

Audit of Water Billing and Collections – Phase II: Water Billing and Water Meter Management Controls Require Strengthening

Date: March 10, 2017

To: Audit Committee

From: Auditor General

Wards: All

SUMMARY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. This audit was performed in two phases:

- Phase I focused on the collection of outstanding water accounts.
- Phase II focused on the processes and controls to ascertain the accuracy and completeness of water billing, recording of customer payments, account adjustments and monitoring of service orders for water meter installation and repairs.

Key Findings and Recommendations

This report completes our review of the water billing and collections audit. In 2016 the Auditor General issued three reports and this is the final report. Overall, it appears that the majority of residential, commercial and industrial properties have been billed appropriately. We also noted areas of improvement such as the implementation of the water meter program (WMP).

While we noted improvement in some areas, we also found important areas where the City is losing revenue and incurring unnecessary operating cost. The detailed findings are provided in the attached report, certain key observations are provided below:

- From a total of 685 'Do Not Bill' properties, 18 (19.5 per cent) City-owned leased or licensed properties out of 92 sampled were not billed. Unbilled revenue periods range from 4 to 30 years.
- From a total of 2,494 properties with closed construction permits, 5 properties or 5.5 per cent of the 91 sampled did not have a water meter.
- \$1.3 million in potential unbilled revenue related to sampled properties. Recovery of this amount will depend on how far back the City can retroactively bill these accounts.

- Repeat no-access site visits waste City resources and delay water meter installation and repairs. An opportunity to recover up to \$550,000 annually in fees may be possible for 8,500 no-access site visits.
- From a total of 2,000 properties with a high number of estimated bills, 32 properties or 19 per cent of the 165 sampled had water meter work delayed from six months to over nine years, mostly due to no-access site visits.
- Staff resources can be saved by reducing the high volume (158,000) of bill reversals, adjustments and refunds.
- \$63,000 in administrative fees was not billed to customers over two years.

The Auditor General has made 15 recommendations in this report to improve water billing processes and controls, and has identified opportunities for additional revenue and cost recovery. In total, the Auditor General has made 44 recommendations for this audit.

The Auditor General expects implementation of the recommendations will result in significant revenues and savings. For example, one of our audit recommendations in the Phase I report tabled at the March 31, 2016 Council meeting, required follow-up of past due accounts and implementation of a Council approved Directive for transferring outstanding condominium water bills to the property tax accounts of individual unit owners. Management advised that a total of 13 condominium properties with water arrears were removed from the list of outstanding accounts by transferring arrears to unit owner's property tax accounts and through negotiated settlements. This represents a one-time recovery of \$1 million from customers.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Director, Revenue Services, to coordinate with Real Estate Services, Parks, Forestry & Recreation, Toronto Water and other City Divisions, and develop a plan to:
 - a. compile a complete list of all City-owned leased and licensed properties and determine whether water consumption is being billed in compliance with the lease or licensing agreement;
 - b. implement a communication process for 'Do Not Bill' properties for timely status updates when these properties are leased, licensed or sold, to verify whether they should be billed for water consumption;
 - c. review existing 'Do Not Bill' properties to identify if they should be billed for water usage and adjust the designation accordingly;
 - d. review existing 'Garbage Only' properties to determine if any of these accounts are billable for water; and
 - e. periodically monitor the status of all 'Do Not Bill' and 'Garbage Only' accounts for updating the billable status

2. City Council request the Director, Revenue Services, in consultation with the City Solicitor, Real Estate Services, Parks Forestry & Recreation and Toronto Water to:
 - a. determine the back billing period for outstanding unbilled water consumption for City-owned leased and licensed properties and where required install water meters; and
 - b. retroactively bill the water consumption accordingly.
3. City Council request the Treasurer, implement a similar process (as per recommendations 1 and 2) to ensure that applicable property taxes, solid waste charges and any other relevant city charges are being collected on all City-owned properties that are leased or licensed.
4. City Council request the General Manager, Toronto Water, to coordinate with Toronto Building and explore opportunities for shared services relating to construction permit status reporting and water meter verification during building inspections.
5. City Council request the Director, Revenue Services, to explore opportunities for obtaining third party information, such as Toronto Hydro consumption data to assist in estimating water consumption.
6. City Council request the Director, Revenue Services and General Manager, Toronto Water, to evaluate the feasibility of updating the water billing system with water meter records for multi residential properties, severed properties and properties with more than one street address associated with the same meter. A process should be developed for future updates to ensure every address is mapped to a water meter.
7. City Council request the Director, Revenue Services and General Manager, Toronto Water, to review all property addresses in the various systems with a view to integrating data and developing exception reports for properties without a water meter. A similar process should be developed for billing other revenue sources, such as, property taxes and solid waste charges.
8. City Council request the General Manager, Toronto Water, to evaluate whether a service fee can be charged on scheduled and repeat no-access site visits.
9. City Council request the General Manager, Toronto Water, to develop system reports for water meter service order management. The reports should include information such as, delays and other useful information that will help to effectively manage water meter service orders.
10. City Council request the Director, Revenue Services, to develop an automated process for consistently charging the administrative fee for water bill payment transfers.

11. City Council request the Director, Revenue Services, to evaluate whether an administrative fee can be charged for processing refunds resulting from customer payment errors.
12. City Council request the Director, Revenue Services, to evaluate whether separate transaction codes can be created to identify customer and City initiated bill reversals, adjustments and refunds. Reports should be developed using the new codes to identify and monitor the underlying reasons for these transactions.
13. City Council request the Director, Revenue Services, to review and enhance the current cash receipts procedures at customer service counters to ensure:
 - a. there is adequate segregation of duties and compensating controls for customer service supervisors;
 - b. that standard operating procedures for documenting daily variances and compliance requirements are updated; and
 - c. that an appropriate dollar threshold triggers senior management's review of collection variances.
14. City Council request the Director, Revenue Services, to revise the procedure for granting and monitoring user access in the water billing system. The access should be removed on a timely basis for inactive and unauthorized accounts. The practice of creating temporary accounts without expiry dates should be stopped.
15. City Council request the City Manager, to forward this report to the Heads of City Agencies and Corporations for review and necessary action.

FINANCIAL IMPACT

The total impact of unbilled water usage on revenues cannot be determined at this time due to complexity and the time required to review all the potential unbilled properties and leases. However, we estimate revenue from our sampled properties and through potential cost recoveries, a total saving of over \$3 million over five years.

In addition, we estimate there is \$1.3 million in unbilled revenues that could be recovered from our sampled properties. The amount recovered depends on how far back the City can retroactively bill these properties.

The estimated amounts provided are for sampled properties only, the Auditor General expects once the recommendations are fully implemented, the total revenue recovered would be substantial.

DECISION HISTORY

The Auditor General's 2015 Audit Work Plan included an audit of the City's water billing and collection processes. The 2015 Audit Work Plan is available at:

<http://www.toronto.ca/legdocs/mmis/2015/au/bgrd/backgroundfile-79980.pdf>

COMMENTS

This report provides the results of Phase II of the audit of water billing and collections. Our focus was to determine whether all properties have water meters and are being billed appropriately. We reviewed water billing, consumption and payment data from January 1, 2013 to September 30, 2015.

Our recommendations will benefit the City in reducing revenue leakage and cost savings through:

- Improving identification and reporting of properties without a water meter and billing
- Improving processes to enable timely meter installation and repairs
- Reducing billing estimates, back billing, delays and errors
- Improved communication and coordination between Divisions by establishing shared service arrangements
- Implementing an administrative fee for repeat no-access site visits and refunds

This report completes our review of the water billing and collections audit.

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SIGNATURE

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ATTACHMENTS

Attachment 1: Audit of Water Billing and Collection – Phase II: Water Billing and Water Meter Management Require Strengthening