To: Mike Pineda, Mayor
Curtis Nielson, Vice Mayor
Councilmembers

From: Barbara Coppage, City Auditor *B C*

Date: February 2, 2025

Subject: **UTILITY BILLING AND COLLECTIONS AUDIT SUMMARY #12503**

The audit firm, CliftonLarsonAllen, was procured to complete the Utility Billing and Collections audit. Their executive summary and detailed report are attached.

The purpose of the audit is to determine compliance with established policies and procedures. This audit included the processes of water, wastewater, and solid waste, as well as the billing operations.

This audit is important for the City to accurately bill and collect for utilities and services rendered. It is also important for operational processes to be efficient and effective to reduce service costs. Utility billing generates approximately $39M annually.

REPORT HIGHLIGHTS

Write-Offs

In fiscal year 2024, the City wrote off $441,000 in the general ledger, but the related customer account balances remained in the utility billing system. The write off amounts were mostly from fiscal year 2022, when a new system was implemented. The process was not performed according to generally accepted accounting principles.

Collecting Revenues Due

Two commercial customer accounts have a combined balance of $31,312 owed to the City. These businesses remain operational within Avondale.

Adjusting Customer Account Balances

Per policy, adjustments to customer account balances can be made by one person. Stronger internal controls would require separate approval for adjustments above a certain dollar threshold.

Accounts Receivable Aging Report

The Aging report does not always reflect adjustments made to customer accounts, impacting the reliability of the report.

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Water Billing

Prior to October 2024, inactive water meters were not read for unauthorized usage. This usage is not billed to a customer and does not generate revenue.

Solid Waste

Trash bins in storage and distributed to residents are not currently tracked to allow Solid Waste to effectively manage the procurement and replacement of the bins.

Workorder Reconciliation

Workorders are used to make requests for new service or a change in service. These workorders were not reconciled to ensure that each request was completed, and nothing is missed.

SUMMARY OF RECOMMENDATIONS

Included in the report are twenty-three recommendations that address the areas mentioned above as well as other areas. Management concurred with all recommendations and responded with an action plan for implementation.

City of Avondale

Utility Billing and Collection System

Barbara Coppage, City Auditor
City of Avondale
Office of the City Auditor

CliftonLarsonAllen LLP (CLA) was engaged by City of Avondale, Arizona (City) Office of the City Auditor to provide consulting services to the City's utility billing and collection process, including its policies and procedures. This engagement included the processes at the City's Water, Wastewater, and Solid Waste divisions.

CLA performed the Utility Billing System project in accordance with consulting standards established by the American Institute of Certified Public Accountants (AICPA).

CLA was not engagement by the City to conduct a financial audit, for which the objective would be the expression of an opinion on the financial statements. Had we been hired to perform an audit of financial information in accordance with U.S. generally accepted auditing standards, other issues may have come to our attention that would have been reported to you. Therefore, we express no opinion on the effectiveness of the City's controls over all or any part of its financial statements.

In addition, the procedures performed by CLA are not a substitution for management's responsibility to maintain a system of controls to monitor and mitigate risk. While potential risks and findings may be identified, our procedures alone cannot identify specific errors and irregularities related to the scope of this project, or areas of fraud that might be identified in an attestation or audit of another nature or scope or extent.

This report is intended solely for the information and use of management of the City and City Council. This report is not intended to be, and should not be, used by any other than the specified parties.

We appreciate the opportunity to assist the City's management, and the staff involved in the process were highly professional and a pleasure to work with, as well as very open to sharing their opinions, knowledge, and experience.

Sincerely,

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
January 31, 2025

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Executive Summary

CliftonLarsonAllen LLP (CLA) was engaged by City of Avondale, Arizona (City) Office of Internal Auditor to provide consulting services to the City's utility billing and collection processes, including its policies and procedures. This report provides the City the results of CLA procedures and activities of the consulting service. The objective(s) of our engagement was to assist the City Auditor in evaluating the appropriateness and effectiveness of Public Works' Water, Wastewater, and Solid Waste processes and Finance and Budget's utility billing policies and collection process. The purpose of our procedures was to recommend improvements and leading practices for the City's utility billing and collection processes, analyze key financial and operational trends to support accurate utility billing and collection processes for services, and provide recommendations to enhance general information technology controls.

The following is a summary of the CLA's methodology.

1) Identify wholistically the different aspects of the utility billing and collection processes
2) Review relevant policies, procedures, flowcharts, etc.
3) Interview stakeholders to understand the function(s) or area(s) related to the project
4) Review relevant documentation
5) Reperform key calculations and data analytics
6) Tabulate, evaluate and review results
7) Propose recommendations to address observations

Report Highlights

Utility Billing and Collection Processes – Inactive Customer Accounts

The City does not have an approved policy regarding the allowance for doubtful accounts related to accounts receivable balances for closed or inactive accounts.

Based on procedures performed, we identified $441,480 of customer balances that had been written off in the general ledger but were still included in the utility billing system. Additionally, our review of the City's policy indicated that water service should be discontinued for customers with past due balances exceeding 60 days. During our procedures, we identified $41,828 in customer balances within the 60–120-day aging category.

We identified two commercial customer account balances in the amount of $22,457.70 and $8,855.00 that should be collected as those businesses remain operational. Addressing the discrepancies between the general ledger and utility billing system will result in a more accurate accounts receivable aging report, thereby enabling better management of collections.

Utility Billing and Collection Processes – Active Customer Accounts

During our testing of billing adjustments to active customer accounts, as part of the utility billing and collection processes, we observed that 2 out of the 5 adjustments tested, were for significant dollar amounts. Although the individual responsible for calculating the adjustment was authorized per policy, the policy did not have a dollar threshold or require a second independent reviewer for significant dollar amounts.

To enhance the City's billing adjustment policy, we recommend the inclusion of a dollar threshold. This threshold would necessitate that a person, other than the authorizer, reviews the billing adjustment support and documents their review prior to executing the adjustment. Introducing this additional layer of oversight will help ensure accuracy and compliance, ultimately benefiting the City's customers and operations.

Utility Billing and Collection Processes - Water Billing Turn Around Times

Public Works is not consistently reading meters per the established calendar dates. As a result, billing cycles are not consistent which has the potential to lead to inaccurate information, which could impact revenue projections and decision making. Public Works should strictly follow the established calendar of read dates to maintain consistent and timely customer billing.

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We would like to express our gratitude for the opportunity to work on this project and for the support provided to the CLA team. It has been a pleasure collaborating with everyone involved, and we look forward to continuing our partnership in the future. If there are any further questions or concerns, please do not hesitate to reach out to us.

Observations

1.0 Adjustments to Inactive and Active Customer Account Balances

Condition

Inactive Customer Account Balances - The City lacks an approved policy for doubtful accounts related to closed or inactive accounts. Currently, balances older than three years are written off without a dollar threshold. The Utility Billing staff provides the accounting staff with a fiscal year-end report of accounts to be written off. If there are deposits or amounts "on-account", those are applied prior to generating the report. An accounting staff would perform the write-off and record it as an increase to bad debt expense and a decrease to accounts receivable.

The City converted its accounting system in December 2020. The write-off process has been discontinued temporarily due to the conversion and data migration. A standard operating procedure for write-offs has not been developed since the conversion.

Prior to writing off an account, collection attempts would normally be made to recover revenue. However, in-house collections for closed accounts have been limited. The City contracts with a third-party collection agency, which has not been utilized.

The City has an alternative method to collect revenue by participating in the Debt Set Off program with the Arizona Department of Revenue (AZDOR). Under the provisions of A.R.S. 42-1122, "*Arizona Income Tax,*" where the City can submit a list of accounts with outstanding positive balances to capture revenue through the debt set off program, a customer's liability can be satisfied against the customer's tax refund. This is only effective when a social security or a tax identification number is available, or if there is a refund to offset the debt. Due to staff vacancies, the City has not submitted a claim to the State since 2018. As of January 2024, AZDOR was able to recover approximately $50,000 of revenue through the debt set off program from claims previously submitted.

Accounts under bankruptcy chapter 11 and 13 are written off as a bad-debt write off. A separate procedure is in place for handling accounts under bankruptcy.

The City has not performed calculations to adjust the City's Allowance for Uncollectible for Doubtful Accounts or write off any outstanding Utility Billing Accounts Receivable since its fiscal year 2022. As a result, the City uses the direct method to write off all utility bills outstanding that were 2022 or older as a catchup entry. The City will re-establish the allowance for doubtful accounts calculation procedure calculation and record the updates in fiscal year 2025 for all current outstanding accounts receivable balances.

In fiscal year 2024, the City wrote off $441,480 in utility customer account balances, of which $400,000 had been identified for write off in fiscal year 2022. Generally Accepted Accounting Principles (GAAP) requires that customer accounts be identified as past due and then bad-debt expense along with an allowance for doubtful accounts be established so that the customer accounts can be collected (through a collection agency or internally) prior to being written off. It also allows time for the proposed write offs to go through an approval process before ultimate write off-of the account balance due.

CLA reviewed the Utility Billing accounts receivable aging report as of June 30, 2024 noting the following:

- Total Due $2,418,731
- Over 120 days old $472,112.99
- 91-120 days old $14,630.58 (At this point, accounts should be inactive.)
- 61-90 days old $27,197.94 (Accounts remains active 30 days after disconnecting service. Service is disconnected after 60 days of an unpaid balance.)
- 31-60 days old $111,182.48
- 1-30 days old $331,271.95
- Current $1,462,335.06.

The balances identified for write off since 2022 of $441,480 are still being carried in the over 120 days old balance. These balances need to be removed off the aging report.

The policy is to shut off services on customers with balances over 60 days. Although service is disconnected, these accounts continue to have an unpaid balance, and the accounts (not the service) remains active. Accounts that have balances that are 91-120 days old should be inactive. Based on procedures performed over the aging report, we identified $41,828 in the 61 – 120 day aging categories.

Active Account Balances or Current Accounts – Finance has a Policy and Procedure for Fee Adjustments MC24-54(G) that shows who in the City has authority to adjust the fee and the limits of the adjustments. CLA selected 5 billing adjustments to Public Works active account balances and noted the following:

1. One adjustment for ($219,730) on January 31, 2024, was to change the allocation method that the City uses to charge water usage to its parks. This is an isolated event outside of normal operations. Even though the adjustment was authorized in accordance with policy, we recommend that the City adopt a policy whereby adjustments over a certain dollar threshold be reviewed and approved, and that review and approval be documented in writing, prior to making the adjustment.

2. One water volume adjustment for ($17,057) on January 22, 2024, was entered into the billing system by one employee and approved by another supervisor employee per policy. Support for the adjustment was a picture of the meter sent by the customer and a note that a future meter read would also support this adjustment. A consumption history, including the customer's meter usage was attached. Even though the adjustment was authorized in accordance with policy, we recommend that the City adopt a policy whereby adjustments over a certain dollar threshold be reviewed and approved, and that review and approval be documented in writing, prior to making the adjustment.

3. One adjustment for ($10,901) on April 10, 2024, was made by a supervisor employee for a volume meter error. Upon a Public Works inspection of the meter, two other meters for hydrants were discovered and not billed. The supervisor employee calculated the additional billing of $2,072 plus a $50 service fee. We noted that the supervisor employee approved the adjustment per policy; however, the supervisor also made the calculations and entry into the system. Even though the adjustment was authorized in accordance with policy, we recommend that the City adopt a policy whereby adjustments over a certain dollar threshold be reviewed and approved, and that review and approval be documented in writing, prior to making the adjustment.

4. One adjustment for ($124) on August 7, 2024, was executed by a level 2 employee for a leak adjustment for which the adjustment calculation and the customer compliant was included. The adjustment was made by a level 2 employee and is properly authorized by policy to conduct this adjustment.

5. An adjustment for ($154) on September 4, 2024, was executed by a level 2 employee for the same leak adjustment in number 4 above. Per policy MC24-54(G), up to two months of water usage billing adjustments are allowed for water leaks. The adjustment was made by a level 2 employee and is properly authorized by policy to conduct this adjustment.

Cause

Inconsistent and undocumented application of the water collection and write off policy.

Criteria

It is important for Public Works to establish approved policies and procedures for allowing for and writing off customer account balances.

Potential Risk Level: High

Effect

Not adhering to a water adjustment policy could result in accounts written off prematurely and without proper authorization.

Recommendation

1.01   Finance and Budget should implement an approved water account balance write off policy that is consistent with GAAP.

1.02   Finance and Budget should add a dollar threshold for billing adjustments whereby the billing adjustment is reviewed by another person other than the authorized approver and the billing adjustment sign off by the reviewer and approver is documented.

1.03   Finance and Budget should follow up on two customer account balances in the amounts of $22,457.70 and $8,855.00 for collection as those businesses remain operational.

1.04   Finance and Budget should remove customer account balances from Munis for $441,480 of account balances written off in the general ledger to ensure that the utility billing account receivable aging report is current and accurate.

1.05   Finance and Budget should follow up on balances totaling $41,828 in the 60-120 day aging buckets to ensure that billing adjustments to active customer account balances also are updated and reflected in the customer's account in Munis. Updates to these items will result in a more accurate customer account receivable aging report that management can then use to better manage collections.

1.06   Finance and Budget should utilize a third-party collection agency or increase in house collection efforts to recover revenues that are past due.

Management's Response

1.01   Finance and Budget will establish a write off policy for utility billing that is consistent with GAAP. The target date ensures the policy will be in place for the write-offs associated with the end of FY2025 and the start of a new Controller. Target implementation date is June 1, 2025.

1.02   Finance and Budget will revise the utility fee adjustments policy to include a review of adjustments above a certain threshold. Target implementation date is February 1, 2025.

1.03   Finance and Budget will review these two accounts to determine if there is sufficient supporting documentation to pursue the collection of these two balances. Target implementation date is February 1, 2025.

1.04   Finance and Budget will work with Tyler Munis to identify the process to reflect the write-offs in the individual customer accounts. A support ticket will be submitted with Tyler Munis if an automated process is unable to accomplish this. Target implementation date is July 1, 2025.

1.05   Finance and Budget will follow up on the balances in the 60-120 day aging category. It should be noted that balances are expected in this timeframe as disconnections occur around 60 days delinquent and accounts continue to be active after disconnection for about one month. Target implementation date is March 1, 2025.

1.06   Finance and Budget will establish a procedure to improve the collection of past due invoices. Target implementation date is December 31, 2025.

2.0 Water Billing Turnaround Times

Condition

Water billing has a pre-established calendar with specified dates identified for meter readings. Finance and Budget uses the metered readings to bill the customers for the water services received. Water billing turnaround time is measured from the water meter read date to the bill date.

It is important for Public Works to read meters on the date specified in the calendar and for Finance and Budget to send the bill to customers on the pre-established calendar date.

We tested two accounts in two different months to determine the time between water meter readings dates and bill dates. We noted the following.

1. Water meter for one month was read on May 9, 2024, versus the calendar defined read date of May 13, 2024. The meter was read by Public Works four days prior to the calendar date. The bill date was May 29, 2024, the same as the calendar date.
2. Water meter for second month was read on November 8, 2024, versus the calendar defined read date of November 13, 2024. This is five days earlier than the calendar read date. The bill date is expected to be November 21 versus the calendar bill date of November 26.

Public Works is reading meters earlier than the established calendar date. This impacts the customer bills as billing cycles are not consistent, which does not allow for accurate information to be utilized in revenue projections.

Cause

Inconsistent adherence to the established calendar read dates due to management oversight.

Criteria

Matching the read meters and customer bill dates to the pre-established calendar date.

Potential Risk Level: High

Effect

Failure to adhere to the water meter reading dates is impacting the utility billing and collections process and the City's customers. This non-compliance with the established calendar read dates results in inconsistent billing periods for services.

Recommendation

2.01   Public Works should strictly follow the established calendar of read dates to maintain consistent and timely customer billing.

Management's Response

2.01   While Public Works strives to follow the established calendar of read dates, operational constraints occasionally necessitate flexibility in scheduling. In these cases, our current practice requires obtaining prior approval from Utility Billing for any alternate read dates. To formalize this process and ensure consistent implementation, Public Works will develop a written procedure. Target implementation date is March 3, 2025.

3.0 Meter Reconciliation Process

Condition

Utility billing began monitoring inactive water accounts with usage as of October 2024. Usage on an inactive account represents a financial loss to the City. Therefore, the soonest these accounts are identified, and appropriate action is taken (i.e. meter locked), the financial loss to the City is reduced or minimized.

As of October 2024, there were 81 inactive accounts and 10,529 active accounts. Twenty-six inactive accounts showed usage, and 279 active accounts showed usage under 1 kilogallon.

Public Works follows a process to re-read active accounts that show usage of less than 1 kilogallons. CLA observed Public Works' documentation of re-reading these accounts. Utility Billing began identifying inactive accounts with usage and sending workorder requests to Public Works to visually inspect and shut off or lock these meters. However, workorder requests were not compared to completed workorders.

Cause

Utility Billing does not reconcile workorders sent to Public Works to workorders completed by Public Works. This reconciliation would help reduce the risk of continued usage on inactive accounts.

Criteria

An adequate system of internal controls requires reconciliation of account status to help identify any unauthorized or fraudulent activity that may occur resulting in potential revenue loss from unbilled services.

Potential Risk Level: Moderate

Effect

Accounts with usage are not being recognized on a timely matter to reduce the amount of unbilled revenue.

Recommendation

3.01   Finance and Budget should establish a reconciliation in the water workorder process that compares all workorder requests to completed workorders relating to inactive accounts with water usage.

Management's Response

3.01   Finance and Budget will establish a process to reconcile the work orders associated with water use on inactive accounts. Please note that the City's innovation team is currently working on making recommendations to improve the water work order process. Target implementation date is July 1, 2025.

4.0 Access to the Meter Data in the J:Drive

Condition

Data used for the reading of water meters is temporarily stored on the J: drive before being transported to and from the meter reading application. The meter data is exported from the billing application and placed on the City's J: drive on the network. The meter data on the J: drive is then imported into the meter reading application. After the meters are read, the data is exported from the meter reading application back onto the J: drive. The updated data is then imported into the billing application. The access assigned to the directory on the J: drive, where the data is stored, is open to all employees within the City, allowing the data to be compromised by anyone with access

Cause

The default access rights for the J: drive allow everyone to have access. This access was not reviewed and modified to reflect the sensitivity of the data being stored there.

Criteria

Access to the data should be granted based on the principle of "least privilege." This principle dictates that users should only have the minimum level of access necessary to perform their job functions.

Potential Risk Level – Moderate

Effect

Unauthorized or fraudulent changes could be made to the meter data.

Recommendation

4.01   Public Works should review and change the access assigned to the directory on the J: drive to restrict access to only those employees who need access to the meter data and work with Information Technology (IT) to restrict access.

Management's Response

4.01   Public Works staff has collaborated with IT to implement J: Drive access restriction, which received management approval to implement on December 9, 2024. Target implementation date is March 27, 2025.

5.0 Tracking of Trash Bin Inventory

Condition

The City manages 25,534 customer accounts for solid waste services, with 461 of these accounts billed for two trash bins instead of the more common single trash bin. However, the City lacks an accurate system to track the total number of trash bins it owns, both distributed to residents and held in storage. The current process relies heavily on visual inspections and informal tracking methods, leading to potential inaccuracies and inefficiencies.

Cause

The absence of a centralized inventory management system and formal procedures for tracking trash bins has resulted in several issues:

- Munis Accounts Payable contains bin purchase quantity data and the utility billing system contains the number of bins per account. However, there is no centralized system of record that contains information such as the serial numbers of bins for each account, date of purchase, warranty information, etc.
- Inventory of bins including the ones not distributed to residents (in storage) is not tracked using inventory software.

- The Solid Waste Division relies on intuition and visual inspection at the Municipal Operations Service Center to determine ordering needs, without formal records to support these decisions.
- Warranty usage and purchase tracking are not systematically captured.

Criteria

Effective inventory control require:

- A centralized system or database for accurate data entry and tracking including capture critical historical data.
- Formal procedures for documenting and monitoring the movement of trash bins.
- Regular physical audits to verify inventory records against actual counts and locations.
- Assignment of specific roles or departments responsible for maintaining and updating inventory records.

Potential Risk Level: Moderate

Effect

The lack of a formal inventory management system and procedures has led to several adverse effects:

- Inaccurate tracking of the total number of bins owned by the City.
- Potential financial losses due to unbilled services and unaccounted for bins to residents (i.e., two bins at located and only billing for one)
- Inefficiencies in ordering and managing inventory, that could lead to budget overruns and surprise budget requests.
- Inability to accurately track the locations of all bins, whether at residences or in storage
- Lack of supporting documentation to determine whether the bin is still under warranty
- Lack of supporting documentation that shows longevity and durability of the bins for future purchase.

Recommendation

Solid Waste can improve its inventory control processes, leading to more accurate tracking, efficient operations, and better financial management by implementing the following measures:

5.01   Public Works establish a centralized inventory management system as the system of record that includes but not limited to:

- An accurate tracking of all bins, both use the existing City's technology to establish a centralized inventory management system to accurately track all bins distributed to residents.

- Data such as bin identification information (serial number, model number, manufacturer, data the bin was purchased, purchase cost); location information (current location, prior locations, assigned property); status information (condition, usage status, warranty status); storage inventory information (quantity on hand, inventory level to reorder); maintenance information (maintenance, repair, replacement); and other additional information determined important by Solid Waste.

5.02   Public Works enter all bin data from inventory into a centralized system of record.

5.03   Public Works develop and execute a plan to capture and enter all bin data in the system from the bins distributed to customers.

5.04   Public Works establish formal tracking procedures that should include but not limited to procedures for documenting and monitoring the movement of trash bins from one location to another and a standardized process for recording changes in inventory, such as new bins added, maintenance and repairs, replacement made, or old bins removed. Define specific roles and responsibilities for maintaining, monitoring, and updating the inventory.

5.05   Public Works establish a process for conducting regular reviews of the trash bin inventory in storage and distributed to verify that records match actual counts and locations along with a process for addressing and correcting any discrepancies found during reviews.

5.06   Public Works provide training to staff on the new inventory management system and procedures to make certain compliance and accuracy.

Management's Response

5.01   Public Works will establish a centralized inventory management system. Target implementation date is May 29, 2025.

5.02   Public Works will inventory all bins located at the Municipal Operations Service Center (MOSC) in Elements XS. Target implementation date is October 2, 2025.

5.03   Public Works will track bin data that is currently distributed to residents through the current work order software, Elements XS.

- Bin information will be collected when a work order is submitted for repairs, replacement of existing bins, and new home builds.
- Updates to resident's bin information will be conducted through attrition as it will take a tremendous amount of resources to collect current resident's bin information within a short period of time.
- Anticipated 2/3 of the bins will be captured in 3 years.

Additionally, Public Works Solid Waste operators currently utilize the routing software, Rubicon, to identify the number of bins a home is being charged for. This information was provided by the Department of Finance. If a discrepancy is identified when servicing a home, they notify their supervisor and they notify the Finance Department to update the resident's billing information accordingly. This ensures residents are being charged accurately for the services they receive. Target implementation date is January 30, 2028.

5.04   Public Works will establish formal tracking procedures. Target implementation date is December 1, 2025.

5.05   Public Works will establish period reviews of trash bins distributed to residents when a repair or replacement work order is created. Staff will verify if the bin information matches what was collected during capturing of the information based on the action item for 5.03. Public Works anticipates that this will take several years to complete as it is dependent on the completion of recommendation 5.03 and request for repairs/replacements.

Procedures for conducting regular physical inspections of bins in our inventory at the MOSC will be established. First period review will occur after the completion of recommendation 5.02. Target implementation date is January 30, 2026.

5.06   Public Works will provide training to staff on the new inventory management system once procedures are established. Target implementation date is June 1, 2025.

6.0 Vendor Management Policy

Condition

The City's Administrative Policy 23, Procurement Policy, provides guidance on the life cycle management of third-party vendors including the monitoring of the vendors after a contract is executed. While the purpose of the review was focused on the vendors related Utility Billing system, the principles apply citywide.

While risk is addressed in the vendor selection process and guidance over contract monitoring are defined; there is lacking a vendor risk framework in the policy that provides the process of identifying, assessing, and mitigating risks associated with third-party vendors after the vendor contract is executed.

While the policy provides some guidance on documentation and record keeping, there is lacking requirements of what documentation and record keeping is to be retained and the location of the storage of these documents.

While the policy is revised to reflect changes and updates as noted in the approval of the Procurement Policy, there is lacking a section that defines timeline and/or milestones to review and update, as needed, the policy.

Cause

The current procedure policy may not have undergone a thorough review process to identify and address all necessary areas and/or regulations.

Criteria

With the assistance of the National Institute of Standards and Technology (NIST) Special Publication 800-53 Revision 5, we reviewed the policy. While the policy addressed vendor onboarding, contract management, performance monitoring with standard templates, communication and relationship management, issue resolution and escalation procedures, and vendor offboarding; there are opportunities for enhancement to further strengthen the policy.

Potential Risk Level: Moderate

Effect

The procurement landscape is constantly evolving, with new market trends, technologies, and supplier dynamics. Without modification to the policy, the policy may not be aligned with current laws, regulations, and industry standards; may hinder the City's ability to adapt to these changes; and the emerging risk associated with vendors may not be addressed.

Recommendation

6.01   Finance and Budget should enhance the Procurement Policy by addressing:

- Risk Management: The vendor risk framework involves evaluating the potential risks such as data breaches, operational disruptions, compliance violations, access to sensitive data, impact on the City's operations, and others that vendors may pose to the City's operations, data security, compliance, and overall business continuity. Effective risk management procedures will help protect the City from potential disruptions or liabilities.

- Documentation and Record Keeping: The policy should define what documentation and record keeping is necessary related to vendor interactions, contracts, performance/SOC evaluations, and compliance audits, if needed, depending on the risk associated with the vendor. Proper documentation provides a clear audit trail and supports transparency and accountability in vendor management including where documentation is to be retained.

- Review of Policy: The policy should define timeline and/or milestones for regularly reviewing and updating the Procurement Policy to incorporate lessons learned, changes to the City's practices, and industry leading practices. This should include seeking feedback from internal stakeholders and vendors to identify areas for improvement.

Management's Response

6.01   The Finance and Budget Department will enhance the procurement policy to include the recommended items. Target implementation date is April 1, 2025.

7.0 System and Organization Control Report

Condition

The City's Administrative Policy 23, Procurement Policy, provides guidance on the life cycle management of third-party vendors including the monitoring of the vendors after a contact is executed. Finance and Budget Revenue Division are using third-party vendors to perform function for its customers or clients. For example, a third-party vendor is used to handle specific processes or controls associated with the collection of payments on behalf of the City. The controls of a third-party are crucial because they can directly impact the Finance and Budget Revenue Division as these controls are relevant to Finance and Budget Revenue Division's internal control over financial reporting.

A System and Organization Controls (SOC) report is a third-party attestation report that provides detailed information about the controls and processes in place at a vendor. These reports are designed to help organizations understand and assess the risks associated with outsourcing services to third-party vendors. The Financial and Budget Revenue Division does obtain the SOC report related to the collection of payments; however, there is no formal documentation to show evidence of the review of the SOC report.

Cause

Although the Procurement Policy exists and the Financial and Budget Revenue Division does obtain the SOC reports related to the collection of payments; however, there are responsibilities in the policy are lacking to require monitoring and reviewing of the internal controls and/or protection of data used by the vendor. In addition. there is no formal documentation template in place, like the Vendor Performance Reports (form P2601), to show evidence of the review of the SOC report and capture the same type of information from the SOC reports.

Criteria

The City has a Procurement Policy in place. In section 23.2601, the policy outlines the roles of the assigned management of the vendor contract management along with the monitoring the contact performance.

Potential Risk Level: Moderate

Effect

There may not be an accurate understanding of the internal controls and risks associated with third-party vendors and the control environment implemented and maintained by these vendors. Consequently, it would be challenging to implement appropriate complementary, mitigating, or compensating controls based on the results found in the SOC reports.

Recommendation

7.01   Finance and Budget should enhance the Procurement Policy to include guidance on monitoring of internal controls, including a standardized template, through review of system and organizational (SOC) reports. The template would make certain that all relevant details are consistently recorded, thereby enhancing the accuracy and completeness of the SOC review.

Management's Response

7.01   Finance and Budget will enhance the procurement policy to include guidance on monitoring internal controls through the review of system and organizational (SOC) reports. Target implementation date is April 1, 2025.

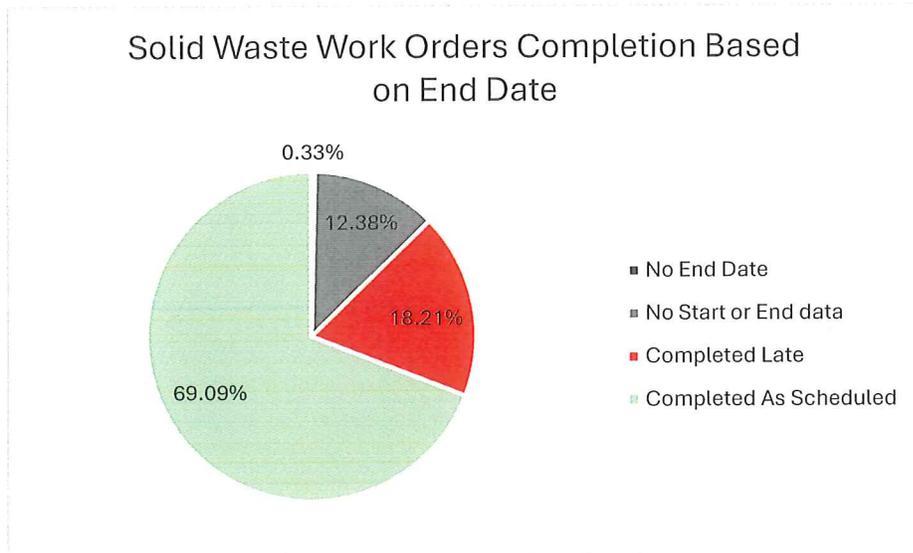# 8.0 Review of Work Orders

Condition

Public Works Solid Waste Division create work orders in two commercial systems. System work orders are created by Public Works in Elements based on customer request. System work orders are created in Munis by Utility Billing dealing with financial charges relate to bins. Solid Waste processes these work orders manually by having a team member print out the incoming work orders to distribute out to the Operators (Solid Waste truck drivers) or Inspectors for completion. Work Orders are then either completed by the Operators or Inspectors and documented on the printout completed and communicated to the work order distribution member via radio, phone, text or in person. The distribution member then documents the work order completions in their corresponding systems based on the work order returned and marked completed or Operators and Inspectors communicating the completion of the work orders assigned.

Work orders provided for analysis were from Solid Waste from Elements, dated July 1, 2023, through August 15, 2024, with a count of 6,075.
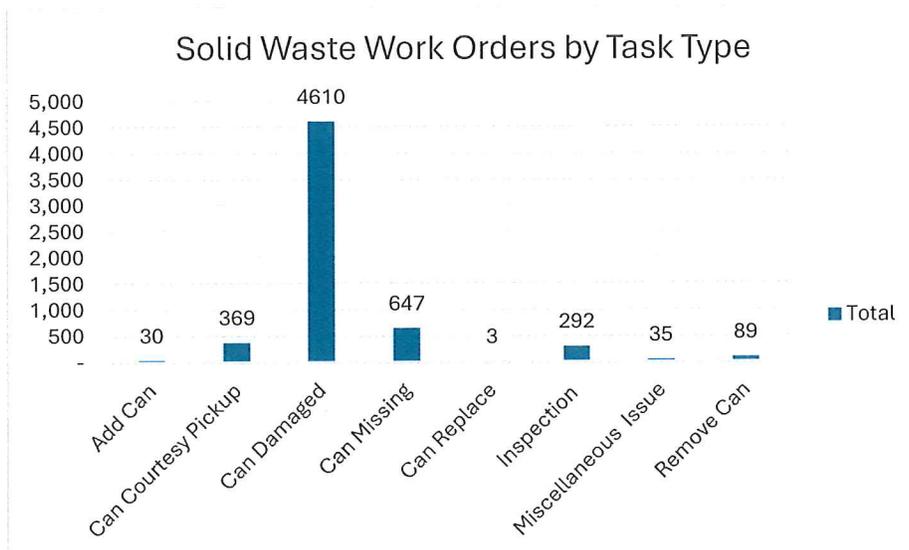
- CLA noted the following:

  o 752 work orders out of 6,075 (12.38%) had no start or end date information to calculate the average completion time in days.

  o 1,106 work orders out of 6,075 (18.21%) were completed late, after their scheduled completed date. Average days to complete the work order after their scheduled completion date ranges from 1 to 10 days.

Average Day for Completed Late Work Orders Per Task Type
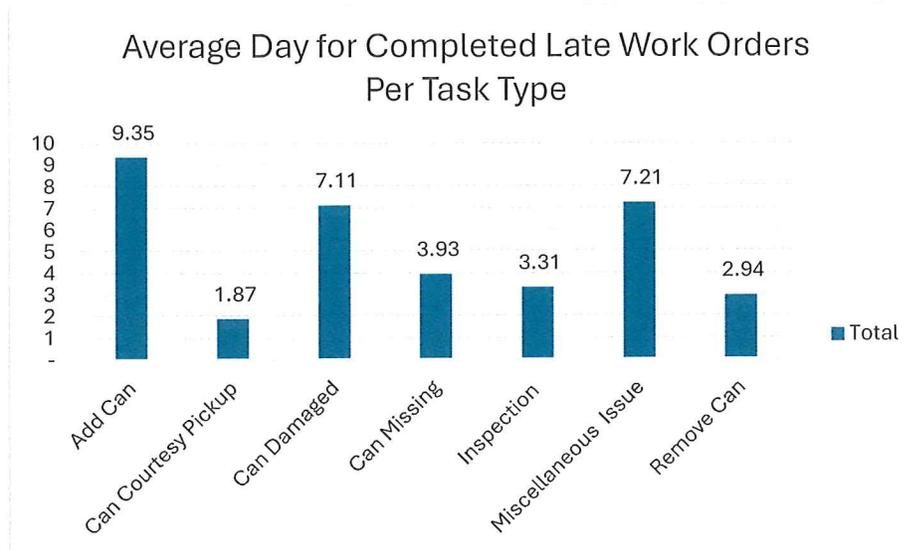
o 4,197 work orders out of 6,075 (69.09%) had been completed on their scheduled date or prior to their scheduled date. The Solid Waste division schedule their work orders for the next scheduled route allowing the Operators to complete the work orders while already on their normally scheduled route for those work orders addresses.
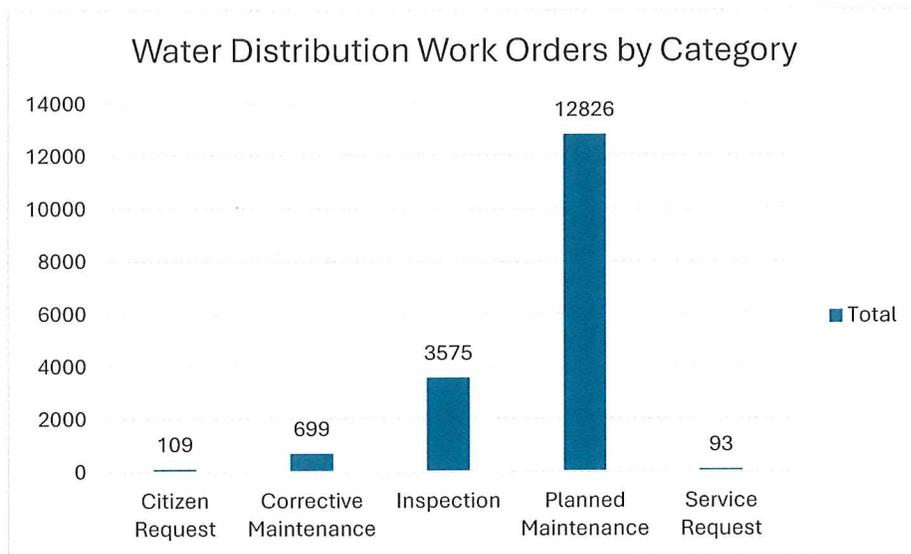
Solid Waste Work Orders Completion Based on End Date

- No End Date
- No Start or End data
- Completed Late
- Completed As Scheduled

(0.33%, 12.38%, 18.21%, 69.09%)

- CLA noted the following
  - o 4,610 out of the 6,075 (75.88%) Munis work orders were for damaged cans.

Solid Waste Work Orders by Task Type

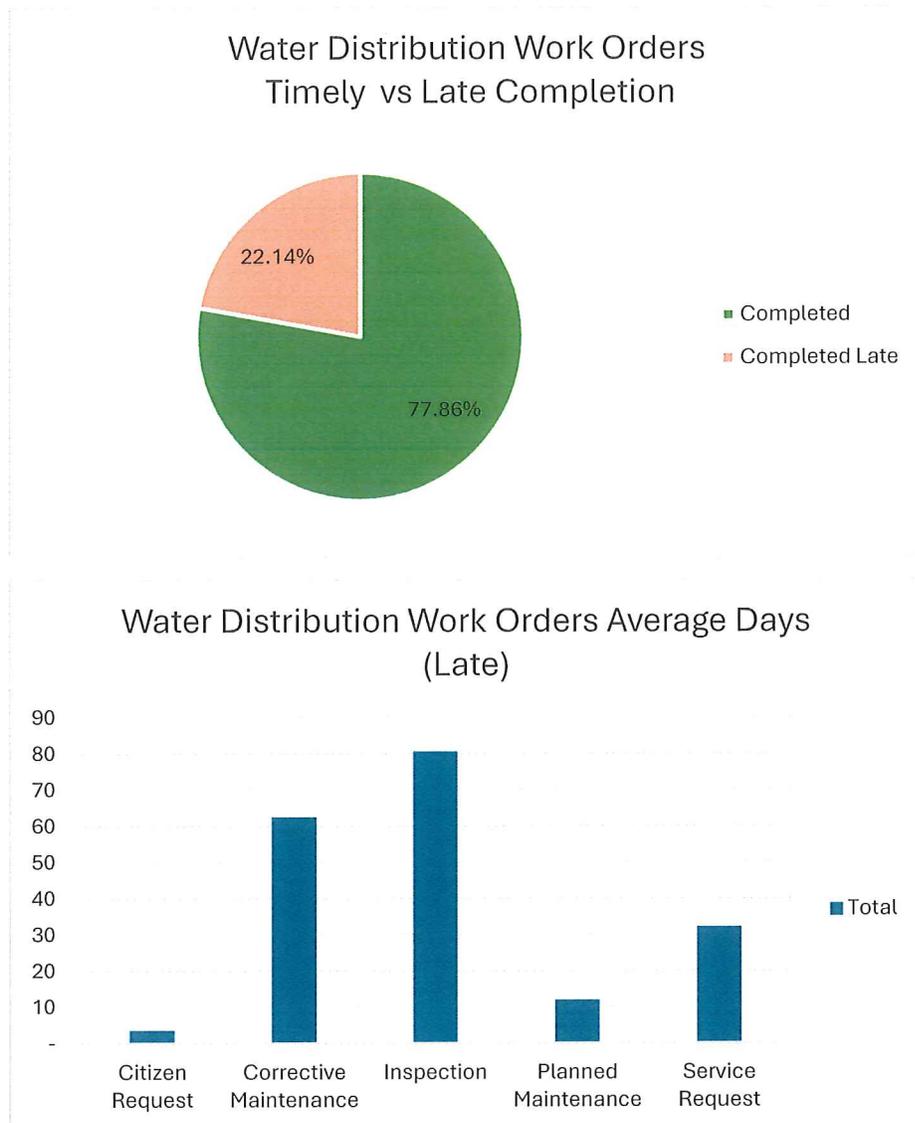| Task Type	Total
Add Can	30
Can Courtesy Pickup	369
Can Damaged	4610
Can Missing	647
Can Replace	3
Inspection	292
Miscellaneous Issue	35
Remove Can	89

Utility Billing uses Munis for their work orders. Water processes these work orders manually by having a team member convert them into PDFs and print them out to distribute out for completion. Work Orders are then either completed and documented on the printout or completed and communicated to the work order distribution member. The completed documents work orders are then scanned and sent to Utility Billing to document the completed work orders in Munis.

Work orders provided for analysis were from the Water Distribution's system, dated December 25, 2021, through September 1, 2024, with a count of 17,303.

- CLA noted the following:

  - 93 out of 17,302 (0.54%) of the work orders were service request.

  - 109 out of 17,302 (0.63%) of the work orders were inspection service request with an average of 1 day for completion.

  - 699 out of 17,302 (4.04%) of the work orders were corrective maintenance service request with an average of 8 days for completion.

  - 3,575 out of 17,302 (20.66%) of the work orders were inspection service request with an average of 8 days for completion.

  - 12,826 out of 17,302 (74.13%) of the work orders were planned maintenance service request with an average of 8 days for completion.

Water Distribution Work Orders by Category

o 13,471 out of 17,302 (77.86%) of work orders were completed timely.

Water Distribution Work Orders Timely vs Late Completion

22.14%

77.86%

■ Completed
■ Completed Late

Water Distribution Work Orders Average Days (Late)

Work orders provided for analysis were from the Water Production & Treatment Department and Water reclamation Facility from the Utility Billing system, dated October 5, 2021, through August 6, 2024, with a count of 11,386.

- CLA noted the following:

  o 9,066 out of 11,386 work orders had the same start and end dates and times. As a result, we could not calculate the average completion time for these workorders.

  o 2,296 out of 11,386 work orders had no start or end date information to calculate the average completion time in days.

- o 22 out of 11,386 work orders had start dates and times after the ending/completion date and time, not allowing the calculation of the average completion time in days.

Public Works started updating its work order systems in November 2024. There is a lack of policies over the work order process, leading to unclear expectations for documenting and tracking work order details when Operators and Inspectors are not able to access Elements due to account access or loss of internet connection.

We selected a sample of three work orders using the updated processes from Elements and noted for two out of the three work orders, the following information was not documented:

- The date the work order was created
- The date of when the work order was last modified
- The date of initial response took place on the work order
- The date the work order was completed

Cause

Public Works does not have adequate time tracking in place for their work orders, as per the support provided for the period of July 1, 2023, through August 15, 2024.

Criteria

The City's Work Order Processes require the completed date and initials (or employee #) of the technician who worked on the order to be recorded. The work order processes also mention that in the comments, the number for each bin that was delivered should be added, or any other notes provided by the technician.

Public Works has started a new process to complete its work orders by having each employee carry a tablet to record their own work order completions. As of November 2024, no support has been provided noting any policies or procedures updates for the updated processes.

Potential Risk Level: Low

Effect

The City does not track its work orders to ensure timely completion of requests and work order completion. The City has no data to analyze its true work order services provided.

Recommendation

8.01   Public Works should record notes and completion status for water and wastewater workorders in the same system the workorders were created in. Procedures should be developed to standardize what information is included in the workorders and the expected time frame workorders should be completed.

8.02   Public Works should develop a written process for processing solid waste workorders to standardize what information is included in the workorders and the expected time frame workorders should be completed.

Management's Response

8.01   Public Works has been evaluating the existing methodologies and will be working with the City's innovation team to implement and standardize work order procedures. Target implementation date is July 1, 2025.

8.02   Public Works will develop a written procedure for processing solid waste work orders. Target implementation date is April 25, 2025.

9.0 Review of Landfill Invoices

Condition

Public Works conducts an overall reasonableness check to validate the accuracy of the monthly landfill invoices it pays to dump trash collected at the dumpsite. Public Works also compares detailed reports to the summary invoice provided by the vendor; however, landfill invoices are not compared to driver logs to ensure that billing is accurate and properly supported prior to approval of payment. The City pays the City of Glendale, Arizona landfill approximately $900,000 annually.

CLA selected the month of August 2024 for testing with the following results:

- 6 instances where there was no driver log. Total of 58.89 tons billed from the City of Glendale.
- 7 instances where there was a drivers log but the City was not billed. Total of 20.49 tons that were not billed to the City.
- 12 instances where the driver log was missing a date or had data that could not be read.
- 179 instances were correct.

The August invoice was for $74,800.05 with $68,705.65 that was supported.

Cause

Public Works practices do not include a validation of the vendor invoices to driver logs.

Criteria

The City's Administrative Policy 23, Procurement Policy, requires the contract manager to ensure the vendor complies with contract terms, including financial terms. All invoices must be approved by the department prior to vendor payment.

Potential Risk Level: Moderate

Effect

The City pays for invoices that are not supported.

Recommendation

9.01   Public Works should ensure and verify the accurate of landfill invoices to driver logs prior to approval of payment.

Management's Response

9.01   Public Works will reconcile the driver's log to the landfill invoices. Target implementation date is July 1, 2025.

10.0 Review of Outliers

Condition

Utility Billing provided CLA with account data and charge codes billed to accounts. Data was used to map out the account address and the charge code count for residential and commercial accounts. The account addresses were used to map out the accounts and determine if their charge codes seemed reasonable for their location in the City.

For residential accounts, each account typically has five charge codes that are billed.
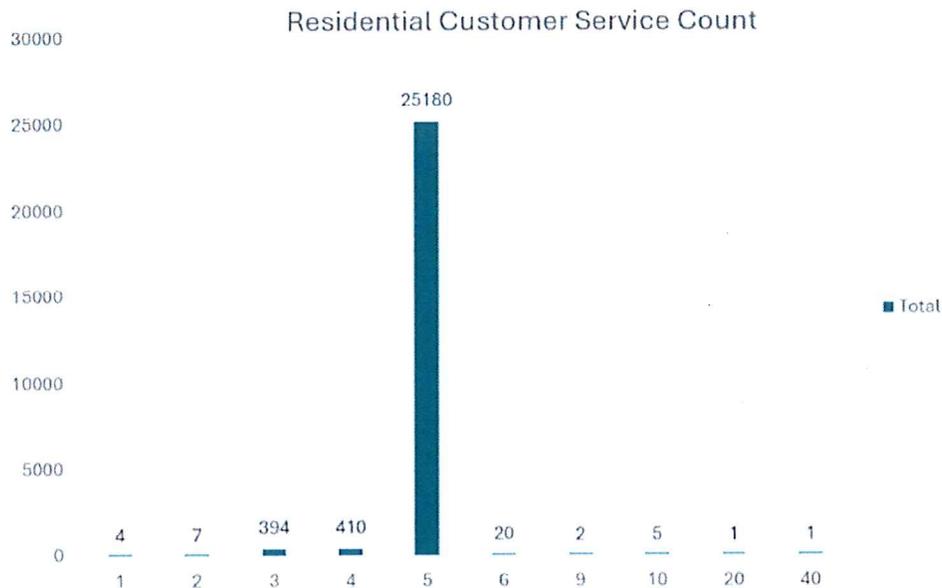
Residential Customer Service Count

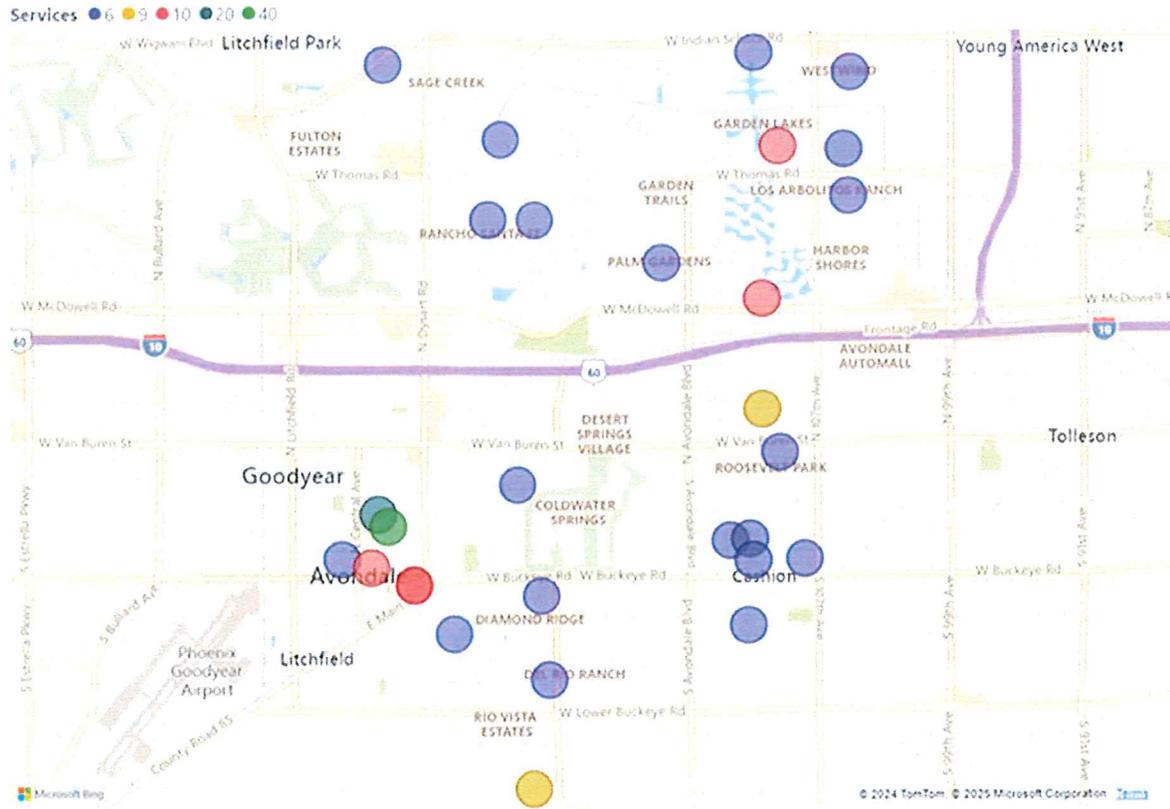| Charge Code Count	Total
1	4
2	7
3	394
4	410
5	25180
6	20
9	2
10	5
20	1
40	1

Residential customer utility service counts were mapped out showing the locations per service; for customers with service counts 1 through 5 below.
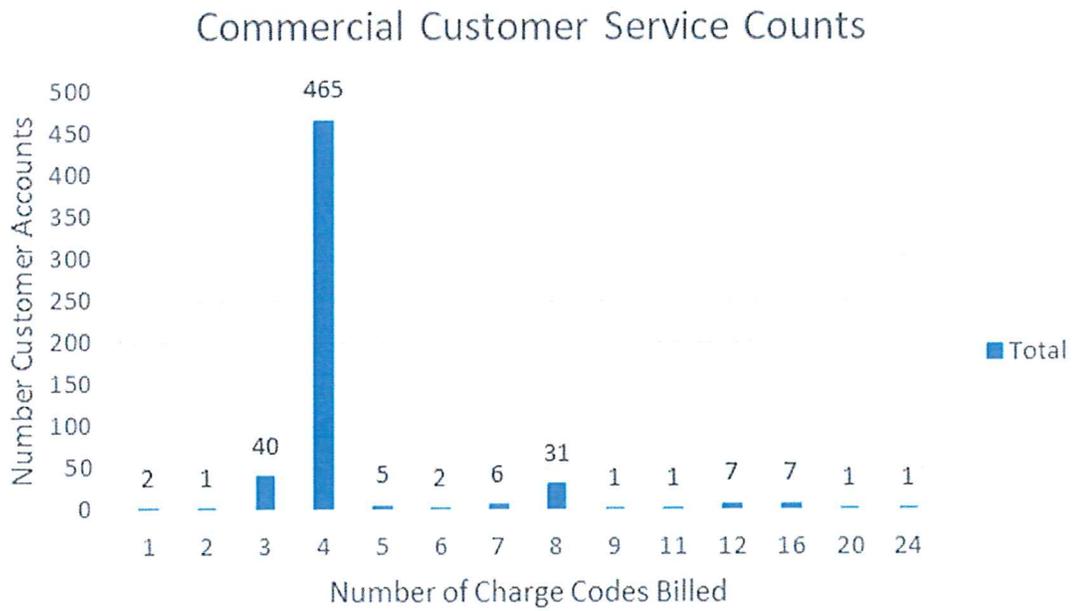
Mapping out the service count charges by address aids in understanding the different utility services charged per residential customer; the chart below depicts the number of typical services and highlights the outliers due to the area and development features.
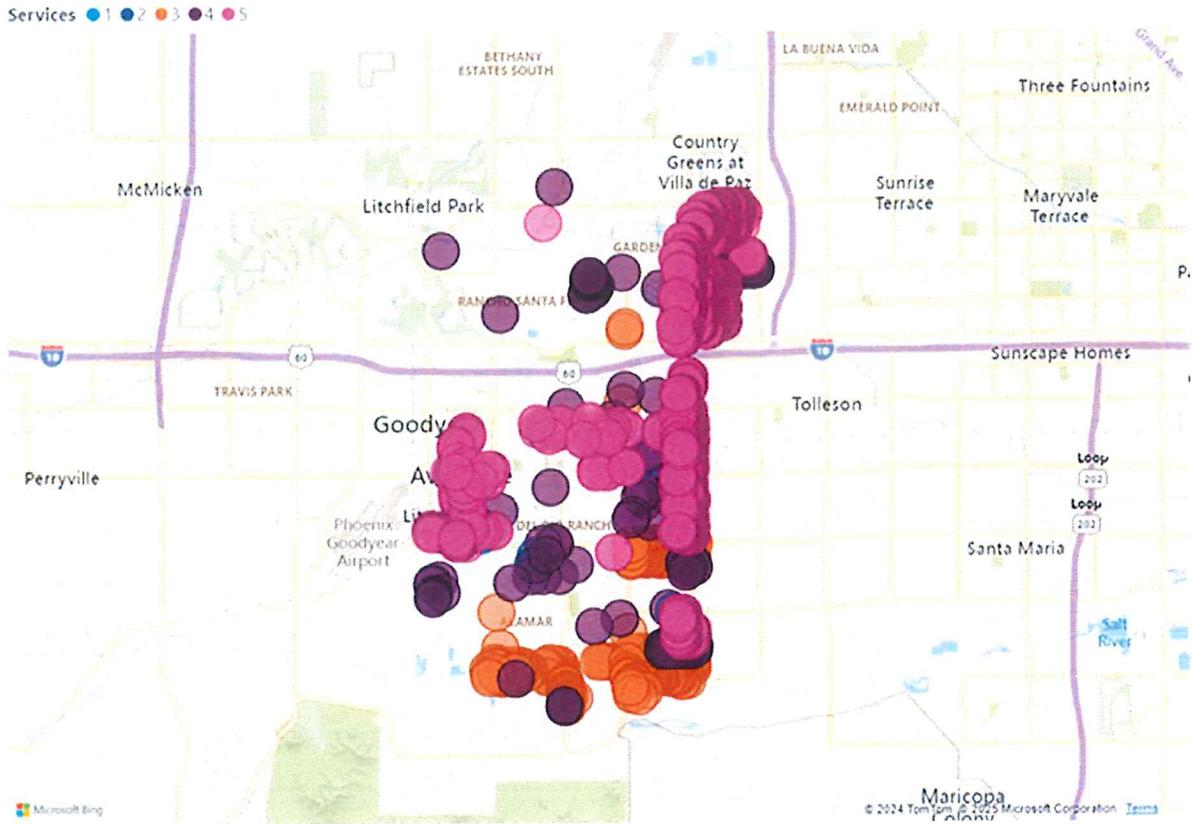
Residential customer utility service counts were mapped out showing the locations per service; for customers with service counts 6 through 40 below.

CLA tested seven residential customer accounts with services outside of the usual five.
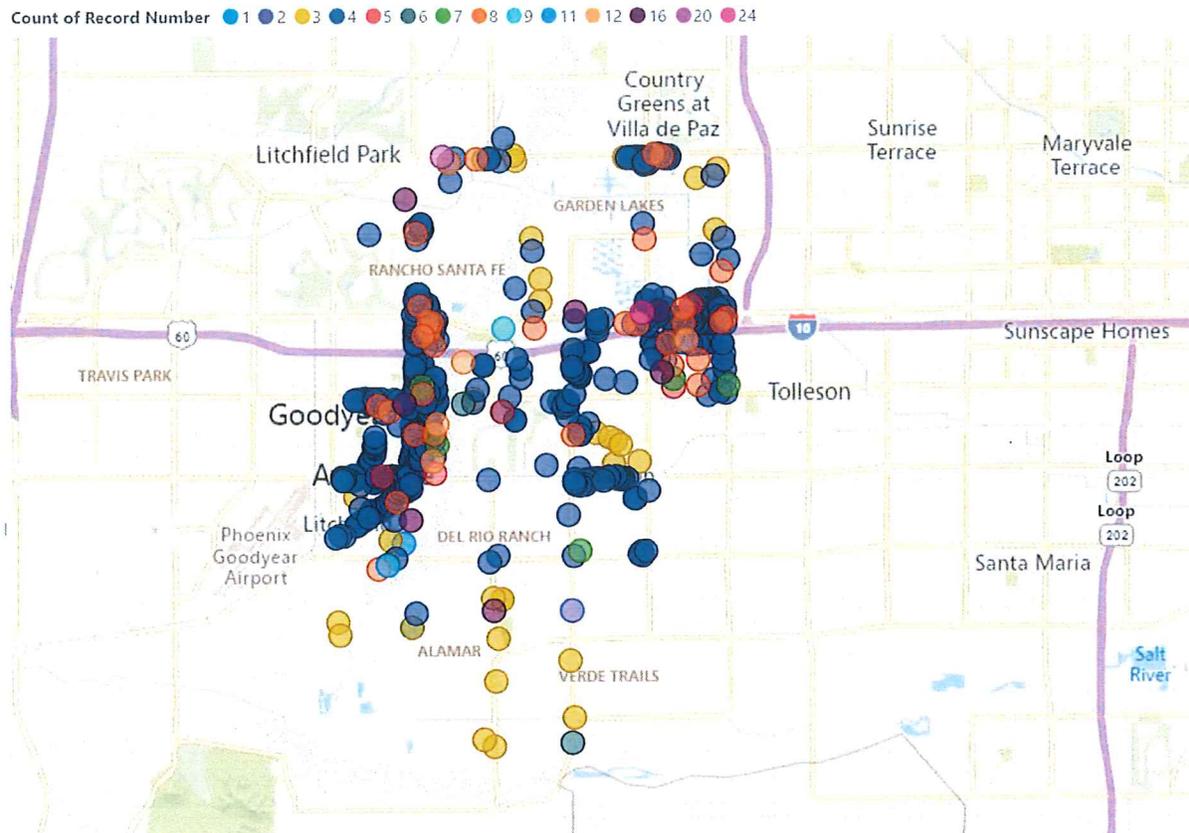
The following was noted during our test work:

- 1 sample with a service charge count 4 was not charged for the environmental fee.

- 1 sample with service charge count 6 contained an administrative error identifying a charge item is active for an inactive account.

- 5 samples were accurately charged.

- 37 of all residential accounts did not have an environmental fee charge as required.

For commercial accounts, each account typically has four utility charge codes billed.

Commercial Customer Service Counts

Commercial customer utility service counts were mapped out showing the locations per service; for customers with service counts 1 through 24 below.

Mapping out the service count charges by address aids in understanding the different utility services charged per commercial customer; the chart below depicts the number of typical services and highlights the outliers due to the area and development features.


CLA tested seven commercial customer accounts with services outside of the usual four.

The following was noted during our test work:

- 2 out of 7 samples with a service charge count 16 and 24 were not charged sewer fees. Utility Billing was looking further into these accounts to identify if they were charged correctly.

The tested accounts were mapped to know what areas of Avondale they were in for a reference point to use with billing charges.

Commercial customer utility service counts were mapped out showing the locations per service; for customers with service counts 3 through 24 below.
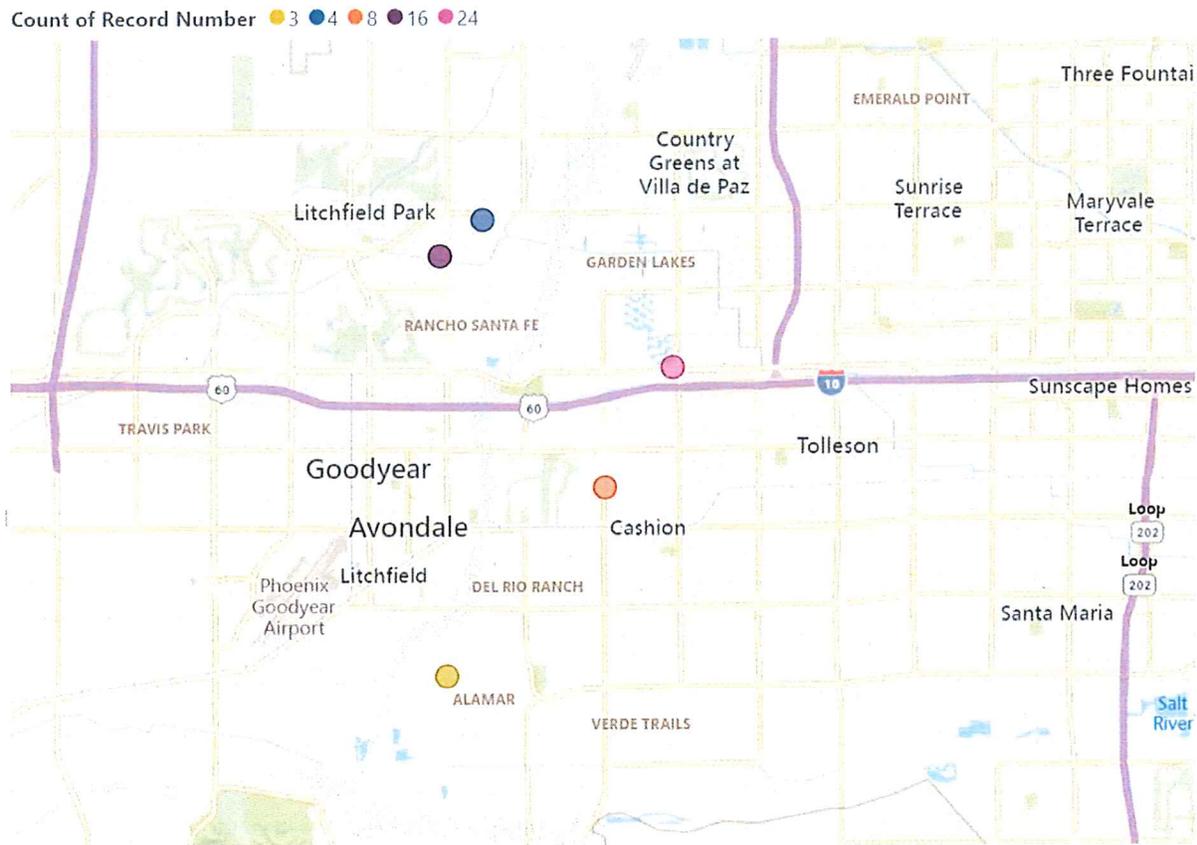
The City charges all active accounts an environmental fee on a monthly basis. The fee generates revenue to aid the City in staying compliant with in environmental regulation applied to it. CLA processed the account data gathered from Public Works to find active accounts out the Environmental fee charge and noted the following:

- 50 out of 27,669 accounts were not billed for the monthly Environmental fee.
- 13 of the 50 accounts were commercial accounts not being billed for the Environmental fee.
- 37 of the 50 accounts were residential accounts not being billed for the Environmental fee.

Cause

The Utility Billing's new account set up process is highly manual process where the preparer inputs or updates the account information into the billing system without a review.

Criteria

The City has utility rates and fees charged to accounts based on the account type, location and services provided. Accounts with services rendered should be included in the utility billing invoice.

Potential Risk Level: Low

Effect

The City's account set up and or updates might contain errors affecting both the City's billing revenue and customer invoices.

Recommendation

10.01   Finance and Budget should add the environmental fee to the 50 commercial and residential accounts identified as missing this fee.

10.02   Finance and Budget should review all accounts to ensure they have the appropriate service fees attached to them.

10.03   Finance and Budget should establish periodic reviews of all customer accounts and associated charges. Ensure reviews and corrective actions are documented.

Management's Response

10.01   Finance and Budget corrected the identified accounts by adding the environmental fee. Documentation of the correction was provided to the Internal Auditor. Implementation date was December 31, 2024.

10.02   Finance and Budget will review all accounts to ensure they have the appropriate service fees attached to them. Target implementation date is July 1, 2025.

10.03   Finance and Budget will establish a procedure and schedule to periodically review customer accounts and their assigned charges. Target implementation date is April 1, 2025.