	11
• The bill editing process was improved; however, reports cannot be sorted based on abnormal usage.	12

The Council
City of Shreveport

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October 4, 2017

Councilman James Flurry
Chairman, Shreveport City Council

Dear Councilman Flurry:

Subject: IAR 080417-05 – Audit of the Water and Sewerage Customer Service Water Billing Process

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Steward

Leanis L. Steward, CPA, CIA
City Internal Auditor

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EXECUTIVE SUMMARY
AUDIT OF THE WATER AND SEWERAGE CUSTOMER SERVICE WATER BILLING PROCESS
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Why We Did This Audit

We have completed a limited scope audit of the Water & Sewerage Customer Service Water Billing Process. This was performed by request of the Audit & Finance Committee. Their questions are indicated in **bold orange** throughout this report. There are current lawsuits regarding billing and the water billing system. This limited scope audit does not address any of those issues. Our objectives are to determine the efficiency and effectiveness of abnormal water usage monitoring and determine the status of the Triton installation of meters and automatic meter reading capabilities.

What We Recommended

To improve efficiency and effectiveness we recommend the City:

- Should determine the cost effectiveness of replacing or repairing the automatic meter reading system.
- Develop a more efficient process to pinpoint those meters with unusually high usage.
- Follow up on meters that are in need of repair in a timely manner.
- Review meter usage readings for chronic zero usage.
- Review vacant locations that have water usage.

Performance Audit: Water and Sewerage Customer Service Water Billing Process

What We Found

Each month, Water and Sewerage personnel are tasked with reading the current water usage from each of the 81,000 water meters and producing bills for the 66,000 customer accounts. The prebilling process reviews those readings that were out of normal range or not read for a particular meter. Currently all the meters are read manually.

We have identified the following issues regarding the meter usage reading:

- **The automatic meter reading system that was put in place in 2010 is not being used.**
- **It is difficult to pinpoint those meters with unusual high usage prior to billing.**
- **Timeliness of meter repair should be improved.**
- **A system to monitor meters with zero usage should be improved.**
- **Vacant locations with water usage should be monitored.**

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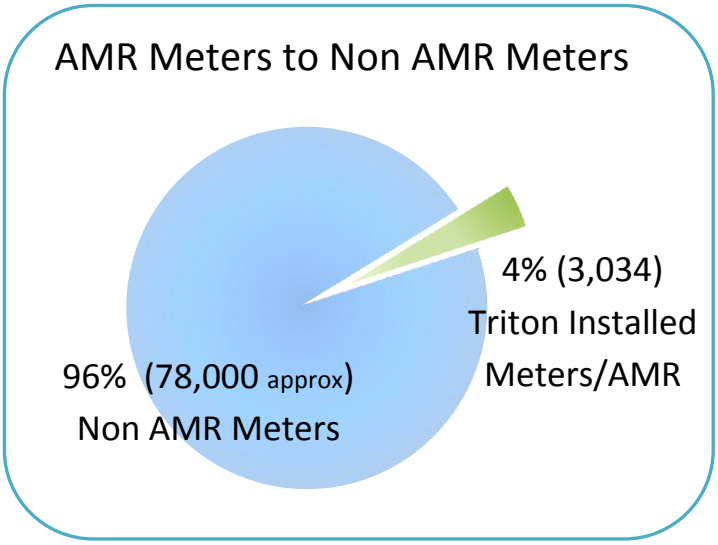
Introduction

As part of the City's "Water System Infrastructure Improvement Program", automatic meter reading capability was to be installed and the water billing system was to be replaced. In Phase I, large meters were to be upgraded to allow for automatic meter reading (AMR) which is the ability to automatically transmit consumption reading to the billing system. In Phase II, the old water billing computer system was to be replaced to support the AMR.

In 2009 through 2010, for Phase I, Triton Water Technology was contracted for $7.4M to upgrade water meters for the large meters used by the commercial and industrial customers. The expectation was to increase revenue through replacing aging meters and reduce errors by utilizing electronic meter reading. Triton installed 3,034 meters/AMR. There were 206 meters that were not installed by Triton. City personnel installed some of those meters while the remaining were scrapped because of EPA guidelines "Reduction of Lead in Drinking Water Act".



In Phase II of the project, Triton also was contracted for $3.0M to provide a new water billing computer system (enQuesta from Systems and Software, Inc.). [Phase III – $13.6M in 2007 to upgrade the remaining meters to AMR was not started.]

Questions from the City Council's Audit and Finance Committee are shown in **bold orange.**

Was the amendment to the Triton contract to include Systems & Software abnormal? At least one other company's proposal included the same computer system, enQuesta for the new water billing system. The new utility software had the foundation to support a new AMR system and the ability to integrate collected data from the AMR with the billing software.

Did Triton representatives sign a document stating that no funds were paid to any individual to assist in placing the contract with the City? The contract included an "Affidavit Attesting That Public Contract Was Not Secured through Employment or Payment of Solicitor" signed on October 29, 2009, by Robert E. Work, authorized representative of Triton Water Technologies, Inc. and notarized by Dannye W. Malone, Notary Public. The affidavit stated the contract was not secured through employment, through payment, or owning a substantial financial interest either directly or indirectly.

The objective(s) of this audit was to determine the following:

- Determine the status of the contractor installed meters and automatic meter reading (AMR) capabilities.
- Review processes that determine abnormal water usage.

Recommendation Evaluation Risk Criteria

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. We evaluated the importance of each audit recommendation by assigning each a level of risk. The risk levels, as defined in the chart below, were determined based on the possible results for the entity if the recommendation is not implemented. This report contains 2 findings with 9 recommendations.

Risk Levels	***Recommendations***
High Risk Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.	➢ Determine cost effectiveness of repairing or replacing the automatic meter reading system. **(Finding: Automatic Meter Reading Utilization)** ➢ Develop a process to pinpoint abnormally high usage readings and address high bills for customers with automatic draft. **(Finding: Abnormal Water Usage)** ➢ Review the criteria settings for the abnormal usage reports. **(Finding: Abnormal Water Usage)**
Medium Risk Possibility of continuing, significant operating in-efficiencies and high-level non-compliance issues.	➢ Take corrective action for those meters flagged by meter readers as in need of repair. **(Finding: Abnormal Water Usage)** ➢ Monitor meters with chronic zero usage and vacant locations with usage. **(Finding: Abnormal Water Usage)**
Low Risk Possibility of continuing operating inefficiencies and some low-level non-compliance issues.	➢ Determine if accounts can be flagged as being temporarily moved to another billing cycle. **(Finding: Abnormal Water Usage)** ➢ Review feasibility of visiting a customer's address or leaving a door hanger when staff are unable to notify customer of abnormally high bill. **(Finding: Abnormal Water Usage)**

Scope and Methodology

The scope of this audit was limited to the specific questions presented by the City Council Audit and Finance Committee regarding the Triton contract and Water and Sewer billing process. We did not review any concerns related to the ongoing lawsuits. The period reviewed was March 2017 - June 2017. To answer our objectives, we reviewed relevant internal controls and developed audit procedures that included but were not limited to the following:

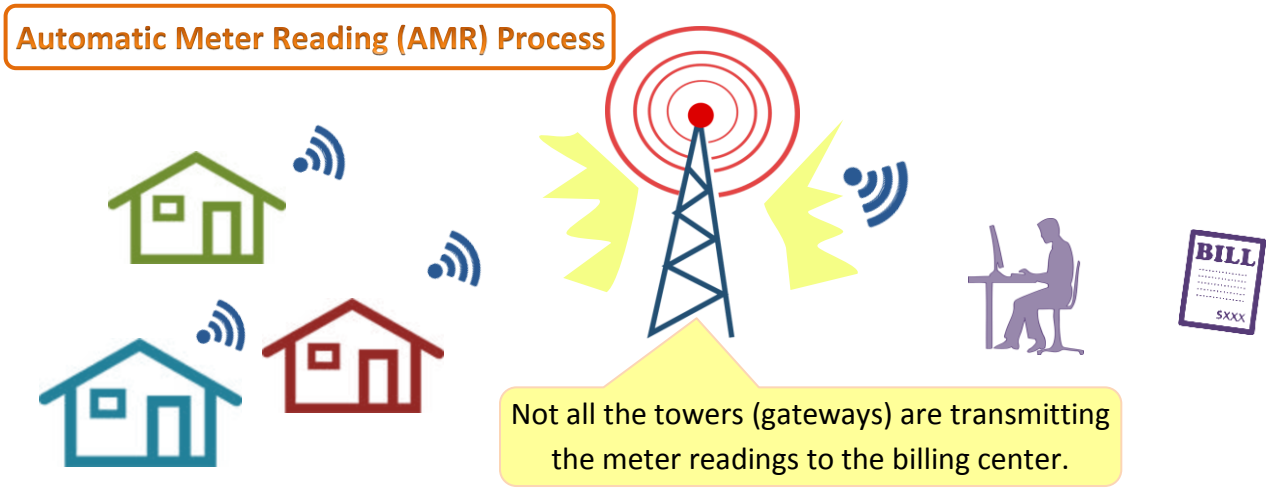
- Interviewing Water and Sewerage staff
- Reviewing the Triton contract regarding installations
- Reviewing monitoring of water usage for billing purposes
- Reviewing City Ordinances

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 the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Objective: Determine Status of the Contractor (Triton) Installed Automatic Meter Reading Capabilities and Meters

Meter readings can be collected manually or by automatic meter reading (AMR). AMR technology automatically collects consumption and transfers that data to a central database for billing, troubleshooting, and analyzing. AMR meters can be read electronically and are a more effective way to measure water usage.



Automatic Meter Reading Utilization

What percentage of water meters are read physically each month? All meters are being read manually. Each month, Water and Sewerage personnel are tasked with manually reading the current water usage from each of the 81,000 water meters and producing bills for the 66,000 customer accounts.

Regarding the Triton provided meters, are systems in place to identify meters not in-service or not in communication with the automatic system? There is an "Unread Meters Report" for the meters equipped with AMR. However, no AMR readings are being used.

Are there still communication issues with the Triton provided system (automated meters)? Water and Sewerage management stated that not all the towers (gateways) are transmitting the meter usage readings from the meters to the billing system. The Automatic Meter Reading Process above illustrates how the AMR process should work. Meters at home send the usage readings electronically to the transmitting towers, and the towers then send the readings to the billing center for review prior to the customer being billed.

What warranty was provided for Triton supplied meters and have meters been replaced by warranty? Triton did not provide a warranty. The company went bankrupt in 2014.

How many of the Triton provided meters have required replacement and where do the replacement meters come from? In 2009 through 2010, the City contracted with Triton Water Technologies to replace old water meters and provide AMR capabilities (including meter devices and transmitting towers). Triton installed AMR capabilities to 3,034 meters. Of those, 55 meters were removed because of reasons such as; house vacancy, unauthorized usage, construction demolition, etc. The replacement cost for the removed meters was $6,032.50. According to management, meters were replaced by in-stock items or through an agreement with the meter manufacturer (Badger).

Recommendation 1: Management should review the usability of the AMR system.

Management Response: **Due Date:** 1 Year or More

While not all of the equipment is currently operational, some automatic reads are being generated and are transmitted to the system. During the course of the Audit investigation, it was unclear if the system was bringing in any reads into enQuesta. It was only recently that staff was able to verify that some automated reads were being brought in automatically. There are large meters in vaults that are manually read are checked and if the automated read corresponds to the manual read, the automated read is utilized. We are currently validating these reads to ensure they are comparable to the manual reads. Once the validation is complete, we will discontinue manual reads of these meters.

The system was set up to provide AMR capabilities on meters 1.5 inches and larger. While most of these meters are commercial accounts, a number of them are irrigation meters for residences. This creates some difficulties in our meter reading process as the meter reader may be required to read one meter at a home, but not the one next to it. As indicated above, we are in the process of validating the automated reads that are coming into the system against the manual reads from the meter readers. This process will allow us to select specific meters to obtain remote reads from the system rather than manual reads. In particular, we are focusing on our list of meters that are located in vaults or tower (subtraction) meters. These meters typically take a significant amount of time to read due to their location in large concrete structures or a location within a commercial/industrial facility that is difficult to access.

Once the existing reads are validated, we plan to repair the necessary galaxy gateways and meter transmitters that will add meters to the system. The short term plan is to utilize the current system on as many meters that make sense without a large financial commitment.

Our long range plan is to provide automated read capabilities to our entire system. We are currently piloting a product in a small area off of Youree Drive to see how well the system works and the usefulness of the customer portal. It is our intention to develop an RFP for purchase and installation of a new system in 2018 with the project starting in 2019 and completing in 2024. The expected capital investment ranges from $20 to $30 million.

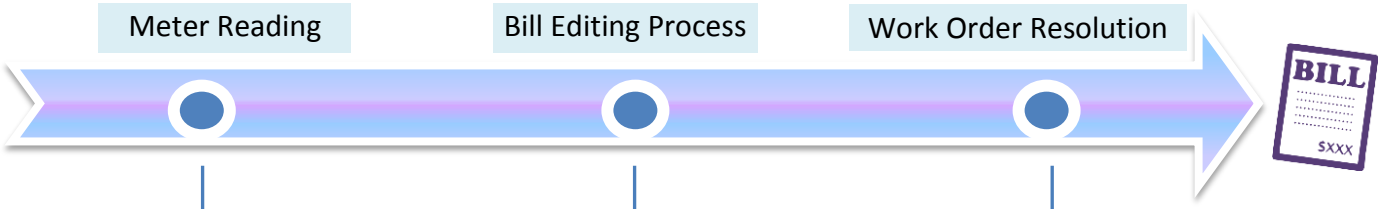
Objective: Review Processes to Determine Abnormal Water Usage

W&S maintains more than 81,000 water meters throughout its service area. The department supplies drinking and wastewater services. The department maintains the drinking water distribution system, including customer service lines and meters, and manages meter reading and prepares billing. A third party contractor prints and mails the bills. The City's Revenue Department handles automatic draft payments and receives customer payments.

Information provided during the meter reading process provides the basis for the department's water and sewer billing.

W&S staff has two to three days to complete a billing cycle. There are 19 monthly billing cycles. **On each work day for a typical month, staff are reading meters, reviewing usage anomalies, and preparing billing. When a billing cycle is delayed because of inclement weather or holidays, there can be several billing cycles performed in one day.**

Although stages may overlap, the process from meter reading to billing should take about two to three days.



Meter Readers

- Manually input current meter readings into the electronic handheld devices for an average of 81,000 meters per month.
- Indicate problems such as 'leak', 'cannot find meter', 'dirt on meter', 'dial broken'.

Staff reviews the abnormal meter reading listings:

- High/Low (out of range) report & Skip read (meter not read) report.
- Flags meters to be rechecked by initiating work orders to check readings or fix problems noted by the meter reader.

Inspectors recheck the meters that were flagged during the bill editing process:

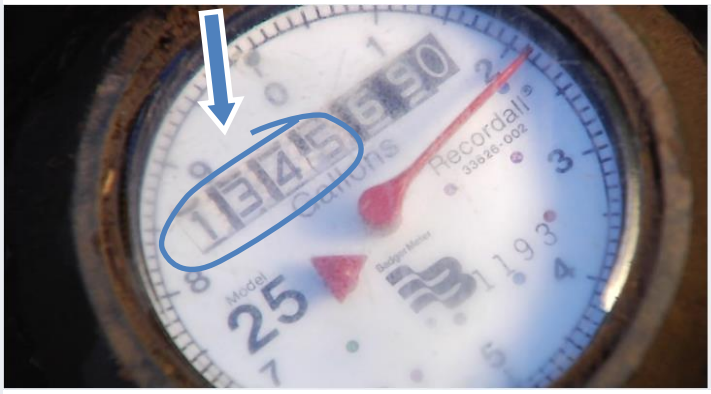
- Inspects meter for damage.
- Verifies the meter's serial number.
- Rechecks the current usage reading.

Abnormal Water Usage

Are systems in place to identify significant increases/decreases in a water usage readings from month to month before a bill is generated? If systems are in place to identify abnormal usage who is assigned to monitor and take actions?

Meter in the Ground with lid Being Lifted

Meter Dial Showing Current Reading



[Pictures from W&S "How to read your meter" on City's website]

Current Reading is manually entered into the Trimble Handheld

The meter readers manually enter the current reading from the water meter into the Trimble handheld electronic device. (Called Trimble because of the manufacturer). If that current reading is a bad usage reading (out of range or zero usage), then the Trimble will beep to notify the meter reader that a new reading is needed. The meter reader can then re-enter a reading. Additionally, meter readers can enter notations for conditions, such as; 'dial broken', 'meter not found', etc.

Bill Editing Process

Abnormal meter readings can be an indication of a misread/miskey, a leak, or in some instances the customer used more water than normal (lawn was watered, customer filled their swimming pool).

Abnormal Reads Report

Based on settings of what is high consumption or what is low consumption, the computer system flags abnormal meter readings during the prebilling process as described below:

- High/Low Range – Each meter has a high and low range for water usage. When the current meter reading is out of range, then that account is flagged as needing further review.
- No reading occurred (aka skip reads) – A meter read did not occur because of reasons such as; dial broken, meter not found, dirt on the meter, etc.
- Zero usage – For accounts that are not vacant, it is expected that water will be used during the month. So when no water consumption has occurred, it can be an indication that the meter is broken.
- 'Vacant' account with water usage – It is an indication of a problem, such as, unauthorized usage or the meter is broken.
- Meter reader notes – Problems that the meter reader experiences that need corrective action. ('leak', 'cannot find meter', 'dirt on meter', 'dial broken')

Corrective Actions for Meter Repair Issues

We sampled 51 abnormal meter reads to determine what corrective action was taken. We noted 14% (7 out of 51) did not have timely resolution. Our review indicated that most of these had meter reader notes (such as, register glass broken) that were not being resolved timely. Until a broken meter is fixed or replaced, the City loses revenue because no water usage is being billed.

14%

Our sampling of corrective actions for meter repair issues (ex. dial broken) indicated that 14% were not resolved timely.

Staff Reviews Abnormal Reads Report

Staff reviews the abnormal usage reads listings and decides the next action:

- Approve the read – accept as is
  - The current reading on the abnormal report is on or close to the range for the meter (ex. - current reading is 184; range is 180 to 183)
- Change the reading or estimate (3 to 6 month average)
  - The current reading appears to be a typing entry error by the meter reader (ex. - current reading is 1730; range is 170 to 174)
- Issue a work order to reread/recheck the meter

Abnormal Reads Report Changed in March 2017

Although the bill editing report used to identify the abnormal meter readings was improved in March 2017, **it is still difficult to address those accounts with the most abnormally high readings. The reports do not rank the meter usage readings based on the highest abnormal reading.**

Before March 2017 "Old Format"	Beginning March 2017 "New Format"
The abnormal usage report was a printed report that provided limited information for staff to make a determination for corrective action.	The newer format for reviewing abnormal usage is an online report that is tied to the water billing work order system.
Other disadvantages:	Other advantages:
- Only the current reading and range (high and low limit) were listed.	- Displays current reading and twelve month history for the account.
- Staff had to manually calculate usage.	- The current usage is shown.
- Staff had to manually initiate a work order to recheck the meter.	- Staff can instantly initiate a work order online.

Top Abnormal Readings

We ranked the abnormal meter readings for our sample month of May 2017. Our review of the top 100 abnormal readings indicated the majority of abnormal readings were because of misreads/miskeys or entering the reading from another meter when multiple meters were present on the premise. One meter had a leak and the dial glass was broken on four meters which required replacement before the meter could be properly read.

Percentage of Meter Reads Flagged as Abnormal Each Month

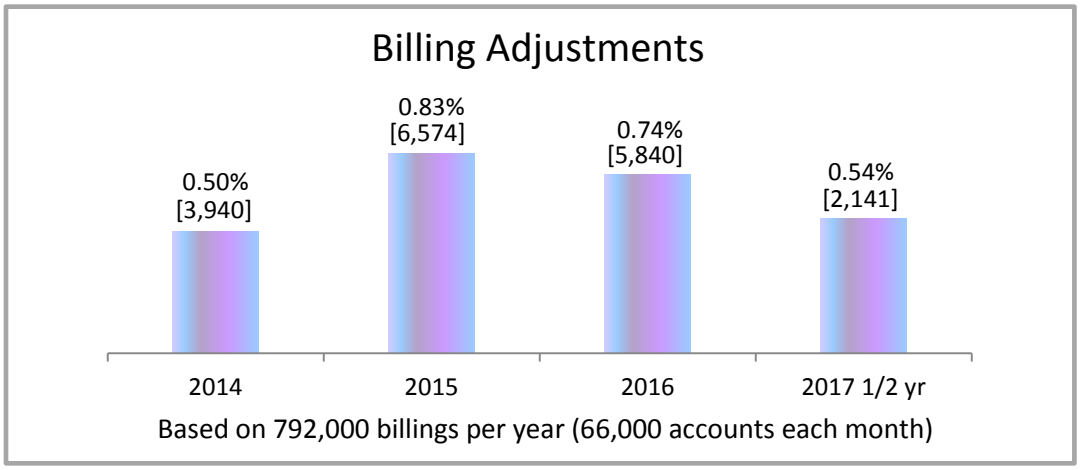
Meter reads are flagged as abnormal based on criteria settings such as percentage above/below normal range for that meter size and customer type (residential, industrial, commercial). We sampled about half (45%) of the meter readings in May 2017. These are the percentages of those flagged as abnormal:

- 11% (3,875) based on the new abnormal report format.
- 22% (8,164) based on the old abnormal report format.

An account may be flagged during the Bill Editing Process to be reviewed-see page 11 for process

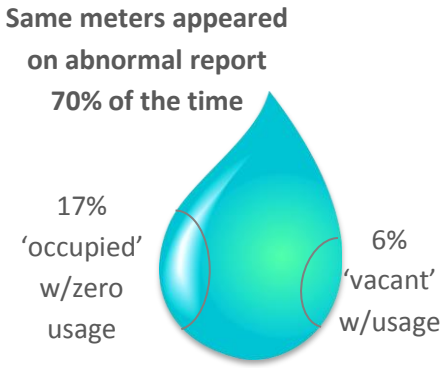
Since the new abnormal report flagged a smaller number of meters than the old abnormal report, it is important to determine whether the new abnormal report settings are appropriately flagging meter readings as abnormal. At the time of this review, staff was not familiar with criteria settings that govern the abnormal usage reports. More research needs to be done to determine the difference in the number of meters flagged as abnormal between the old and new abnormal reports.

What percentage of monthly bills is incorrect and require adjustment? Billing adjustments are done to correct erroneous usage readings caused by misreading the meter. A review of accounts for years 2014 through June of 2017 indicated that billing adjustments occurred less than 1% of total bills.



Accounts with Chronic Abnormal Readings

During our review of the abnormal readings report (aka, "High/Low Report"), we noted instances of accounts that had abnormal usage for several consecutive billing cycles. We followed four billing cycles through three months (May thru July 2017). Within these three months, the same meters appeared on the abnormal report 70% of the time with chronic problems such as 'occupied' with zero usage and 'vacant' accounts with usage accounting for 23% of the abnormal readings.



Occupied with Zero Usage

No water usage for a month is not always a problem because some customers do not use the minimum amount to register usage (ex. 1,000 gallons) and the customer may not use their yard meter to water their lawn year round.

However, zero usage over several months could be an indication of misreading the meter; the meter is broken; or that the premise is only occasionally occupied (ex. rental house, 2nd home).

Vacant Accounts with Usage

Unoccupied premises with no water service are labelled as 'vacant'. A 'vacant' premise with water usage for a month might not be a problem if the vacancy occurred during the month.

However, 'vacant' accounts with water usage over several months can be an indication that the meter was misread; the meter might be broken; or unauthorized use of water services is occurring.

Delaying Bills

The computer system does not prevent a bill from being sent even though there may be an outstanding work order to review the billing. When staff becomes aware of an unusually high bill that needs additional review, billing staff sometimes moves the bill to the next billing cycle. After the problems are resolved, the billing staff must remember to move that account back to its original billing cycle. Otherwise, the meter may not be read the next month.

A preferred method would be to flag the account as 'in suspense' or 'pending'. That way staff could be alerted that the account needs to be moved back into its original billing cycle.

High Bill Received by Customer and ACH

After billing has occurred, if staff becomes aware of those abnormal bills, they try to notify the customer by various methods (calling, emailing).

However, for those customers that have automatic payment, the abnormally high bill will hit their checking/savings account.

High Bill Caused by a Leak

Customers will generally not know they have a leak until they have received at least one high bill.

In two cases reported in the media, customers complaining of high bills were later found to have leaks on their properties.

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To improve the efficiency of the billing process, we recommend the following:

Recommendation 2: a) To address those extremely higher than normal meter usages first, determine if the abnormal usage reports can pinpoint those meters with the highest percentage of usage above the meters range. b) Since the new abnormal report flagged a smaller portion (11%) of the meter readings as out of range compared to the old abnormal report (which flagged 22%), it is important to review the criteria settings to determine whether the new abnormal report is appropriately flagging meter readings for review.

Management Response: **Due Date:** Less than 6 Months

a) We understand the importance of sending out bills that are correct. As this Audit report indicates, less than 1% of our bills require some sort of an adjustment and that percentage has been steadily dropping since 2015. The identification of abnormal meter readings is made in the proofreading stage of gathering billing information. The report is used to identify readings to verify, and several additional steps are taken to determine if the readings are correct. The report does not reflect incorrect readings or inaccurate bills sent to customers; it reflects readings outside the customer's normal usage range. Based on a sampling of 45% of accounts, only 11% were flagged on the enQuesta report as requiring review because the reading was above/below the customer's normal usage range. The purpose of this report is to identify these accounts and have them checked and updated prior to billing the customers. As can be seen on page 13 in the report, actual adjustments of customer accounts is required in only 0.54% of all accounts, a percentage which has been dropping since 2015.

We have been working with staff to ensure that abnormally high bills are not sent out. The existing reports from enQuesta do not currently allow for sorting of the data. We are working with enQuesta and our staff to obtain sortable reports that will allow staff to review the data more efficiently.

b) To address the differences in reporting "abnormal" readings, enQuesta edit criteria includes meter size, class, season, and other criteria. The previous software, ReadCenter, did not have the same number and types of editing criteria which likely caused the difference in the number of accounts that hit the "abnormal" report. We will review the new criteria and ensure that accounts are being reported appropriately.

Recommendation 3: The current work flow process will bill accounts even if there is an abnormal reading (unless staff corrects the reading). This is a particular problem for those customers with automatic draft (aka ACH – automatic clearing house) because an abnormally high bill can hit the customer's checking/savings account. Management should determine if abnormal bills should be estimated and whether a high limit for automatic drafts can be requested by customers.

Management Response: **Due Date:** Less than 6 Months

We will pursue this with our current billing software vendor to see what can be done. The limit of the high bill should not be left to the customer, but should be a function of historical billing and a percentage. If the current system will provide this feature, we will work to have this complete in 6 months. If it is not available, we will add this to our list of requirements in the new billing system. As we are able to eliminate high bills from getting through the editing, billing and QA/QC process, this will not be an issue in the future.

Recommendation 4: Meter repair issues noted by the meter readers should be followed up in a timely manner.

Management Response: **Due Date:** 6 to 12 Months

The Audit report includes a statistic that 14% of meter repair issues sampled did not have a corrective action. This statistic was based upon a sample of 51 accounts in ReadCenter reports from the month of May. In March of this year we began using reports out of enQuesta rather than ReadCenter to improve the efficiency of the editing process. During the transition from ReadCenter to enQuesta, some information pertaining to repairs has not yet been brought in as the process would automatically create a work order each time the meter reader makes the notation resulting in duplicate work orders as there is currently not enough staff to address these issues each month. In order to ensure work orders are being placed in the system, we will have the customer service representatives utilize the ReadCenter reports during low call volume times to place work orders on the system.

Like a lot of other Departments, we have been challenged with hiring and retaining qualified staff. Our meter shop area of Customer Service has been at a reduced staffing level of 60 to 70% for several months. As a result, it has been difficult to keep current with meter work orders. Under the circumstances, we are doing the best we can to keep up. We continue to advertise our vacant positions as quickly as the system allows. Until we are at full staffing, we are working to sort and prioritize the meter work orders so that issues that prevent readings are taken care of first. We also plan to assess if it would be feasible and cost effective to bid out some of this work to reduce the backlog and allow our staff to catch up.

Recommendation 5: Meters with chronic zero usage should be monitored to determine if the meter needs to be fixed or replaced. When an account has been reviewed, there is not a standard method to indicate the resolution, such as, 'the account is vacant'. Having a standard method would help to identify those accounts already reviewed.

Management Response: **Due Date:** 6 to 12 Months

As the Audit report indicated, 17% of the "abnormal" reading active accounts had zero usage between May and July of this year. This accounts for approximately 4% of all accounts each month. While a portion of these are irrigation meters that may have not been utilized due to the cooler, wetter spring/summer we have had, some are obviously accounts that may need to be investigated to determine the reason for the zero consumption. We currently have a report that shows zero usage accounts, however, it is not configurable to filter by different criteria, thus it is difficult to use. We are working on a new report that will filter out vacant accounts, selectable for meter type (irrigation, commercial, industrial, etc) and other basic information that will provide a more useful tool. In the interim, staff has been directed to create an investigative work order for each account that appears on this report for three months in a row.

Recommendation 6: Vacant locations that have water usage over several billing cycles should be reviewed to determine if unauthorized usage is occurring or if the meter is broken.

Management Response: **Due Date:** Less than 6 Months

We have a vacant with usage report that is used to check for unauthorized usage. Particularly with rental properties, we find that tenants move in without calling Customer Service to set up an account. Per the findings of the audit, these account for approximately 1.5% of all accounts each month. While this is important to us as it represents potential revenue, we have had to set work priorities due to our workforce level challenges. While we are not able to address all of the accounts that hit this report, we do review and act on as many as we are able to. As this our staffing situation changes, additional tasks accounts will be addressed.

Recommendation 7: For accounts that need to be temporarily moved to the next billing cycle, determine if that account can be flagged (perhaps by a work order) to indicate that it needs to be moved back to its original cycle.

Management Response: **Due Date:** Less than 6 Months

We are in the process of producing a standard procedure for temporarily moved accounts.

Recommendation 8: Sometimes the customer's contact information is not up to date and staff cannot notify the customer of a high bill. Management should review the feasibility of also visiting the customer's address to speak with them or leaving a door hanger.

Management Response: **Due Date:** Less than 6 Months

We will implement a procedure to communicate this information timely to the customer. Currently we utilize door hangers to communicate some information to customers. We will utilize this method for issues that require immediate attention if we do not have any other form of valid communication.

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Director of Water and Sewerage