

TO:	CHAIR AND MEMBERS OF CIVIC WORKS COMMITTEE MEETING ON DECEMBER 19, 2011
FROM:	JOHN BRAAM, P.ENG DIRECTOR OF WATER AND CITY ENGINEER
SUBJECT:	WATER AND SEWER REVENUE AUDIT: STAFF RESPONSE

RECOMMENDATION

That, on the recommendation of the Director of Water and City Engineer, the report on water and sewer revenue audit **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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The reports noted below can be found at <http://www.london.ca/d.aspx?s=/Meetings/Default/meetingpackages.htm>:

- Proposed Risk Assessment and 3 Year Risk-Based Audit Plan, March 31st, 2011, Audit Committee, Agenda Item #3.
- Quarterly Report on Internal Audit Results, September 29th, 2011, Audit Committee, Agenda Item #2
- Water Meter Services Relationship with London Hydro, June 23, 2004; Board of Control, Agenda Item #16.
- Service Level Agreement, December 10, 2009; Board of Control Agenda Item #4.
- Service Level Agreement with London Hydro for Water Meter Reading and Water and Sewer Billing, Board of Control, October 21, 2009, Agenda Item #13.

BACKGROUND

Purpose:

On September 29th, 2011 the City of London's Audit Committee met and received the results and recommendations of PricewaterhouseCoopers (PwC) internal audit conducted on the water and sewer billing process and management of the Service Level Agreement with London Hydro. At the request of the Committee, Administration has prepared the following response to those findings and recommendations. Generally, PwC did not identify any significant control weaknesses in the process and found that PEES staff are managing the system, process, and contract well.

Discussion:

The audit team from PwC conducted an exhaustive examination of the process by which the City collects revenue for water and sanitary charges through the measurement of metered water consumption. The audit focused on the process where the City could be vulnerable for a revenue loss as a result of unbilled water. Equally important, was the examination of the Service Level Agreement with London Hydro who currently provides meter reading and billing services for the City.

In general, no major gaps were identified in the billing, revenue transfer, meter reading, or contract management of the water and sewer billing process. PwC provided a number of recommendations to the Committee on opportunities to increase revenues and strengthen and confirm the various checks built into the process.

1. Recovery of Fire Protection Water

PwC Risk Identified:

An opportunity to recover water supplied to institutional, commercial and industrial customers with dedicated fire protection systems exists. These water lines are not metered and therefore remain unbilled. Dedicated fire protection system lines are utilized by customers for the purpose of monthly testing procedures, which represent a significant volume of unbilled consumption.

Response:

The action plan suggests the development of a separate charge for dedicated fire services as a result of the increased testing requirements by the Fire Underwriters. This charge would only be applied to those customers that require an unmetered feed from the watermain and would offset costs for testing which include water use. A flat rate charge representing a customer's fire protection charge could be considered for all customers, and could include an additional charge for fire hydrant maintenance. Up until 2005 the Water Services Area recovered a charge from Fire Protection Services to maintain all private and publically owned fire hydrants. The fee had originally been set in 1972 at \$75 per hydrant regardless of location. Around the year 2000, the transfer amount decreased as the number of hydrants in the City increased until the 2005 Budget when the transfer was eliminated entirely.

Action:

These alternate billing mechanisms and/or new charges will be considered as part of the Water and Wastewater Rate Structure Review in 2012.

2. Recovery of Building Construction Water

PwC Risk Identified:

An opportunity to recover water supplied to builders and developers during the new home construction phase exists. The water lines supplying water for construction purposes are not metered and therefore remain unbilled until the point that the residential water account is set up. Development charges do not include the recovery cost of water consumed during construction.

Response:

There are a few different ways to achieve the desired cost recovery for building water. Either through the physical installation of public side metering devices required as part of the development of the entire site in conjunction with the installation of all services and roadways, or an adjustment to the construction water costs applied in the current rates and charges bylaw. The current 2011 charges reduce from \$12.02 per single family unit to \$1.52 per unit for developments over 50 units. By continuing to apply a flat rate through the current bylaw structure, it would have the secondary effect of nullifying the user pay principle in our current water and sewer rate structure.

Action:

Both methods have merit and will be studied in more detail with a report back to Council sometime in 2012 as part of the Rate Structure Review.

3. Timeliness of New Water Meter Installations

PwC Risk Identified:

A risk exists that the City is not notified in a timely manner regarding the necessity to install a new water meter, leading to a delay in the commencement of billings. This item is applicable only in the case that efforts are not made to bill for construction water directly (as discussed in item #2).

Response:

The act of setting up a new account involves multiple departments within the City and London Hydro. In response to the City's request to develop a mechanism to check new installations, London Hydro has developed some on-demand reporting tools within the current billing system to identify pending installations of water meters. This report requires the cross-referencing with Building Control information on the issuance of new building permits to ensure that the meters

have not been missed. This recommendation, as identified by PwC, becomes unnecessary if physical metering devices are used to control construction water use in residential and commercial construction.

Action:

City staff will work with London Hydro staff to develop a procedure to confirm that water meters have been installed in a timely manner. If construction water is metered, this process would serve as a back-up and allow the City to audit its own process.

4. Monitoring of London Hydro Process

PwC Risk Identified:

An opportunity exists to improve the terms of Service Level Agreement (SLA) for water and sewer billing with London Hydro. A risk exists that there are documents received or activities occurring currently that are not captured in the SLA. In the case that there are staffing changes at London Hydro that impact the working relationship between the two parties, monitoring and oversight controls could be impacted.

Response:

From time to time, London Hydro makes business decisions for the electricity portion of the monthly hydro and water bill that affects water and sewer billing. It is also apparent that when an issue arises that is a "Water" based issue, it takes a higher level of attention from City staff to elevate it to a level in London Hydro's management group to make it a priority. Activities around report creation, billing system fixes, customer billing and consumption information are common requests that must be funneled up the corporate ladder at London Hydro. Some of the recommendations made by PwC would give the City more flexibility to ensure that billing continues to be conducted in a timely and accurate manner.

Action:

City staff has been working with Hydro to establish billing and meter reading reporting that is available on demand through the billing system.

5. London Hydro Service Level Agreement Terms

PwC Risk Identified:

An opportunity exists to improve the monitoring controls performed by the City over London Hydro meter reading processes.

Response:

London Hydro has nearly 100% of all residential customers on electric Smart Meters and is transitioning the remaining ICI customers to the same system. With each meter that is placed into the Smart grid, London Hydro's need for meter reading decreases. Once the full complement of electricity meters are transferred to the Smart Grid it may become beneficial to have the City manage the meter reading portion of the Service Level Agreement. For the interim, development of a monthly reporting structure from London Hydro for meter reading would give Water staff the ability to target specific areas of the City for replacement of water meters where readings are difficult to obtain. Water staff have already begun to transition a more efficient meter reading system to benefit from the lower cost method. The City has selected a drive-by system that performs meter reads at city driving speeds. In order to convert all meters to the drive-by system, a meter reading route (there are 596 meter routes City wide) must have 95% saturation of all its meters converted to the remote reading technology. To date almost 40% of all water meters have been updated to the new technology but only 50% of those meters are located in 95% saturated areas and are being read by the drive-by system at this time.

Action:

Examine opportunities to enhance or increase the number of meter or transmitter replacements in the current Meter Replacement Program to complete the drive-by routes.

6. Oversight of London Hydro's SAP system (billing system)

PwC Risk Identified:

A risk exists that if system errors occur within London Hydro's meter reading or billing systems, inaccuracies could result in the revenue transferred to the City.

Response:

Routine checks of billed consumption against revenue provide an opportunity to review the process and ensure that it is working correctly. Ensuring that information is complete and flows correctly between the two corporations is part of any good quality management system.

Action:

Continue routine checks of billed consumption data against revenue.

7. Reasonableness Check on Revenue Transferred from London Hydro

PwC Risk Identified:

An opportunity exists to perform additional analysis over the reasonability of revenue received from London Hydro.

Response:

The check of the revenue involves pulling various reports out of the billing system as identified in the Service Level Agreement. Since the new system was implemented, City staff have been working with London Hydro to develop different on demand reports. Many reports outlined in SLA have been requested but have still not been created. London Hydro does not have a dedicated staff person for Water requests and establishes priorities based on their business need. To ensure these reports and other water issues are dealt with quickly and efficiently, the City would like to see a dedicated IT/SAP Super User for Water issues. Their priority would be to create reports and make changes to the billing system as needed by the Water/Sewer area. When not working on City requests, they could work on electric issues, but would need to reprioritize if a water request was made.

Action:

Develop a regular meeting between TSD and London Hydro IT along with Service Level Agreement administrators to schedule the timely completion of the various enhancements to water billing and reporting.

8. Administration of Late Payment Fees

PwC Risk Identified:

An opportunity exists to recover additional revenue in the form of late payment fees currently collected by London Hydro. London Hydro remits payment of water revenue to the City based upon billings, however late payment fees received subsequently are retained by London Hydro.

Response:

In November 2010, London Hydro conducted an internal review that determined the transfer of late payment charges revenue to the City would be stopped. When City staff met with London Hydro to discuss the issue, it was revealed that in previous negotiations in 2004/2005 around the Service Level Agreement, late payment charges had been eliminated from the City's water and sewer receivables transferred by London Hydro. City staff agreed to suspend late payment charge transfers until an updated cost of service study could be completed. In order to maintain a consistent analysis, BMA has been hired to build on their report from 2004 / 2005. In addition London Hydro has hired their own consultant to meet a regulatory requirement by the Ontario Energy Board to identify the cost of water and sewer billing for local distribution companies. Both studies will be used as a baseline to develop the Service Level Agreement fees going forward.

Action:

Discuss the reinstatement of late payment charges in the upcoming negotiations for the new Service Level Agreement.

Conclusion:

Although PricewaterhouseCoopers did not identify any significant control issues with the administration and collection of water and sewer revenue through the current arrangement with London Hydro; there are a number of recommendations that could increase efficiencies and potentially increase revenues without additional increases to water and sewer rates. Action plans are in place to address recommendations coming out of the internal audit.

Acknowledgements:

This report was prepared by Matt Feldberg, Water Demand Manager, Water Engineering.

SUBMITTED BY:	RECOMMENDED BY:
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CONCURRED BY:	
PAT MCNALLY, P.ENG. EXECUTIVE DIRECTOR PLANNING, ENVIRONMENTAL, & ENGINEERING SERVICES	

December 15, 2011

Attachments: PwC – September 29th, 2011 Audit Committee Presentation – Water and Sewage Revenue

CC: Ron Standish
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Ivy Sadler, PwC
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