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*The Corporation of the
City of London*
Quarterly Report on Internal
Audit Results

September 29, 2011

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Agenda

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Rating Scale – Opportunities for Improvement

- **Satisfactory**

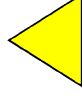
Controls are present to mitigate process/business risk, however an opportunity exists for improvement.



Satisfactory

- **Needs Improvement**

Existing controls may not mitigate process/business risk and management should consider implementing a stronger control structure.



Needs Improvement

- **Unsatisfactory**

Control weaknesses are significant and the overall exposure to risk is unacceptable. Immediate attention and oversight from management is required.



Unsatisfactory

Water & Sewage Revenue
Environmental & Engineering Services Department

Summary of Risks & Scope

EESD – Water & Sewage Revenue

Scope

- Installation of New Meters
- Monitoring of Meter Reading
- Monitoring of Billing
- Monitoring of Collections
- Monitoring of Non-Revenue Water (NRW)

- Management of London Hydro (LH) Agreement
- Transfer of Revenue
- Meter Repairs and Replacements

Risks

- New water meter installations not occurring in a timely manner
- Insufficient monitoring of meter reading, billing and collection procedures performed by LH
- Insufficient monitoring of NRW
- Non-compliance or insufficient monitoring of London Hydro Service Level Agreement (SLA)
- Insufficient monitoring and analysis of water revenue transferred from LH
- Water meter repairs and replacements not occurring in a timely manner

Controls Operating Effectively

- Timely installation of new water meters
- Management and monitoring of NRW
- Compliance with and sufficient review of LH SLA
- Timely response and complete documentation of water meter repairs and replacements

Summary of Risks & Scope, Continued

EESD – Water & Sewage Revenue

Value-for-Money Considerations

Quantification of Controls Operating Effectively:

- Sufficient NRW monitoring processes are in place as the City of London operated with an estimated NRW rate of 9% in 2009, which is 10% lower than the average of the surrounding municipalities. This 10% results in considerable cost savings for the City relative to others.
- The City of London’s ‘Water Meter Replacement Program’ has reduced NRW by an estimated \$110,000 from 2009 to 2010.

Quantification of Opportunities for Improvement:

- The recommendations to reduce NRW from customers with dedicated fire protection systems and from new building construction is estimated to recover a portion of NRW on an annual basis.
- If through these recommendations, the City was able to bill an additional 1% of water purchased (i.e. NRW was reduced from 10.2% to 9.2%), approximately \$1,200,000 of additional revenue would be recovered each year.
- The recommendation to recover late payment fees currently collected by LH is estimated to recover \$300,000 of revenue per year, if implemented.

Observations & Action Plans -#1

EESD – Water & Sewage Revenue

Needs Improvement ▲

Observation

Recovery of Fire Protection System Water

An opportunity to recover water supplied to ICI customers (institutional, commercial and industrial customers, including high-density residential) with dedicated fire protection systems exists. These water lines are not metered and therefore remain unbilled.

Business Impact

Dedicated fire protection system lines are utilized by customers for the purpose of monthly testing procedures, which represent a significant volume of unbilled consumption.

Action Plan

It is recommended that the City consider and investigate opportunities for capturing lost revenues on fire protection system water used by ICI customers. This could be accomplished through charging a flat or other fee based on square footage.

Action Plan Lead

Director of Water and City Engineer

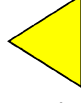
Timing

December 31, 2013

Observations & Action Plans -#2

EESD – Water & Sewage Revenue

Needs Improvement



Observation

Recovery of Building Construction Water

An opportunity to recover water supplied to builders and developers during the new home construction phase exists. These water lines are not metered and therefore remain unbilled until the point that the residential water account is set up.

Business Impact

City water is commonly utilized by builders and developers during the construction of new residential properties, which represents a significant volume of unbilled consumption.

Only nominal connection charges for construction water are billed to the residents as per the ‘Water Rates & Charges By-Law.’

Action Plan

It is recommended that the City consider and investigate the opportunity to capture lost revenues relating to building construction water consumed.

This could be accomplished by installing meter pits at individual homes being built and billing the home builders. Alternatively, subdivisions could be metered with developers billed using deduct metering or a flat or other fee could be charged to builders to estimate water consumption during the construction phase.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2013

Observations & Action Plans -#3

EESD – Water & Sewage Revenue

Needs Improvement ▲

Observation

Timeliness of New Water Meter Installations

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.

Business Impact

A potential financial risk exists if a time lag is present from the point that residential water lines are accessible to the installation of a new water meter. A time lag could result in missed water billings by the City.

This item becomes more significant in the case that efforts are not made to bill for construction water directly (as discussed in the previous finding).

Action Plan

It is recommended that the City obtain, on a quarterly basis, a listing of 'pending' water revenue accounts from LH. Investigation should be performed to ensure that new water meters are installed where applicable and billing is started.

The 'New water account verification report' currently included in the LH SLA should be received regularly and used to reconcile to account information provided to LH.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011



Observations & Action Plans -#4

EESD – Water & Sewage Revenue

Satisfactory

Observation

Monitoring of London Hydro Processes
An opportunity exists to improve the monitoring controls performed by the City over LH meter reading, billing and collection processes.

Business Impact

A risk exists that the City is not aware of issues or inefficiencies in the performance of meter reading, billing or collection procedures performed by LH.

Action Plan

It is recommended that the LH SLA be amended to require additional information to be provided to the City on a regular basis, resulting in improved oversight of meter reading, billings and collections processes. These additional pieces of information could include:

Meter Reading: the proportion of total meter reads validated by estimate

Billing : Aging report of unbilled accounts

Collections : Listing of write-offs, including reason for write-off and corresponding account number

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011



Observations & Action Plans -#5 **Satisfactory**

EESD – Water & Sewage Revenue

Observation

London Hydro Service Level

Agreement Terms

An opportunity exists to improve the terms of the SLA as there are activities performed and information received that are currently not reflected in this agreement.

Business Impact

A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Action Plan

It is recommended that the following be considered in the upcoming review of the SLA:

- The City should try to ensure that LH is responsible for communicating to the City any events that could potentially delay meter reading, billing, collections procedures performed on behalf of the City.
- It should be clarified which operational reports must be available on a real-time basis versus on demand from LH.
- The City should negotiate that LH assign one IT coordinator that will prioritize City of London reporting requests.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Observations & Action Plans -#6

EESD – Water & Sewage Revenue



Satisfactory

Observation

Oversight of London Hydro's Billing System (SAP)

The City of London currently does not perform procedures to confirm the operating effectiveness of London Hydro's SAP system.

Business Impact

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

Action Plan

It is recommended that the City perform tests of controls over the SAP system on an annual basis. For example, for a new account, the City could confirm that the meter reading is accurately reflected in the billing module and collections module and that this revenue billed is included in the weekly transfer amount remitted to the City of London.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011



Observations & Action Plans -#7 **Satisfactory**

EESD – Water & Sewage Revenue

Observation

Reasonableness Check on Revenue Transferred from London Hydro

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

Business Impact

A potential operational risk exists in the case that there are staffing changes at LH that impact the working relationship between the two parties. Monitoring and oversight controls could be impacted if the SLA does not accurately reflect the current working relationship.

Action Plan

It is recommended that the City request LH to provide the following additional information as a part of the weekly revenue reporting process and that this is built into the next SLA:

- Breakout of revenue transferred by customer type
- Breakout of number of meter reads included in revenue transferred by customer type
- Calculation of revenue per meter read by category

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Observations & Action Plans -#8

EESD – Water & Sewage Revenue



Satisfactory

Observation

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

Business Impact

A financial risk exists that the City is not collecting all possible revenue sources from LH.
In fiscal 2010, late payment fees totaled approximately \$300,000.

Action Plan

It is recommended that the City incorporate the receipt of late payment fees collected by LH into upcoming SLA negotiations.

Action Plan Lead

Director of Water and City Engineer

Timing

December 31, 2011

Action Plan Summary

EEED – Water & Sewage Revenue

