



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

Project Team

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Project Number

1230073

This report can be made available in alternate format upon request.

Water Services Department Water Billing Process

January 19, 2024

Report Highlights

Adjustments

Adjustments were properly performed and were adequately supported by documentation.

Access Rights

In calendar year 2022, more than half of the adjustments performed were created and approved by the same employee. A supervisor reviews all refund adjustments daily to ensure they are appropriate.

American Rescue Plan Act Payments

American Rescue Plan Act payments were properly credited to customer accounts.

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Executive Summary

Purpose

Our purpose was to determine that the Water Services Department's billing process adequately ensures that billings and adjustments are accurate and authorized.

Background

The Water Services Department (Water Services) – Customer Services Division processes customer billing and payments for water, sewer, and sanitation services through the Customer Care & Billing (CC&B) system. There are over 400,000 active accounts. Staff respond to nearly 800,000 calls, web requests, and emails each year, to activate or discontinue services, and to address other issues.

The municipal services bills generated from CC&B contain charges for water, sewer, and sanitation services. There can also be charges for late fees, activations, insufficient funds, and other matters. These fees are referred to as adjustments. Adjustments can be system generated (such as a late fee), posted because of an action by a user (such as a request for a bench test), or generated by a user (such as reversal of a late fee or processing of a refund). Over 15,000 adjustments were processed in calendar year 2022.

Results in Brief

Adjustments were properly performed and documented in CC&B.

During calendar year 2022, Water processed over 15,000 adjustments totaling \$11.8 million in absolute value. We created a risk model to identify the highest risk adjustments based on: the dollar value, the day the adjustment was performed, who created and approved the adjustment, and whether an address change occurred because of the adjustment. We reviewed the 30 highest risk adjustments and found that they were appropriate and were supported by comments in CC&B. No exceptions were noted.

More than half of the adjustments performed in 2022 were create and approved by the same employee. A Water Services supervisor reviews all refund adjustments daily to ensure they are appropriate.

In calendar year 2022, over 15,000 adjustments were processed, and 8,124 adjustments (53%) were created and approved by the same employee. Regular business processes allow staff to perform these transactions. Allowing these transactions does increase the risk of fraudulent activity. A Water Services supervisor reviews all refund adjustments through a daily report. Other reports such as sensitive adjustments and late fees are periodically reviewed by management.

American Rescue Plan Act (ARPA) payments were properly credited to customer accounts.

We reviewed the process for Water Services to reconcile SAP transactions and credits to individual water customer billing accounts. We reviewed 20 entries with Water staff to ensure the customer accounts were not credited more than once with ARPA funding. No exceptions were noted.

Department Responses to Recommendations

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1 – American Relief Plan Act Payments

Background

In September 2021, Water earmarked \$5 million from American Relief Plan Act (ARPA) funds to help customers financially impacted by the COVID-19 pandemic, pay utility bills. As of November 2023, the remaining balance was \$769,939. For a customer to be eligible for ARPA assistance they must be enrolled in the Deferred Payment Arrangement (DPA) Recovery Program and have paid at least a 1/3 of their account balance. Once payments are applied to customer accounts, they are reviewed by the Water billing staff to ensure payments are accurately applied to eligible accounts.

Customer Care and Billing (CC&B) is Water's account billing and tracking system. An account was created in CC&B to track the \$5 million in ARPA money received. Each time a customer account was credited using the ARPA funds, an offsetting entry would be made to the ARPA account to track the money used.

Water staff reconciled the entries to accounts billed, to the offsetting entries in the ARPA account. We reviewed ARPA payments made to customer accounts from January 2022 through December 2022 to ensure eligible accounts were not credited more than once.

Results

ARPA payments were properly credited to customer accounts.

A key control was that Water staff regularly reconciled payments made in SAP to credits in CC&B. In the early part of calendar year 2022, Water staff had issues with reconciling the ARPA account to the individual customer accounts. The process was new and emphasized distributing the money as quickly as possible. In the later months, Water staff performed the reconciliation process more efficiently. The sum of the accounts credited each day would account for one adjusting entry in the ARPA account, where the daily totals matched each day. We selected 20 transactions from the time period where reconciliations were not performed as well. We reviewed the 20 entries with Water staff to ensure the customer accounts were not credited more than once with ARPA funding. No exceptions were noted.

Recommendations

None

2 – Adjustments

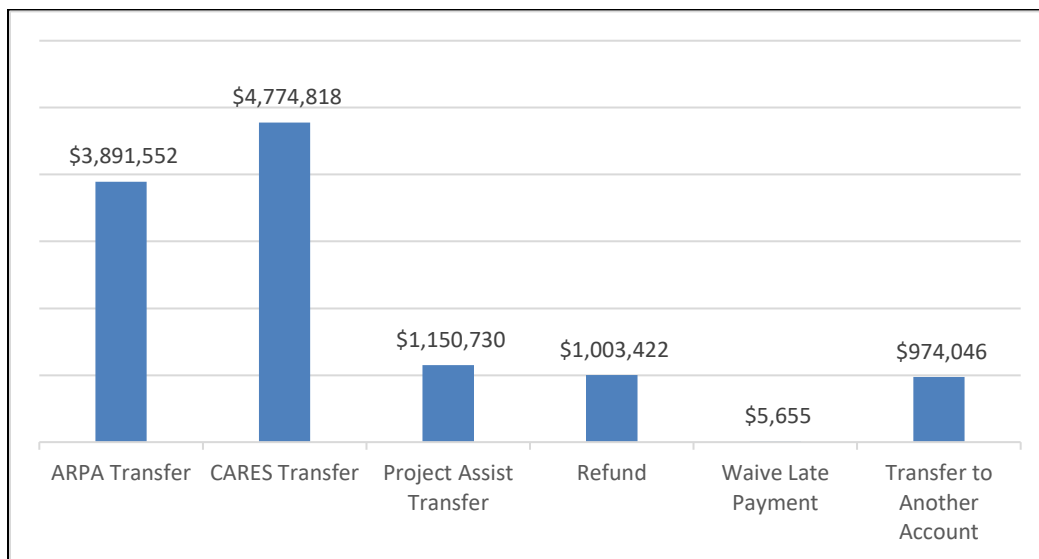
Background

Adjustments are performed as a general process within CC&B against Water Customer Service accounts. Adjustments are any change to a customer water account and can be performed for many reasons, including change in service, refunds owed to customers, credits, and balance transfers.

In the case of refunds, there is usually an associated address change so that the customer granted the refund can receive the amount refunded. The account holder may not reside at the address of service. If a refund is processed, a supervisor will skip trace in CC&B to ensure the customer does not owe on other accounts, and if the address is changed, a supervisor must review the transaction before approval.

When a customer has a credit balance on an account, CC&B issues a report that is reviewed by multiple levels of Water staff. If approved, the refund is sent to the Finance Department to reconcile to the City's financial management system, SAP, and then issue a refund check. Other common adjustments that do not result in refunds include waiving late fees and transferring balances to other accounts. For the period we reviewed, ARPA, CARES, and Project Assist transfers were common adjustments as well.

Calendar Year 2022 Adjustment Types



ARPA, CARES, and Project Assist provided financial support for qualifying residents.

We reviewed the adjustments performed in calendar year 2022 using data analytics tools and scoring for each transaction. We tested for dollar value, day the transaction was performed, who created and approved the transaction, and if there was an address change because of the adjustment.

Results

Adjustments were properly performed and documented in CC&B.

During calendar year 2022, Water processed over 15,000 adjustments totaling \$11.8 million in absolute value. We created a risk model to identify the highest risk transactions. We requested documentation from CC&B for the 30 highest risk transactions. Water was able to provide the details of each transaction. Water includes comments in CC&B for the adjustments that are performed. No exceptions were noted.

Address changes were executed properly and refunds to the same addresses were authorized.

We reviewed address changes from January 2022 through August 2023. There were over 11,000 accounts with address changes. We summarized the address changes to determine how many refunds were sent to the same address. We requested a review from Water for the addresses with 10 or more refunds processed to that address. There were 36 addresses with 10 or more refunds processed to the same address, ranging from 10 up to 867 processed refunds. All the addresses we researched were for property management companies or addresses for parent companies with many accounts under that parent company. No exceptions were noted.

Recommendations

None

3 – Access Rights

Background

Within CC&B, employees are granted access to perform and approve adjustments. User accounts are assigned to user groups that allow them to conduct adjustments. In addition, user accounts are assigned profiles that can allow them to approve certain types of adjustments, up to certain dollar amounts.

We reviewed the employees allowed to perform adjustments and compared that to the adjustments performed in calendar year 2022. We tested to determine if there were employees that created and approved the same adjustment transaction. In addition, we reviewed employees that are allowed to approve adjustments and developed a list of employees that can create and approve adjustments. CC&B does not prevent an employee from creating and approving the same transaction. We tested to determine if there were segregation of duties when creating and approving adjustments.

Results

More than half of the adjustments performed in 2022 were created and approved by the same employee. There were 22 employees with access to create and approve adjustments.

In calendar year 2022, over 15,000 adjustments were processed, and 8,124 of those adjustments (53%) were created and approved by the same employee. Those 8,124 adjustments totaled \$4.3 million in absolute value. Of those 8,124 adjustments, 369 were \$1,000 or more in absolute value.

We reviewed user groups reports and profile reports to determine who can create and approve adjustments. There were 183 employees with access to create adjustments in CC&B and 22 of those employees could also approve. Most individuals did create and approve an adjustment.

Water Services has implemented various controls over the adjustment process that monitor employees that create and approve their own adjustment.

The following processes help to ensure only appropriate adjustments take place:

- *CCB 002 Refund Check Approval Report* – this report identifies all refunds prior to payment. Supervisors review the report to verify the refunds are valid and authorized. The review is escalated to management based on the adjustment period and amount.
- *Daily Sensitive Adjustment Report* – this report lists adjustments that have been made to water, sewer, or refuse charges. It does not include adjustments related to additional fees charged to accounts such as late charges and other service charges. It also does not include transfers between accounts or write-offs of water or sewer fees. Internal Water Services staff reviews this report once a

month by selecting a random sample of adjustments to determine the reasonableness of the adjustments. Follow-up is performed on any questionable adjustments noted during their review.

- *Late Fees Report* – this report identifies all late fees credited to accounts. The Utility Bill Superintendent and the Assistant Customer Service Administrator independently audit the SQL 331, late fee waiver adjustments, monthly. The Deputy Water Services Director spot checks the report monthly to verify that only users whose job duties allow for late fee adjustments are performing the adjustments and to monitor for multiple late fee adjustments to a single account.
- *CCB 273 Write-Offs Report* – this report lists write-offs from the previous day and is reviewed daily by the Credit and Collections group.
- *CCB 272 Balance Transfer Report* – this report shows all transfer balance debits and transfer balance credits from the previous day. It is reviewed daily by the Credit and Collections group.

Recommendations

None

Scope, Methods, and Standards

Scope

We reviewed Water's access reporting to determine who had access to create and approve adjustments in CC&B. We tested the adjustments for calendar year 2022 against the access reporting. In addition, we reviewed the ARPA funding earmarked for Water accounts to ensure the accounts were credited properly.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should design control activities to achieve objectives and respond to risks.
- Risk Assessment
 - Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
- Control Environment
 - Management should evaluate performance and hold individuals accountable for their internal responsibilities.

Methods

We used the following methods to complete this audit:

- Reviewed the ARPA reconciliation process and reviewed a sample of payments to accounts.
- Reviewed a sample of adjustments to ensure there were adequate notes detailing the reason for the adjustment.
- Reviewed adjustments where an address change occurred for issuing the refund check to ensure the address change was appropriate.
- Reviewed access rights for individuals that can create and approve their own adjustments.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of CC&B adjustments data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced it, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

Standards

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 findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.