

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Jeff Pratt, Director, Public Works Agency

Date: November 29, 2022

From: Jeffery S. Burgh

Subject: AMENDMENTS TO MANAGEMENT ACTIONS FOR THE FOLLOW-UP AUDIT OF WATERWORKS DISTRICT NO. 1 BILLINGS AND COLLECTIONS

We have received your November 22, 2022, amendments to the management actions provided for our follow-up audit of Ventura County Waterworks District No. 1 (District) billings and collections dated April 21, 2022, as attached. We have noted that District management initiated corrective action to address the audit findings, except for Findings 3.03 and 3.04, and we have provided our auditor's comments below.

1.01 Notice of Pending Shut-Off Charge

Auditor's Comment. Based on discussion with District management, we have noted that the amended corrective action is planned to be completed by February 7, 2023.

3.03 Sharing the Cash Drawer

Auditor's Comment. We have noted that District management does not intend to implement corrective action in response to this finding. We believe that District management should limit cash drawer access to one cashier per drawer to help pinpoint responsibility in case of cash discrepancies. Therefore, we continue to recommend that District management take action on this issue.

3.04 Counting the Cash Drawer

Auditor's Comment. We have noted that District management does not intend to implement corrective action in response to this finding. We believe that District management should reinstitute procedures to count the cash register drawer at the start and close of business, which will help to identify the date of any discrepancies. To clarify, we did not recommend additional balancing of transactions with these simple counts. Therefore, we continue to recommend that District management take action on this issue. We have also noted the District's decision that the shortened public office hours of 9 a.m. to 4 p.m. implemented during our audit will stay in effect due to other issues not related to counting the cash drawer.

Attachment

cc: Honorable Matt LaVere, Chair, Board of Supervisors
Honorable Kelly Long, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Honorable Vianey Lopez, Board of Supervisors
Sevet Johnson, Psy.D., County Executive Officer



MEMORANDUM

DATE: November 22, 2022

TO: Jeff S. Burgh, Auditor-Controller

FROM: Jeff Pratt, Public Works Director 

SUBJECT: FOLLOW-UP AUDIT OF WATERWORKS DISTRICT NO. 1 BILLINGS AND COLLECTIONS FEBRUARY 2, 2022

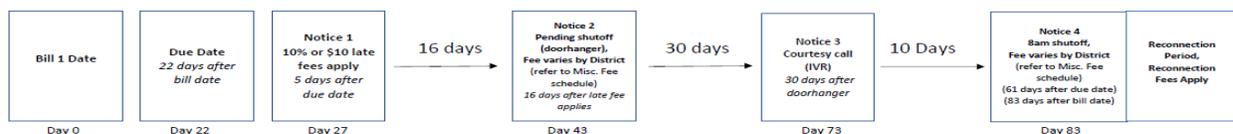
This is an update to my memorandum of June 23, 2022 regarding Audit Finding 1.01:

1. Notice of Pending Shut-off Charge (1.01). This finding stated that when billing periods extended to 35 days (in 2019 this occurred four times), customers were not given the same 15 days they were provided in a 28-day billing cycle to notice a “48-Hour Notice of Pending Shut Off” fee. Therefore, the finding states that customers that only received 8 days were not treated equitably. It was recommended that staff implement consistency in the billing notices or add another delinquency notice four times a year.

The District’s notification process is compliant with the California State Senate Bill (SB) 998 and are correctly stated in the District Rules and Regulations per resolution no. 21-126. Table 1 shows the current SB 998-compliant notification process.

Table 1:

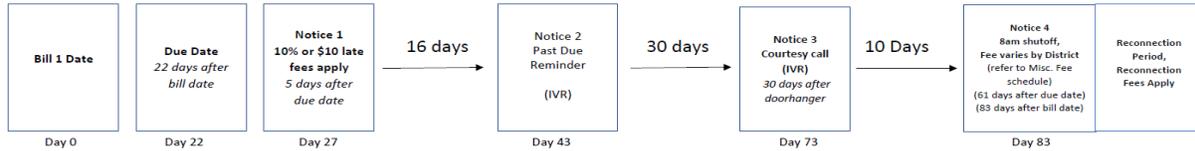
SB-998 Compliant Shutoff Timeline



The proposed resolution of finding 1.01 is to change the Notice 2 Pending Shutoff procedure to eliminate the fee and make notification to the customer via Interactive Voice Response (IVR) phone call. This new process is shown in Table 2:

Table 2:

SB-998 Compliant Shutoff Timeline



The new process maintains the SB-998 required timelines and results in a soft labor savings of approximately \$140,000 per year. Based on Fiscal Year (FY) 2019 data, elimination of the Notice 2 fee would have reduced revenues to Waterworks District No. 1 by \$121,620. The remaining Waterworks Districts would have had a combined reduction of \$19,740 in revenues. If the Notice 2 fee was eliminated in FY 2019, the total revenue loss across all Waterworks Districts would have represented 0.575% of total revenue collected.

With the proposed elimination of the Notice 2 Fee, this removes any inequities in the notification timing between 28-day versus 35-day billing cycles.

Please confirm that the proposed change to the shutoff process is a satisfactory resolution to Audit Finding 1.01.

2. Finding 3.03 "Sharing the Cash Drawer" stated that staff continue to share one cash drawer, which could cause difficulties in identifying the responsible person should discrepancies occur. The recommendation for correction was to limit access and to assign a second backup cashier to the cash drawer.

The current staffing in the office does not allow for two dedicated staff members to assist customers at the payment counter. Customer service staff also handle phone calls, work on service orders, and batch outside payments. Adding a second cashier would detract staff from providing responsive customer service. Additionally, past findings of cash discrepancies are inconsequential to the amount of cash handled, as highlighted below regarding finding 3.04.

3. Finding 3.04 "Counting the Cash Drawer" stated that the cash drawer was counted only once each day, rather than at the beginning and end of the day. Since multiple staff members share the cash drawer, and the deposits include two different days of cash register transactions, that increases the date range for possible discrepancies. The auditor recommended cash drawers be counted twice a day, in the morning, and at the close of business.

Audit Follow-up District No. 1 (Moorpark) Billings and Collections

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November 2, 2022

Customer service staff have implemented this twice a day cash drawer count and estimate an annual increase in billing labor by \$10,325 and 130 labor hours. In 2019 staff handled \$426,487 in cash at the counter, with a loss of \$2.90 (a -0.0007% discrepancy). To implement the auditor's recommendation to reduce the risk of an inconsequential cash discrepancy, would reallocate scarce staffing resources to mitigate the risk associated with a problem that does not exist. As an Agency focused on Lean/Six Sigma and continuous process improvement, we empower staff to evaluate and implement efficient processes. As such, I have directed the Customer Service staff to revert to the more efficient business practice with one shared cash drawer balanced once a day at 3 p.m.

All other recommendations will be implemented as stated in your April 21, 2022 report.

cc: David Fleisch, Joe Pope, Jean Fontayne, Tannya Godinez



Follow-Up Audit of Waterworks District No. 1 Billings and Collections

Report Date: April 21, 2022

Office of the Auditor-Controller
County of Ventura, California
Jeffery S. Burgh, Auditor-Controller

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Jeff Pratt, Director, Public Works Agency

Date: April 21, 2022

From: Jeffery S. Burgh

Subject: FOLLOW-UP AUDIT OF WATERWORKS DISTRICT NO. 1 BILLINGS AND COLLECTIONS

We have completed our follow-up audit of Ventura County Waterworks District No. 1 (District) billings and collections. Our overall objective was to determine whether appropriate corrective actions were taken by District management to address the issues noted in our prior audit report dated February 23, 2017.

Executive Summary

Overall, we found that District management made progress in improving billing and collection processes, and fully implemented corrective action for 6 (40%) of the 15 prior findings. For example, billing adjustment numbers were replaced with a new water rate structure that was approved by the Board of Supervisors on March 14, 2017, and accounts were appropriately charged under the new rate structure.

However, corrective action was still needed to address the remaining nine prior findings, of which four were partially implemented and five were not implemented. We also identified three new findings. For example, we found that:

- When billing periods extended to 35 days, customers were not given sufficient notice to pay delinquent amounts before incurring the "48-Hour Notice of Pending Shut Off" charge.
- Residential water tiers in certain public documents were not reflective of how customers were billed.
- Fireline service charges were not always billed properly.
- Procedures were needed to ensure proper management oversight of transactions at high risk of being improper.
- Written procedures were not always followed for payment processing at the District office.
- Customer refunds may be in order for credit balances going back several years.
- Cash processing duties were not always properly segregated to reduce the risk of misappropriation.

Jeff Pratt, Director, Public Works Agency

April 21, 2022

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District management initiated corrective action to address our current findings. Corrective action is planned to be completed by July 1, 2022, except for action relating to Finding 1.01 regarding the notice of pending shut-off charge, which is planned for completion by July 1, 2025.

We appreciate the cooperation and assistance extended by you and your staff during this follow-up audit.

cc: Honorable Carmen Ramirez, Chair, Board of Supervisors
Honorable Matt LaVere, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kelly Long, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Sevet Johnson, Interim County Executive Officer

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Background

Ventura County Waterworks District No. 1 (District), a special district formed on November 22, 1921, provides potable water and sewer services to approximately 40,000 residents and businesses through over 11,000 service connections. The District boundaries include the City of Moorpark and contiguous unincorporated areas to the north and west. During Fiscal Year (FY) 2019-20, District water sales totaled approximately \$18 million and revenue from sewer charges totaled approximately \$4 million.

The County of Ventura (County) Board of Supervisors (BOS) is the governing body of the District. The County's Public Works Agency (PWA) provides labor and overhead support for the District, including administration, billing, and customer service. Generally, customers are billed monthly and payment is due 22 days after the bill date as set forth in the *Ventura County Waterworks Districts Nos. 1, 16, 17, 19 & 38 Rules and Regulations* (Rules).

On February 23, 2017, we issued an audit report containing 15 recommendations to improve the management of District billings and collections. In November 2018, we were informed that corrective action was completed in response to the recommendations contained in our audit report.

Scope

Our overall objective was to determine whether District management implemented appropriate corrective actions to address the 15 issues identified during our previous audit completed on February 23, 2017. To conduct this follow-up audit, we determined whether:

- billing practices ensured that customers were treated equitably;
- management practices ensured that collections from customers received adequate oversight; and
- internal controls were improved over cash handling at the District office.

Our audit procedures focused on billings and collections during FY 2019-20, particularly during November 2019. We also focused on the activities of the District office and did not review the activities of the third-party payment processor. The Rules referenced throughout this audit report were effective as of September 24, 2019.

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors.

Findings

Overall, we found that District management made progress in improving billing and collection processes, and fully implemented corrective action for 6 (40%) of the 15 prior findings. For example:

- Billing adjustment numbers were replaced with a new water rate structure that was approved by the BOS on March 14, 2017, and accounts were appropriately charged under the new rate structure.
- Accounts reviewed were billed at a uniform rate for recycled water.

- Management ensured that load counts (hydrant fills) could be verified by installing a hydrant meter.
- Customer exemptions from late fees were appropriately approved by District management.
- The collection agency was paid the appropriate contract rate.
- Management changed the safe combination upon separation of staff that knew the combination.

However, corrective actions were not sufficient to mitigate concerns with the remaining nine prior findings, of which four were partially implemented and five were not implemented. We also identified three new areas in need of improvement relating to residential water tiers, fireline charges, and payments to inactive zero-balance accounts.

Following are details of the areas where improvements were needed, and the Appendix summarizes the status of corrective actions taken since our prior audit. District management initiated corrective action in response to the current audit as noted.

1. Water Billing Practices

Progress had been made since the prior audit to ensure that water customers were treated equitably. However, customers were still not always given sufficient time to pay delinquent amounts before incurring the “48-Hour Notice of Pending Shut-Off” charge. We also identified new concerns that residential water tiers in certain public documents were not reflective of how customers were billed and monthly fireline service charges were not always billed.

1.01 Notice of Pending Shut-Off Charge

Follow-Up Status: Partially implemented (1 of 4).

While billing system dates were revised to give customers at least 15 days after the Delinquent Notice date prior to incurring the “Shut-Off Notice” charge in compliance with the Rules, the “48-Hour Notice of Pending Shut-Off” charge had not been addressed. Rule 1-H-24f stated:

“Fifteen [15] days from the date of the Delinquent Notice, if payment still has not been received, water service may be discontinued upon [48-hour] notification to the customer....A ‘48-Hour Notice of Pending Shut-Off’ charge...will be added to the customer’s account to process the notice.”

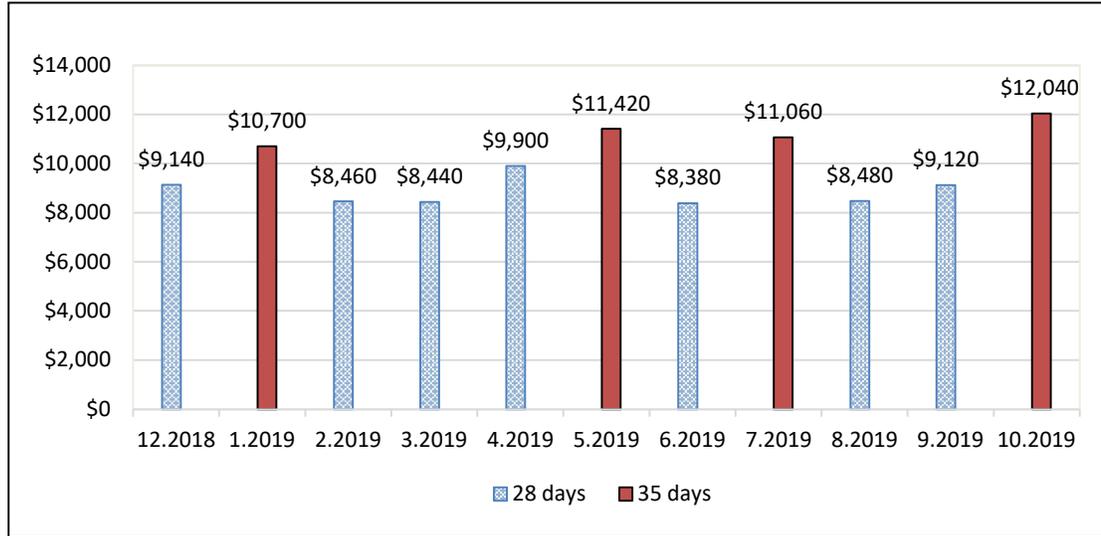
When the billing cycle extends from 28 days to 35 days, which occurs approximately four times a year, processing of the next month’s bill containing the Delinquent Notice is delayed by 7 days. When this occurs, customers receive less notice to pay delinquent amounts before incurring the “48-Hour Notice of Pending Shut Off” charge. For the delinquent accounts we reviewed that incurred the “48-Hour Notice of Pending Shut-Off” charge:

- Within a 28-day billing cycle, accounts incurred the charge 15 days after the “Delinquent Notice” date.

- Within a 35-day billing cycle, accounts incurred the charge only 8 days after the “Delinquent Notice” date.

Exhibit 1 below illustrates that these charges appeared to spike during 35-day billing cycles.

Exhibit 1. “48-Hour Notice of Pending Shut-Off” Charges Incurred during 28-Day and 35-Day Monthly Billing Cycles from December 2018 through October 2019



Recommendation. District management should ensure that “48-Hour Notice of Pending Shut-Off” charges post consistently for all customers from the date of the Delinquent Notice ensuring at least 15 days based on the Rules. In the absence of implementing a consistent monthly billing period throughout the year for each cycle, sending a separate Delinquent Notice to customers when the actual billing cycle is 35 days may help ensure equity.

Management Action. District management stated: “On July 28, 2020, the Rules and Regulations were updated to reflect the new notice dates per Senate Bill (SB) 998 that required us to provide 60 days’ notice prior to shutoff. Please refer to the VC Board approved Resolution Nos. 20-100. Discontinuation of services for nonpayment are now outlined in Rule 2-C-7, and from Resolution No. 21-126 the Rule is now 2-C-6. There is no reference to the fifteen days for the date of the delinquent notice.

“Regarding our billing cycle and notices the department is compliant to SB 998 and our Rules and Regulations. Currently, staff has no report or transmission mechanism to send another Delinquent Notice to customers in the fifth week of a 35-day billing cycle. In the FY 2023-24 budget staff will budget for a billing system cloud upgrade, and conducting a study to review a revised, uniform 12-month billing cycle. Staff will investigate with Invoice Cloud online payment vendor, potentially adding a 5th week email notification for customers to review their bill for a possible late fee assessment. Staff will continue to promote sign up for online bills and notifications.”

1.02 Presenting and Posting Residential Water Tiers

Follow-Up Status: New recommendation (1 of 3).

Residential water tiers presented to the BOS and posted on PWA's website were not reflective of how customers were billed. When the new water rate structure was presented to the BOS on March 14, 2017, residential water tiers were calculated based on a 30-day billing period. Tiers were also shown on PWA's website based on the 30-day billing period. However, actual billing periods are either 28 or 35 days as discussed in Finding 1.01 above. Therefore, actual residential water tiers are prorated based on the 30-day billing period per hundred cubic feet (HCF) of water and vary depending on the number of days in the billing cycle. As a result, fewer HCF are allowed during 28-day billing periods, which occurs approximately eight times per year, before the customer moves into the next tier at a higher rate as illustrated in Exhibit 2 below.

Exhibit 2. Residential Water Tiers and Rates Presented to the BOS on December 4, 2018, and Posted to PWA's Website Compared to Tiers and Rates Actually Billed

Presented/Posted			Actually Billed					
30 Days			28 Days			35 Days		
Tier	HCF Use	Rate	Tier	HCF Use	Rate	Tier	HCF Use	Rate
1	0 - 10	\$3.69	1	0 - 9.33	\$3.69	1	0 - 11.67	\$3.69
2	>10 - 25	\$4.41	2	9.34 - 23.33	\$4.41	2	11.68 - 29.17	\$4.41
3	>25	\$5.06	3	23.34 +	\$5.06	3	29.18 +	\$5.06

While the prorated tiers were disclosed on customer bills, presenting the tiers to the BOS and posting the tiers to the website as actually billed would provide better transparency to customers.

Recommendation. District management should present monthly residential water tiers to the BOS and post tiers on the website based on the number of service days generally billed to customers (i.e., 28 or 35 days). At a minimum, District management should disclose that actual tiers will vary from the 30-day billing period tiers shown when the rates are presented and posted. District management should also review whether more consistent monthly billing periods can be implemented.

Management Action. District management stated: "On April 26, 2022, staff will submit a Board letter for Waterworks District No. 1 (Moorpark) which will display the water rate tiers based on billed 28- and 35-day schedules. After Board approval the rate exhibit will be posted on the website. Going forward all rate letters will adhere to this recommended format."

"Billing period changes would impact both the weekly call and payment volume. With current staffing of four full time customer accounting representatives, we cannot change the billing cycles without an impact study. The study would need to review how to change the four-cycle periods based on newly implemented automated meter reading, and assess the feasibility of establishing a different more uniform billing period."

1.03 Fireline Service Charges

Follow-Up Status: New recommendation (2 of 3).

Monthly fireline service charges were not always billed properly to applicable customers. Fireline service charges are billed monthly to customers with Private Fireline Service, described in Rule 1-C-3i as “water service rendered for privately owned fire protection systems, including fire hydrants on private property.” One of two customer bills we reviewed with Private Fireline Service did not include the monthly fireline service charge. District management explained that the one customer was erroneously not charged when “the meter was changed out and the meter rate code was not put on the account.” District management stated that the account would be corrected and that 7 months of fireline service charges totaling approximately \$1,134 would be billed to the account.

Recommendation. District management should implement procedures to ensure that, after a customer’s meter is changed out, the new meter rate code is added timely in the billing system.

Management Action. District management stated: “Staff did correct the error on the account. Staff has written a new process document to ensure the customer’s meter change outs are coded correctly in the billing system. This monthly meter change-out process will be completed by our Operations and Maintenance team. This process has been documented and is called ‘MeterBillCodeAuditProcess_20220215.’”

2. Collections Management

Corrective action was not fully implemented to ensure that the collection of District charges from customers received adequate oversight. In addition to continuing concerns involving high risk transactions, payment processing procedures, accounts receivable aging reports, and receipt slip accountability, we identified one new issue regarding payments to inactive zero-balance accounts.

2.01 Review and Approval of High Risk Transactions

Follow-Up Status: Not implemented (1 of 5).

District management had not taken action to ensure proper oversight of transactions at high risk of being improper. From the week’s worth of transactions we audited from November 2019:

- None of the five days of adjustment batch sheets (ADJ RQST) contained evidence of review of the adjustments by a supervisor.
- The two deleted cashiering transactions that occurred during the week did not include evidence of management review.

In response to the prior audit, District management had stated: “All potentially high-risk transactions will be initialed by the Manager or his or her authorized agent on the batch support sheet. Procedures identify which transactions require pre-approval by the manager or designated agent.” However, based on our testing noted above, these corrective actions did not appear to be implemented.

Recommendation. Management should implement and document daily review and approval of selected individual transactions that could be high risk. Procedures should be updated to identify transactions that require pre-approval by the manager or designated agent.

Management Action. District management stated: “The daily review and approval of transactions process has been leaned and is now paperless. Staff performing the review will initial the PDF of the journals reviewed. Staff understands separation of duties regarding what they can and can’t approve. This process has been documented and is called ‘EOD_BalancingProcess_Final_20220204.’”

2.02 Payment Processing Procedures

Follow-Up Status: Partially implemented (2 of 4).

The District’s written procedures were not always followed for payment processing at the District office, which could hinder research into customer account discrepancies. While procedures for all payment types were updated, we noted:

- One (10%) out 10 cash payment stubs we reviewed was not initialed and one (10%) was not date stamped as required.
- One (9%) out 11 mail payment stubs we reviewed was not initialed as required.
- Out of 10 drop box payments we reviewed:
 - Four “checks” tapes and three “stubs” tapes were not initialed as required.
 - One tape did not note “checks” and one tape did not note “stubs” written on the tape.
 - One “checks” tape was not date stamped.
 - Five “checks” and “stubs” tapes were not initialed by a second person.
 - Eight “checks” tapes lacked a check mark indicating the correct number of checks.
- “Cash Register Payment Processing” procedures required stubs to be date stamped for cash payments only, not for checks. Promoting more consistency of steps by having staff date stamp both cash and check payment stubs may help staff with executing procedures more easily and accurately.

Recommendation. District management should provide training and oversight to ensure staff follow payment processing procedures. Management should also consider whether procedures can be simplified or handled electronically to promote consistency while maintaining proper internal control.

Management Action. District management stated: “As recommended, three (3) process documents have been revised and training provided to staff. Updates include examples of the requirement to date stamp and place initials on all payment stubs and tapes. Tapes will be initialed by second review person, which could be the person performing end of day.”

2.03 Accounts Receivable Aging Reports and Credits

Follow-Up Status: Partially implemented (3 of 4).

Although accounts receivable aging reports were revised to include the length of time the amounts had been outstanding (e.g., 30, 60, 90 days), the PWA Fiscal Services Division (PWA Fiscal) did not always provide regular oversight of the reports. PWA Fiscal management explained that, at the end of the fiscal year, aging reports are used to write off bad debts and the reports are used by the District Office to send accounts to collections. However, during our review of the November 2019 aging report, we noted 33 customers with credit balances over 120 days old totaling \$11,572. While credit balances may occur because customers mail payments when no payment is due, refunds may be in order for credit balances going back many years. For example, for one account we reviewed with a credit balance of \$1,670 over 120 days, the account consistently maintained a credit balance of over \$100 dating back to 2011.

Recommendation. On a monthly basis, PWA Fiscal should review the accounts receivable aging reports provided by the District and follow up on any balances that are questionable. PWA Fiscal should consult with District management about any long-standing credit balances and whether additional actions should be taken (e.g., refunding the account).

Management Action. District management stated: “A process document was created to detail the end of the month aged report review of customers carrying high balances. This monthly review process outlines how to review outstanding account credits, and how to credit or refund the account. This process has been documented and is called ‘CreditBalanceProcess_20220203.’”

2.04 Miscellaneous Receipt Document Accountability

Follow-Up Status: Partially implemented (4 of 4).

Although the District updated written procedures and maintained an electronic log for miscellaneous receipts, document accountability was still in need of improvement. At the time of our audit, miscellaneous receipt slips were issued from receipt books to customers who paid for services that would not be billed on a regular water and sanitation bill (e.g., for construction inspection deposits). Our review found:

- Updated procedures did not identify where the receipt books were stored.
- Unused and fully completed miscellaneous receipt books were stored in the District office’s copy room and were not locked in a more secure area.
- Voided miscellaneous receipts were not scanned and included with daily cash receipt records provided to PWA Fiscal.
- Management could not provide copies of two voided miscellaneous receipts we selected out of seven voided during July 2019 through February 2020 because the triplicates were torn out of the receipt books.

- For two miscellaneous receipts deposited in November 2019 that we reviewed:
 - One was not dated and was listed in the electronic log for an incorrect amount.
 - One was listed in the electronic log with an incorrect date.

Recommendation. District management should update written procedures to describe the location and securing of unused and completed miscellaneous receipt books. Voided receipts should be scanned, and research should be performed if voided receipts are missing. Management should also provide staff training on properly completing and accounting for miscellaneous receipts.

Management Action. District management stated: “This process has been leaned and automated by the PWA Central Services Division. The Principal Accountant created a miscellaneous receipt repository database in Access. There are no more receipt books to secure. The Access database receipt numbering allows receipts to be corrected, modified, and gives the user the ability to void duplicated receipts as required. Training and a training document were provided on 7/1/2020 and 7/2/2020.

“The miscellaneous receipt books used prior to 7/1/2020, are kept onsite per our retention process, and are available for an audit review.”

2.05 Payments Applied to Inactive Zero-Balance Accounts

Follow-Up Status: New recommendation (3 of 3).

Inactive customer accounts with zero balances were capable of having payments applied. During our review of account adjustments, we noted two instances where payments applied to inactive accounts had to be transferred to the correct active accounts. During our inquiry, District management explained that accounts are never truly closed to prevent financial transactions from occurring, which appears reasonable if money is owed to the account. However, when payments are applied to inactive zero-balance accounts, the onus is on the customer to catch the error and follow up with District staff. This can result in delinquent notices, unpaid amounts, and late fees appearing on customer bills for the account for which the payment was intended.

Recommendation. District management should review whether controls can prevent payments to inactive zero-balance accounts, saving staff and customer time and effort to correct.

Management Action. District management stated: “The billing software, CIS, does not have a configuration to prevent inactive accounts to have payments applied. Our online payment processing application prohibits payments to accounts when the account is equal to or less than zero. During our month end refund process, staff reviews all inactive accounts with money owed. If necessary, accounts are adjusted, including reversing late fees. This process has been documented and is called ‘Month-End_FinalAccountsRefunds_Final_20220317.’”

3. Cash Handling Controls

Little progress had been made to improve internal controls for cash handling at the District office. Although most customers mail payments to an off-site lockbox for processing by a third-party, some customers pay bills in person or drop/mail payments that the District office processes. Based on our continuing concerns, cash received at the District office could be susceptible to loss or misappropriation.

3.01 Segregation of Duties

Follow-Up Status: Not implemented (2 of 5).

Cash collection duties were not always properly segregated to mitigate the risk of misappropriation. During our review of cash collections for five consecutive business days in November 2019, we noted that cashiering staff's other duties included: adjusting customer accounts; running end-of-day batches to post transactions to customer accounts, a process that gives the employee the ability to adjust transactions; and preparing deposits. On one (20%) of the five days, one employee performed all of these duties. Management explained that a camera is positioned to cover the cash register area and stated "...with leave and staffing we often don't have coverage to separate duties." However, cameras may not always capture skillful deceptions and management scrutiny over transactions was not always apparent as described in Finding 2.01 above.

Recommendation. Management should assign primary cashiers who do not adjust accounts, run batches, or prepare deposits. At times when limited staffing prohibits segregation of duties, management should critically review each step of that day's collection process and document the review.

Management Action. District management stated: "Since 2012, there have been four full-time staff members in the front office. No new administration positions have been added to the front office administration staff. Daily, two of the three Accounting Assistant I/II are tasked as the primary and secondary to handle the drop box and cash register duties. Only the Senior Accounting Assistant can journal and close end of day and is responsible for critically reviewing transactions. We make every effort to keep the Senior Accounting Assistant from taking payments at the window. In the event staff are on leave, on break, or on the phone, this is not always feasible. Customers at our payment counter are our top priority.

"Water and Sanitation has completed a functional analysis of all business processes. The functional analysis has accounted for additional staffing required to improve internal controls for cash handling. If the proposal to add staff is approved, then one staff member will be added to the front office. Once hired, this should allow us the ability to separate duties. In the interim, front office management will create a monthly and annual review of accounts with credits to look for 'deceptive' practices."

3.02 Dual Custody for Mail Payments

Follow-Up Status: Not implemented (3 of 5).

Payments mailed to the District post office box were not confirmed to have been opened in dual custody. The District's "Mail Payment Processing" procedures stated:

"Step 1. Collect mail envelopes and open them with an associate....
Step 12. Date stamp both tape copies, write CHECKS and your initials underneath....
Step 37. Have the person who opened the envelopes with you review Transaction Journal, check totals, and stubs to verify everything matches, and initial tapes. Count the number of checks and put a check mark next to check count total."

Management explained that two staff members stand together at the desk and open the payment to visually observe the payment type and amount. However, the mail payments total is not confirmed by a second employee until many steps later after one staff member enters the payments into the billing system. This delay runs contrary to the purpose of opening payments in dual custody. Also, for one of two days of mail payments we reviewed, a second employee's initial and check mark was missing on the "checks" tape, which called into question whether a second employee confirmed the mail payments received.

Recommendation. When opening the mail payments in dual custody, a calculator tape of checks received should be created and initialed by two staff members. After mail payments have been posted to customer accounts, staff should follow the District's current procedures and confirm all tape totals match, including the tape created when mail payments were opened in dual custody.

Management Action. District management stated: "We do not have extra staffing to send two staff members to the post office daily to retrieve mail. Staff investigated USPS 'informed delivery' for our PO Box, which would inform us via email of all items scanned to be in our mailbox, but this service is not available.

"Overall, we rarely receive water and sewer bill payments via the PO Box because staff has informed customers that their payments must be mailed to our lockbox located in Hemet, California for processing. We do receive customer checks for Engineering and Development, these checks are processed with a miscellaneous receipt. In 2021, we processed 150 miscellaneous receipts, or 13 checks a month. Due to office closure these payments can come in the mail or be dropped in our drop box. Customers who mail in their checks to Engineering, expect and are provided an email copy of the miscellaneous receipt.

"The mail pickup process has been revised so the staff member picking up the mail will open payment envelopes under the front camera and within view of a second staff member. Should the envelope contain cash, the staff member opening the mail will call out to the second staff member to witness the finding. Both staff members will initial the stub for these mail payments. Staff has been trained on this process."

3.03 Sharing the Cash Drawer

Follow-Up Status: Not implemented (4 of 5).

Multiple District office cashiers continued to share one cash drawer, which could cause difficulties in identifying the person responsible if discrepancies occur (e.g., if cash is missing). In the prior audit, District management stated: “The Department has now assigned a primary and secondary cashier. The primary will now be working the same hours as the office, 8AM – 5PM, Monday through Friday. When a third cashier is needed, it will be the supervisor.” For five days of transactions reviewed, between three and five employees each day processed transactions out of one cash drawer. The cash drawer included two separate days of cash register transactions that may add to the difficulty of identifying when any discrepancy occurred with multiple employees cashiering transactions.

Recommendation. District management should assign a second cashier with a separate cash drawer to accommodate customers when the main cashier is not available. If a second cash drawer is not feasible, management should assign a particular staff member as backup to the main cashier each day, thus limiting access to the singular cash drawer to two employees.

Management Action. District management stated: “Daily we have a journal for the cash register entries, the journal details the staff members name per transaction. At the end of the day, we reconcile the cash collected, and should there be an error or mishandling of cash, we can trace it to the journal. If an error is found, we correct the error. In the event the error could not be found, we could review camera footage.

“Staff will try to limit access to the singular cash drawer to two staff members. As stated in 3.01, staff has a proposal and justification to add another FT position to the front office. Should this be approved, it would allow for separation of duties.”

3.04 Counting the Cash Drawer

Follow-Up Status: Not implemented (5 of 5).

The cash drawer was counted only once each day when the daily batch was run for the reconciliation of cashiered receipts, rather than also at the beginning and end of the day. After the cash drawer was counted, customers continued making payments at the front counter until the District office closed for the day. Payments collected after running the daily cash register batch were included in the next day’s deposit. In response to the prior audit, District management stated:

“We have updated our procedures to require the cashier to recount the drawer in the morning, and the supervisor or authorized agent responsible for putting the cash drawer in the safe at the end of the day to audit the drawer and verify the balance.”

While the District’s *Cash Register Balancing* procedure was revised on September 5, 2019, to reflect this response, the procedure was later revised during our audit in 2020 to state: “...the cash drawer is **not** counted in the morning.” In practice, District staff also stopped counting the drawer at the end of the day. However, as described in Finding 3.03 above, multiple employees

continued to share the cash register drawer to process payments and the daily deposit includes two different days of cash register transactions. Verifying the balance at the end of the day and the beginning of the day could help determine the date of any discrepancies.

Recommendation. District management should reinstitute procedures to count the cash register drawer at the close of business and in the morning. The counts should be verified by another staff member or District management if available.

Management Action. District management stated: “With current public counter business hours of 8 a.m. to 5 p.m. as stated, we tried to comply and count cash drawers in morning and evenings, but we found that we did not have time with the necessity to take onsite payments and answer the phones. With current staffing, there is not adequate customer coverage from 8 a.m. to 5 p.m. to reinstitute morning and evening cash drawer counts.

“To ensure best practices for counting the cash drawers at the beginning and end of the day, the Director has approved new public office hours from 9 a.m. to 4 p.m. Monday through Friday, effective 4/4/2022. Staff will utilize this extra beginning and end of the day hour without customers making payments to balance cash drawers and perform all end of day processes.”

Auditor’s Evaluation of Management Action

We believe that management actions taken or planned were responsive to the audit findings. District management planned to complete corrective action by July 1, 2022, except for action relating to Finding 1.01 regarding the notice of pending shut-off charge, which is planned for completion by July 1, 2025.

Appendix

Corrective Action Implementation Status

The table below summarizes the status of corrective actions taken since our prior audit.

Prior Audit Finding			Status of Corrective Action
No.	Topic	Condition	
1(A).	Water Billing Practices: Shut-Off Charges	Customers were not always allotted the required amount of time to pay past due bills before starting to incur shut-off charges.	Partially implemented. See current Finding 1.01.
1(B).	Water Billing Practices: Increase in Water Consumption Allowances	For certain customers, the District increased the amount of water consumption allowed at a lower tiered rate without documented approval.	Implemented.
1(C).	Water Billing Practices: Lack of Water Allocations	The District did not always establish a monthly water allocation for applicable customers.	Implemented.
1(D).	Water Billing Practices: Load Counts	Load counts reported by customers that had obtained permits to fill vehicle tanks with water could not be verified.	Implemented.
1(E).	Water Billing Practices: Exemptions from Late Fees	Customer exemptions from late fees were not always approved by District management.	Implemented.
2(A).	Collections Management: Review and Approval of High Risk Transactions	Improvements were needed to ensure proper management oversight of transactions at high risk of being improper.	Not implemented. See current Finding 2.01.
2(B).	Collections Management: Payment Processing Procedures	The District's written procedures were not always sufficient or followed for cash register and mail payment processing at the District office, which could hinder research into customer account discrepancies.	Partially implemented. See current Finding 2.02.
2(C).	Collections Management: Accounts Receivable Aging Reports	Accounts receivable aging reports could assist the Public Works Agency Fiscal Services Division in regular oversight of past due active accounts.	Partially implemented. See current Finding 2.03.

Prior Audit Finding			Status of Corrective Action
No.	Topic	Condition	
2(D).	Collections Management: Miscellaneous Receipt Document Accountability	The District did not establish document accountability for miscellaneous receipt slip numbers to ensure all collections were submitted for deposit.	Partially implemented. See current Finding 2.04.
2(E).	Collections Management: Collection Agency Agreement	Payments to the collection agency used to recover delinquent accounts receivable for Waterworks District No. 1 exceeded the payment terms of the contract.	Implemented.
3(A).	Cash Handling Controls: Segregation of Duties	Employees that accepted cash payments at the District office performed other fiscal duties that put the cash at risk of misappropriation.	Not implemented. See current Finding 3.01.
3(B).	Cash Handling Controls: Dual Custody for Mail Payments	Payments mailed to the District post office box were not picked up or confirmed under dual custody, exposing the payments to loss or misappropriation without detection.	Not implemented. See current Finding 3.02.
3(C).	Cash Handling Controls: Sharing the Cash Drawer	Multiple District office cashiers shared one cash drawer, which could cause difficulties in identifying the person responsible if discrepancies occur (e.g., if cash is missing).	Not implemented. See current Finding 3.03.
3(D).	Cash Handling Controls: Counting the Cash Drawer	The cash drawer was counted only once per day when the daily batch was run for the reconciliation of cashiered receipts, rather than also at the beginning and end of the day.	Not implemented. See current Finding 3.04.
3(E).	Cash Handling Controls: Safe Combinations	Management was not sure when safe combinations had been changed at the District office.	Implemented.