



DEPARTMENT OF INSPECTOR GENERAL
OKALOOSA COUNTY, FLORIDA
JD PEACOCK II, CLERK OF CIRCUIT COURT AND COMPTROLLER



September 06, 2018

Jeff Littrell, Director
Okaloosa County Water & Sewer
1804 Lewis Turner Blvd.
Fort Walton Beach, FL 32547

Mr. Littrell,

Please find attached the report on our review of internal controls over water and sewer billing collections.

Our work served as a review of internal controls over Okaloosa County Water and Sewer's (OCWS) process for collecting and receipting funds for water and sewer customer billings. This engagement came out of discussions with members of your senior management team regarding the need for such a review.

I want to thank you and your staff for the cooperation afforded us. Mrs. Kathy Fix and her staff were most accommodating to us during our work. I applaud the proactive approach in allowing us to review internal controls in your department.

Should you have any questions in the interim please do not hesitate to call me. I can be reached at (850) 689-5000 Ext. 3424.

Respectfully,

Brad E. Embry, Inspector General

CC: John Hofstad, Okaloosa County Administrator
Mark Wise, Deputy Director OCWS
Kathy Fix, Utilities Administrative Manager OCWS
JD Peacock, Okaloosa County Clerk of Courts

**OKALOOSA COUNTY
CLERK OF THE CIRCUIT COURT
AND COMPTROLLER**

DEPARTMENT OF INSPECTOR GENERAL

**REPORT ON REVIEW OF INTERNAL CONTROLS
OVER WATER AND SEWER BILLING &
COLLECTIONS**

REPORT NO. BCC-18-02

REPORT ISSUED SEPTEMBER 06, 2018

REPORT ISSUED BY: BRAD E. EMBRY, INSPECTOR GENERAL

AUDIT CONDUCTED BY: ANDREW THURMAN

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Background

Following internal problems related to Capacity Expansion Charges in 2017, Okaloosa County Water and Sewer Department (OCWS) began to review and update their processes and controls. On October 13th, 2017, OCWS management requested that our office conduct a review of internal controls over their billing and collection operations.

Objective

The objective of our review was to identify and evaluate the effectiveness of controls over utility billing and collections for services provided by OCWS.

Scope & Methodology

The scope of our review covered controls over billing for services and collections. The scope included controls built into software used by OCWS, segregation of duties, and the process for cut-offs and collection of past-due accounts. Due to staff changeover in our office and engagement prioritization, fieldwork for this review did not begin until July of 2018. Our review examined controls in place at the time of fieldwork, and control testing covered the period of January 1, 2018 through July 31, 2018.

We did not examine controls over any other aspects of OCWS, to include financial reporting, payroll, purchasing, or inventory.

Review methodology included interviews with OCWS management and staff, identifying risk, process walkthroughs, and tests of controls.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, waste, or abuse. This includes the design, implementation, and maintenance of internal controls relevant to these objectives. This review was conducted in compliance with International Standards for the Professional Practice of Internal Audit issued by the Institute of Internal Auditors, Government Auditing Standards issued by the Comptroller General of the United States, and Principles & Standards for Offices of Inspector General issued by the Association of Inspectors General.

Billing and Collection Process

OCWS water meters are read on a rotating cycle throughout the month. The department uses the NaviLine software for management of its entire revenue cycle, from bill calculation to payment processing and adjustments. The primary payment location is the Fort Walton Beach office. OCWS also has a Crestview location which is staffed by one clerk two days per week.

Customers can pay their bills in several ways: in person at the OCWS office, by mailing payment, by utilizing one of several payment drop-box locations, through auto-pay using bank account information, or through an automated phone line. Currently, there is no online payment system available, but a vendor has been acquired and is in the process of establishing a new system which will allow for the initiation of online one-time payments and auto-payments using either bank account information or credit/debit card information.

Customer account adjustments are handled according to established written procedures. An adjustment can arise from a county maintenance issue or at the request of the customer under specific circumstances. The written procedures dictate when a customer qualifies for an adjustment,

how to determine the amount of the adjustment, and what supporting documentation must be included.

Controls Identified

Internal controls are commonly separated into three categories: Preventative, Detective, and Corrective. Preventative controls are intended to stop a misstatement or inappropriate action from occurring. Detective controls are intended to discover misstatements or inappropriate action that have already occurred. Corrective controls are used to correct problems uncovered by detective controls.

Preventative

IT Controls

There are controls built into the NaviLine software. Each user only has access to specific functions of the system based on the needs of their position.

Physical Security

The “cage” where the cashiers work is inaccessible to the public. The area is covered by security cameras and supervisors remain in the area during business hours. When cash is received in the mail, it is counted in a separate room and two individuals must be present and verify the count.

Segregation of Duties

The finance functions are organizationally separate from the customer service (billing and collections) functions. The bookkeeper, who works in the finance department, recounts the deposits prepared by cashiers before recording them, and then both the bookkeeper and the cashier sign the count sheet.

Due to the constitutionally established structure of county governments in Florida, overall financial records for Okaloosa County are kept by the finance department of the County Clerk of Court, which also produces the annual financial report that includes OCWS annual financial statements. The Clerk is an independent elected official, with no organizational ties to OCWS.

Detective

Audit Trail

NaviLine logs all transactions, and these records can be reviewed by management at any time. Customer receipts and check copies can be compared to electronic records. Voided transactions must be documented and signed by a supervisor.

Adjustment Documentation

The Customer Solutions Supervisor conducts audits of adjustments to ensure compliance with OCWS policy and procedures. Adjustments are checked for required supporting documentation, customer eligibility, proper calculation, and timeliness.

Corrective

System Log

NaviLine maintains electronic logs of all actions that are taken in the system, including transactions that have been changed or deleted. These logs are maintained at the database level, as opposed to the user level, and cannot be changed without compromising the integrity of the system. This control enables the recovery of information that has been improperly altered, whether accidentally or maliciously.

Control Testing

Our office conducted testing of the controls over both billing/collections and adjustments. We randomly selected a sample of 40 meter readings from Master Route Reports and traced the sample through the billing process to collection of the customer payment. We also selected a sample of adjustments and verified the supporting documentation and calculation of the adjustment amount. We concluded that the controls tested during our fieldwork were operating effectively.

Assessment of Internal Control

Internal control is not simply a series of procedures; it is “culture” that must touch every aspect of an organization’s operations. Everything from the tone set by upper management to ensuring that the lowest-level employees know what is expected of them is a part of internal control. Internal problems can often have the beneficial effect of creating a state of hypervigilance. While this state does not last forever, it is a good opportunity to examine processes and improve controls as necessary. This is exactly what OCWS has done. Improvements in physical, procedural, and IT controls have strengthened the overall control environment and led to significant reduction in risk.

Conclusion

The scope and methodology employed during our review were sufficient to enable our office to express an opinion on OCWS internal control over billing and collections. We believe that controls over billing and collection of customer payments at OCWS are appropriately designed and operating effectively. No material weaknesses or significant deficiencies were identified during our review.

While not identified as a deficiency, our office makes the following recommendation based on our review:

Recommendation – All cash transactions should be appropriately monitored.

Several senior clerks have offices in an area open to the public. These clerks primarily handle new account creation, but they also initiate adjustments and handle issues from walk-in customers that are beyond the ability of the junior clerks. These senior clerks can process cash transactions in their offices, which presents a potential control issue. Our office recommends that either all cash transactions take place at the window or that the senior clerk offices be monitored with security cameras.

Management Response

9/5/2018

The following is Okaloosa County's response to the Inspector General's Report ("Report") on Review of Internal Controls Over Water and Sewer Billing & Collections, Report No. BCC-18-02.

Introduction

After the internal problems related to Capacity Expansion Charges in 2017, Okaloosa County Water & Sewer (OCWS) dedicated many resources to review and update various processes and controls to guard against fraud, waste, and abuse. In October of 2017, OCWS management requested that the Inspector General's Office perform a formal review of our internal controls, specifically related to billing and collection operations.

The fact that the review resulted in the Office of the Inspector General's opinion that controls over billing and collection of customer payments at OCWS are appropriately designed and operating effectively, and that no material weaknesses or significant deficiencies were identified, speaks to our culture of diligence, integrity, and commitment to our customers.

Recommendation

In reference to the single recommendation in the Report, below is our response to the associated recommendation.

1. All cash transactions should be appropriately monitored.

Response: Agreed and in progress. We believe in monitoring cash transactions, for the benefit of both our staff and our customers. We also believe in providing the best customer experience possible. With those beliefs in mind, we have decided to install security cameras in any office where cash transactions occur. The FY2019 budget includes funds related to the security camera system. During the first quarter of FY2019, we will use those funds to purchase and install security cameras in any office where cash transactions occur.