

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FREDERICK COUNTY GOVERNMENT
COMMERCIAL WATER AND SEWER
CAPACITY FEES**

**Report #12-06
November 16, 2011**





Commercial Water and Sewer Capacity Fees

TABLE OF CONTENTS

Executive Summary	ii
I. Introduction	1
II. Background.....	1
III. Objective, Scope and Methodology	3
IV. Audit Results	4
Charging of Commercial Water and Sewer Capacity Fees:	
Re-inspection Policy of Commercial Accounts Needs to be Established and Monitored.....	4
Policies and Procedures for Ensuring Inspector Independence Need Strengthening	5
Documentation and Approval of Why Additional Fixtures Were not Charged for Older Commercial Accounts are Needed	6
Collection and Deposit of Fees:	
Duties Over the Collection and Deposit of Cash Fees Should be Segregated	7
Other Procedural Matters:	
A Memorandum of Understanding Between the County and the City of Frederick Regarding Sewer Capacity Fees Needs to be Established.....	9
Certain Capacity Fee Calculations Should be Automated	9
DUSWM Needs to be Involved in the Stand Alone Plumbing Permit Process	10
V. Summary of Response	11

Attachment: DUSWM's Response Dated October 28, 2011

Executive Summary

Internal controls over the charging of commercial water and sewer capacity fees need strengthening. Although DUSWM has a goal of re-inspecting every commercial account once every 3 years, a formal policy that requires periodic re-inspections has not been established. Re-inspections are important because customers may have added fixtures since the County's initial fixture inspection and may owe the County additional capacity fees. We sampled 37 of 84 commercial accounts that were identified as not being inspected since 2001 and found only 4 of the 37 accounts tested had evidence of an inspection within the last 3 years. Twenty-five of the 37 accounts had no evidence of re-inspection since 2001. Accordingly, we recommend that DUSWM establish a policy for re-inspecting commercial accounts along with procedures to track and monitor re-inspections. We also recommend that DUSWM conduct re-inspections of commercial accounts, and charge and collect capacity fees for additional fixtures found, as appropriate. We would appreciate being advised of funds collected for additional fixtures identified during re-inspections conducted on the 25 commercial accounts initiated as a result of this audit.

Also, while the County Attorney's Office requires the completion of financial disclosure statements, there are no DUSWM management procedures to ensure the independence of the staff performing fixture count inspections. We did not find any evidence of a conflict of interest for the DUSWM Fixture Count Inspector or Utility Analyst. However, we found that financial disclosure statements for the primary Fixture Count Inspector were inadvertently not completed for fiscal years 2010 and 2011. This occurred because Payroll did not include the Fixture Count Inspector on a list of inspectors it submitted to the County Attorney's Office. Therefore, the Fixture Count Inspector was not contacted about filling out a financial disclosure statement. Accordingly, DUSWM policies and procedures for ensuring inspector independence need strengthening to eliminate any potential conflict of interest.

Additionally, we sampled 20 re-inspections that occurred in fiscal years 2010 and 2011 and found that 17 of the 20 re-inspections identified additional fixtures. However, we did not find documentation or management approval explaining why additional fixtures were not charged on 10 of the 17 accounts, mostly public schools. DUSWM staff told us that management had decided not to charge certain older accounts because the way they count, value, and charge for fixtures had changed over time. However, DUSWM should maintain documentation of management approval and an explanation of why additional fixtures were not charged for certain older commercial accounts. Also, DUSWM should notify customers in writing whenever a re-inspection results in a change to the commercial account's base fixture count.

Commercial Water and Sewer Capacity Fees

Internal controls are adequate over the collection and deposit of commercial capacity fees, which are primarily paid by check. However, segregation of duties over the collection and deposit of cash payments, which include other DUSWM fees, is not adequate to prevent potential theft. Cash collected at the DUSWM Office is significant. For example, in June 2011 DUSWM collected and deposited approximately \$44,000 in cash.

We also identified several other procedures that need strengthening. We recommend that DUSWM, in conjunction with other applicable parties: (1) establish a Memorandum of Understanding (MOU) between the County and the City of Frederick regarding procedures and responsibilities for County sewer capacity fees, (2) automate certain capacity fee calculations, and (3) develop a procedure for ensuring that any applicable water and sewer capacity fees are collected on stand alone plumbing permits.

On October 28, 2011, the DUSWM Division Director provided a written response to our recommendations (see Attachment). He agreed with all 12 recommendations and we summarized his response in Section V. Some actions to begin addressing the recommendations have already begun and DUSWM plans to implement all recommendations by August 2012.



Commercial Water and Sewer Capacity Fees

I. Introduction

Internal Audit (IA) conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

This report is intended to provide information to management; however, it is also a matter of public record and with the exception of any applicable disclosure exemptions, distribution should not be limited. Information extracted from this report may also serve as a method to disseminate information to the public as a reporting tool to help citizens assess government operations. Management responsible for the functional area reviews the report, and their formal written responses are incorporated into the final report per IIAA policy and generally accepted government auditing standards.

It is management's responsibility to design and implement an adequate system of internal control, and it is the Internal Audit Division's responsibility to determine if management's system of internal control is functioning properly in relation to the audit objective. It is also management's responsibility to decide if action should be taken in response to any reported audit recommendations, taking into consideration related costs and benefits. Management, therefore, assumes the risk of making the decision not to implement any reported recommendations.

II. Background

The Division of Utilities and Solid Waste Management (DUSWM) "strives to provide the community with safe and dependable water supply and reliable waste disposal services that do not reduce or inhibit the use of the County's natural resources." Furthermore, DUSWM "provides for the planning, construction, and operation of the County's water supply, wastewater disposal and solid waste pollution control infrastructure."

DUSWM's water and sewer fund operates as an enterprise fund and charges various fees for their services, including water and sewer capacity fees. Customers connecting and utilizing the County's water and/or sewer system are required to pay water and/or sewer capacity fees. Capacity fees are outlined in the Frederick County Water and Sewer Rules and Regulations and are charged in accordance with the yearly fee schedule approved by the Board of County Commissioners.

Commercial Water and Sewer Capacity Fees

Commercial water and sewer capacity fees vary based on the number of fixtures and the account's capacity adjustment factor, which is outlined in the Water and Sewer Rules and Regulations. Commercial accounts are charged capacity fees for their first 10 fixtures at a capacity adjustment factor of 1.00. For all fixtures over the initial 10, the applicable capacity adjustment factor is applied based on the type of services the commercial account provides. Services where a higher level of water and sewer activity is anticipated have a higher capacity adjustment factor. For example, a laundromat has a factor of 3.50, while an office park has a factor of 0.34. Industrial, governmental, and educational accounts are also charged based on this variable fee structure.

The initial commercial water and sewer capacity fees are based on plumbing plans and riser diagrams submitted by the customer. These plans are reviewed by the Utility Analyst or the Utility Support Technician, who determines the amount of capacity fees based on the number of fixtures present on the plans, the capacity adjustment factor, and the fixture unit chart. The fixture unit chart, which assigns each type of fixture a value based on its potential inflow or outflow, is included in the Water and Sewer Rules and Regulations. For example, a single drinking fountain has a fixture value of 1, while a classroom sink has a fixture value of 3.



The Utility Analyst or Utility Support Technician inputs all the data needed to calculate the capacity fees in Hansen, the computer system used to charge, process, and track water and sewer capacity fees. Initial capacity fees are required to be paid prior to the issuance of a building permit. Payments are collected at the DUSWM Office by the Collection Specialist, who records the payments in Hansen. The majority of the capacity fee payments are made by checks and they are electronically deposited into the bank. Any cash payments collected by the Collection Specialist are deposited in the bank by an armored car service.

Once the building has been constructed, a field inspection is performed by the Fixture Count Inspector to verify that the fixtures were installed as described on the plans. Furthermore, the Fixture Count Inspector performs periodic re-inspections of commercial accounts to ensure that the customer has not added any fixtures where water and sewer capacity fees have not been paid. Any additional fixtures identified during an inspection will be charged the applicable capacity fees. Unpaid capacity fees can be added to the account's water and sewer bill and ultimately the account could go to tax sale if capacity fees continue to go unpaid.

Commercial Water and Sewer Capacity Fees

The amount of water and sewer capacity fees collected by DUSWM during fiscal years 2009 through 2011 are:

Fiscal Year	Water and Sewer Capacity Fees Collected*
2009	\$10,152,642
2010	\$ 7,179,128
2011	\$23,550,145**

* Amount includes both commercial and residential capacity fees

** The significant increase in capacity fees collected in FY 2011 is due to a \$17 million dollar payment from Fort Detrick.

III. Objective, Scope and Methodology

The objective of this audit was to determine whether internal controls are adequate over the charging, collecting and depositing of commercial water and sewer capacity fees and plumbing permits that may result in commercial capacity fees. The scope of our audit was commercial capacity fees charged, collected, and deposited from July 1, 2008 through June 30, 2011.

To address our audit objective, we interviewed DUSWM management and staff regarding the commercial capacity fee process and assessed internal controls over capacity fees charged, collected, and deposited. We also met with applicable staff from the Community Development Division, IIT, County Attorney's Office, and City of Frederick to determine and discuss their roles related to the water and sewer capacity fee process. Additionally, we reviewed the Water and Sewer Rules and Regulations that describe the amount of the fees and how they are charged.

To test the charging of capacity fees in Hansen, we randomly selected 10 of 78 commercial accounts that had capacity fee charges during the scope of our audit and determined if the fees were charged in accordance with the fee schedule from the Water and Sewer Rules and Regulations. We selected 20 re-inspections that occurred in fiscal years 2010 and 2011 to determine if additional fixtures and any resulting capacity fees were being charged as a result of commercial account re-inspections. Ten of the re-inspections tested were random and ten were judgmental to ensure that our sample included re-inspections where additional fixtures were identified.

According to the DUSWM Utility Analyst's informal records as of June 30, 2011, there were 84 out of approximately 1,300 commercial accounts that had not been inspected since 2001. We selected a statistically valid random sample of 37 of these 84 commercial accounts to determine the extent of commercial properties that had not been re-inspected and to verify the accuracy of the informal records. To determine if DUSWM staff performing fixture count inspections were independent, we determined whether the Fixture Count Inspector and Utility Analyst filed annual financial disclosure forms for fiscal years 2010 and 2011.

To determine if County sewer capacity fees were being charged and collected for properties within the City of Frederick that used the County's sewer system, we randomly selected 10 of 161 City of Frederick permits issued in these areas. Because our random sample of 10 did not include any City permits related to commercial accounts, we judgmentally selected an additional two commercial City permits for accounts using the County's sewer system.

In order to ensure water and sewer capacity fees were properly collected and deposited, we randomly selected 10 days from fiscal year 2010 where water and sewer capacity fees were paid. However, because there was a change to the deposit process near the end of fiscal year 2011, we selected one day in June 2011 to ensure that fees were still being properly collected and deposited. We also determined the amount of cash received by DUSWM in June 2011.

IV. Audit Results

Internal controls over the charging of commercial water and sewer capacity fees need strengthening. Specifically, a re-inspection policy of commercial accounts needs to be established and monitored to ensure that customers are charged for fixtures that may have been added. Further, DUSWM should conduct re-inspections of commercial accounts and charge and collect capacity fees for additional fixtures found, as appropriate. Also, policies and procedures for ensuring inspector independence need strengthening to eliminate any potential conflict of interest. Additionally, DUSWM should maintain documentation and evidence of approval of why additional fixtures were not charged for certain older commercial accounts. Internal controls are adequate over the collection and deposit of commercial capacity fees, which are primarily paid by check. However, segregation of duties over the collection and depositing of cash payments, which include other DUSWM fees, is not adequate to prevent potential theft. Furthermore, DUSWM, in conjunction with other applicable parties, should: (1) establish a MOU between the County and the City of Frederick regarding procedures and responsibilities for County sewer capacity fees, (2) automate certain capacity fee calculations, and (3) develop a procedure for ensuring that any applicable water and sewer capacity fees are collected on stand alone plumbing permits.

CHARGING OF COMMERCIAL WATER AND SEWER CAPACITY FEES

RE-INSPECTION POLICY OF COMMERCIAL ACCOUNTS NEEDS TO BE ESTABLISHED AND MONITORED

Although DUSWM has a goal of re-inspecting every commercial account once every 3 years¹, a formal policy that requires periodic re-inspections of commercial accounts has not been established. Re-inspections are important because customers may have added fixtures since the County's initial fixture inspection and may owe the County additional capacity fees. Our audit found that there is no formal tracking system or monitoring procedure to ensure that re-

¹ The only documentation of this goal was a June 13, 2008 email from the DUSWM Accounting Team Leader to the Fixture Count Inspector.

Commercial Water and Sewer Capacity Fees

inspections are occurring within the 3 year goal and this goal is not being achieved. Consequently, DUSWM may not have charged or collected water and sewer capacity fees from commercial accounts for fixtures added after the initial inspection.

Internal control activities, such as policies, procedures, techniques, and mechanisms that enforce management's directives, help ensure that management's directives are carried out. Managers need to compare actual performance to planned or expected results and analyze differences.²

Specifically, our audit found that as of June 30, 2011, the DUSWM Utility Analyst identified 84 of approximately 1,300 commercial accounts that had not been inspected since 2001, when she began her informal record keeping. We selected a statistically valid random sample of 37 of the 84 accounts to determine the accuracy of her records. Only 4 of the 37 or 11 % of accounts tested had evidence of an inspection within the last 3 years. Eight of the 37 or 22% had evidence of an inspection since 2001, but not within the last 3 years. However, 25 of the 37 or 67% had no evidence of inspection since 2001. After we brought this to the attention of DUSWM staff, the inspector initiated re-inspections of some of the 84 accounts in order to identify any additional fixtures that have been added and may require additional capacity fees.

While it is strictly a DUSWM policy decision on how frequent re-inspections are needed, DUSWM needs to establish a formal documented commercial re-inspection policy and develop tracking and monitoring procedures to ensure compliance. Accordingly, we recommend that DUSWM:

Recommendation 1: Develop and implement a written policy regarding the need for and frequency of commercial fixture count re-inspections.

Recommendation 2: Develop a formal tracking procedure which identifies the accounts that need to be re-inspected, the date of the next re-inspection, and when re-inspection occurs.

Recommendation 3: Establish a monitoring procedure to ensure that commercial accounts are re-inspected in accordance with DUSWM policy.

Recommendation 4: Conduct re-inspections of commercial accounts as necessary, identify any additional fixtures found, and charge and collect any applicable capacity fees as appropriate.

POLICIES AND PROCEDURES FOR ENSURING INSPECTOR INDEPENDENCE NEED STRENGTHENING

Frederick County's Ethics Ordinance, contained in Chapter 1-7.1 of the Frederick County Code, prohibits County employees and officials from engaging in acts that would amount to a conflict of interest under the Ordinance. The Ordinance also requires designated County employees to complete financial disclosure statements within thirty days of their initial employment and on an

² United States General Accounting Office (now the United States Government Accountability Office). 1999. *Standards for Internal Control in the Federal Government*, [November, 1999]. Washington, D.C.: Government Accountability Office., pages 11 and 13.

annual basis. Specifically, Chapter 1-7.1-2 requires “all construction managers and inspectors” to complete the financial disclosure statement outlined in Chapter 1-7.1-5 of the Ordinance. The financial disclosure statement requires all applicable employees to identify any gifts, County contracts, real estate ownership, interests in businesses that do business in Frederick County, and other employment within the County.

We found no evidence that the DUSWM Fixture Count Inspector or the Utility Analyst who conducted a limited number of inspections during the scope of our audit had any conflict of interests while inspecting commercial accounts. However, DUSWM policies and procedures for ensuring the independence of inspectors need strengthening.

While the County Ordinance requires annual disclosure statements to be completed by both DUSWM staff members who performed inspections, we found that the statements for the primary Fixture Count Inspector were not completed for fiscal years 2010 and 2011. Based on a discussion with a Senior Assistant County Attorney, the Fixture Count Inspector had not been included on a list of inspectors provided by the Payroll Office and, therefore, the Fixture Count Inspector was never contacted to complete annual disclosure statements. When we brought this to the Attorney’s attention she immediately had the Fixture Count Inspector complete the form for fiscal year 2011. The form did not disclose any conflicts of interest or independence issues that affect inspections he performs.

We are concerned that, although the County Attorney’s Office requires the completion of the financial disclosure statements, there are no DUSWM management procedures to ensure the independence of the staff performing fixture count inspections. Consequently, there is a potential risk that inspectors could inspect properties they have interests in. This would increase the potential for fraud and could ultimately result in uncharged fixtures and fees. Therefore, we recommend that DUSWM:

Recommendation 5: Notify Payroll of those positions performing fixtures count inspections requiring annual financial disclosure statements.

DOCUMENTATION AND APPROVAL OF WHY ADDITIONAL FIXTURES WERE NOT CHARGED FOR OLDER COMMERCIAL ACCOUNTS ARE NEEDED

Standard internal control practices state, “Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination...All documentation and records should be properly managed and maintained.”³ Our audit found no documentation of the rationale or management approval when certain older commercial accounts were not charged for additional fixtures identified during re-inspection.

³ United States General Accounting Office (now the United States Government Accountability Office). 1999. *Standards for Internal Control in the Federal Government*, [November, 1999]. Washington, D.C.: Government Accountability Office., page 15.

Commercial Water and Sewer Capacity Fees

We sampled 20 re-inspections that occurred in fiscal years 2010 and 2011 and found that 17 of the 20 re-inspections identified additional fixtures. We did find documentation of fees correctly charged for additional fixtures or evidence of the customer sealing shut the additional fixtures on 7 of the 17 commercial accounts. However, we did not find documentation or management approval explaining why additional fixtures were not charged on the remaining 10 accounts. We found that 7 of the 10, or 70%, of the accounts were public school properties. DUSWM staff told us that the decision not to charge certain older accounts is because the way they count, value, and charge for fixtures had changed over time. As a result, the decision was made to not charge additional capacity fees for these accounts and use the count from the re-inspection as the account's base fixture count going forward. The rationale is that the commercial account paid the appropriate capacity fees that were in place when the building was constructed and the customer should not be penalized for changes in the way DUSWM counts and values fixtures. However, there was no documentation or approval of this decision in the account files.

In addition, DUSWM notified customers when a re-inspection resulted in a change to the base fixture count and additional fees were charged. However, customers were not notified in writing of their new base fixture count if additional fees were not charged, even though additional fixtures were identified. We believe formal notification of a change would eliminate any future uncertainty regarding the account's base fixture count and would serve as appropriate evidence for DUSWM if the customer was to protest additional fees in the future.

Accordingly, we recommend that DUSWM:

Recommendation 6: Document the rationale and management approval when DUSWM decides not to charge older commercial accounts for additional fixtures identified during re-inspection.

Recommendation 7: Notify the customer in writing whenever a re-inspection results in a change to the commercial account's base fixture count.

COLLECTION AND DEPOSIT OF FEES

DUTIES OVER THE COLLECTION AND DEPOSIT OF CASH FEES SHOULD BE SEGREGATED

Internal controls are adequate over the collection and deposit of commercial capacity fees, which are primarily paid by check. However, segregation of duties over the collection and deposit of cash payments, which includes other DUSWM fees, are not adequate to prevent potential theft.

Internal control guidance states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the

Commercial Water and Sewer Capacity Fees

transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.”⁴

A DUSWM Collection Specialist collects checks and cash from customers for DUSWM fees, such as water and sewer usage bills, landfill usage bills, and water and sewer capacity fees and records the payments in the applicable system. She also prepares the bank deposits for every DUSWM account. An Administrative Specialist acts as a backup when the Collection Specialist is absent.

Until June 2011, the Collection Specialist prepared bank deposit slips for checks and cash received for DUSWM fees, which were then taken to the bank by an armored car. Beginning in June 2011, the deposit process changed for check payments as all checks are now scanned and electronically deposited into the bank. The scanner marks the back of each check to indicate that it has been processed, which ensures that it cannot be deposited again. This change eliminated the need for checks to be part of the deposit and reduced DUSWM’s usage of the armored car service that will result in a savings of approximately \$5,800 a year. Deposit slips and armored car delivery still takes place for cash payments.

The Finance Division’s Accounting Department reconciles each DUSWM account the following business day. The Accounting Department compares the amount deposited in the bank, both cash and checks, to the amounts recorded in the applicable system, such as Hansen, and to the amount posted in the PeopleSoft Financial system. Any discrepancies are investigated and resolved.

We believe the likelihood of theft is significantly greater with cash payments than checks because a check identifies the intended payee and can be tracked. Therefore, we believe the internal controls over check payments are adequate. However, cash can be easily stolen. Cash collected at the DUSWM Office is significant. For example, in June 2011, DUSWM collected and deposited approximately \$44,000 in cash⁵. For these reasons, we believe that internal controls over cash collections should be strengthened by segregating the collection and deposit duties to decrease the opportunity for theft.

As a result, we recommend that DUSWM:

Recommendation 8: Establish procedures to segregate the collection and preparation of the deposit duties for all DUSWM fees that are paid in cash.

⁴ United States General Accounting Office (now the United States Government Accountability Office). 1999. *Standards for Internal Control in the Federal Government*, [November, 1999]. Washington, D.C.: Government Accountability Office., page 14.

⁵ None of the cash payments from June 2011 were for water or sewer capacity fees.

OTHER PROCEDURAL MATTERS

A MEMORANDUM OF UNDERSTANDING BETWEEN THE COUNTY AND THE CITY OF FREDERICK REGARDING SEWER CAPACITY FEES NEEDS TO BE ESTABLISHED

The City of Frederick operates its own water and sewer system and issues permits for all construction within the City. All properties within the City use the City's water system. However, there are properties on the perimeter of the City that use the County's sewer system and County sewer capacity fees are applicable.

When a customer applies to the City offices for a permit that uses the County's sewer system, the customer is informed that the property is on the County sewer system and sewer capacity fees need to be paid to DUSWM, not the City. The City then sends a form to DUSWM to notify them that a customer has applied for a permit that is on the County sewer system. The City requires the customer to provide a receipt from the County for paid sewer capacity fees before they will issue the permit.

Our audit found that the appropriate sewer capacity fees are being charged and collected by DUSWM prior to the City issuing a permit. Specifically, we found there were 161 City permits issued in fiscal year 2010 in areas that use the County sewer system. We tested a sample of 12 of these permits and found that County sewer capacity fees were paid prior to the City issuing the permit.

Although we found that sewer capacity fees were being appropriately charged and collected, there is no MOU between the County and the City describing the process and responsibilities when properties located within the City use the County's sewer system. The most recent documented cooperative procedures are from 1990, when DUSWM was not a separate division, and are outdated. Furthermore, the procedures do not identify the responsibilities of each party, nor are they signed by both parties. Accordingly, we recommend that DUSWM:

Recommendation 9: Develop a MOU with the City of Frederick that represents the current sewer capacity fee process and clearly identifies the responsibilities of each party.

CERTAIN CAPACITY FEE CALCULATIONS SHOULD BE AUTOMATED

Internal control is defined as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: 1) effectiveness and efficiency of operations, 2) reliability of financial reporting, and 3) compliance with applicable laws and regulations."⁶

⁶ United States General Accounting Office (now the United States Government Accountability Office). 1999. *Standards for Internal Control in the Federal Government*, [November, 1999]. Washington, D.C.: Government Accountability Office., page 4.

Commercial Water and Sewer Capacity Fees

Currently, the Hansen system does not correctly calculate capacity fees for new commercial accounts based on the fee schedule and the capacity adjustment factor field is not automated. As a result, DUSWM staff inputs data manually and makes manual adjustments to Hansen fee calculations. Although our testing did not find any capacity fees that were incorrectly charged based on the applicable year's fee schedule, manual entries and adjustments are inefficient and increase the potential for errors or fraud.

During the audit, Internal Audit met with an Interagency Information Technology (IIT) Hansen specialist to discuss possible programming improvements. IIT staff told us that they can modify Hansen's calculation of water and sewer capacity fees for new commercial accounts. However, automating the capacity adjustment factor field would require the involvement of the Hansen software vendor, which would most likely have associated costs and may not be cost effective.

As a result, we recommend that DUSWM:

Recommendation 10: Work with IIT to program Hansen to correctly calculate and charge fees for new commercial accounts in accordance with the DUSWM Water and Sewer Rules and Regulations.

Recommendation 11: Work with IIT to evaluate the cost effectiveness of automating the capacity adjustment factor field in Hansen.

DUSWM NEEDS TO BE INVOLVED IN THE STAND ALONE PLUMBING PERMIT PROCESS

DUSWM is a required reviewer and approver on all building permits. Water and sewer capacity fees are charged and collected based on DUSWM's review of the building plans and DUSWM does not approve the building permit until capacity fees are paid. After a building permit is issued, the County's Community Development Division (CDD) issues a plumbing permit, which authorizes a plumber to begin work installing plumbing fixtures. However, DUSWM is not a reviewer on plumbing permits.

DUSWM management is concerned that commercial accounts could add fixtures without a DUSWM review on stand alone plumbing permits, those not associated with an existing building permit. As a result, any applicable water and sewer capacity fees would not be collected.

During our audit we met with management from both divisions. The Director of CDD's Permits and Inspection Department and the DUSWM Division Director agreed that further discussions should be held in order to determine how to incorporate DUSWM into the process. Therefore, we recommend that DUSWM:

Recommendation 12: Develop a procedure, in conjunction with CDD, for identifying stand alone plumbing permits for commercial accounts and ensuring that water and sewer capacity fees have been paid prior to the issuance of the plumbing permit.

V. Summary of Response

On October 28, 2011, DUSWM's Division Director provided a written response to our October 14, 2011 draft report and agreed with our 12 recommendations (Attachment). DUSWM agreed to develop and implement written policies on the need for, frequency, tracking, and monitoring of commercial fixture count re-inspections. As of October 28, 2011, DUSWM conducted 19 of 25 re-inspections identified in our testing and plans to complete the remaining re-inspections by November 10, 2011. DUSWM plans to request any applicable payments due by December 31, 2011. DUSWM also agreed to notify Payroll of position titles of those performing inspections and develop a Statement of Independence for those position titles with the assistance of the Office of the County Attorney. Also, DUSWM is developing a policy to provide initial guidance on what fixtures may be exempt from collection and under what conditions. Regarding segregation of duties for cash payments, DUSWM agreed to review the job descriptions of other employees in the department to identify a position that may allow for segregation of duties on a daily basis. In the meantime, the supervisor will spot check deposits to assure the proper handling of cash. DUSWM also agreed to implement improvements to the various areas identified in recommendations 9 through 12.

While some actions to begin addressing the recommendations have already begun, DUSWM plans to have all the recommendations implemented by August 2012.

DUSWM's response is attached

Interagency Internal Audit Authority

November 16, 2011

Interagency Internal Audit Authority

Attachment



COMMISSIONERS

- Blaine R. Young, President; C. Paul Smith, Vice President; Billy Shreve; David P. Gray; Kirby Delauter

COUNTY MANAGER

David B. Dunn

UTILITIES AND SOLID WASTE MANAGEMENT DIVISION

Kevin L. Demosky, Division Director



CHARACTER COUNTS! and the Six Pillars of Character are service marks of the CHARACTER COUNTS! Coalition, a project of the Josephson Institute of Ethics.

UTILITIES AND SOLID WASTE MANAGEMENT DIVISION
FREDERICK COUNTY, MARYLAND

Office of the Division Director
4520 Metropolitan Court • Frederick, Maryland 21704
(301) 600-2997 • FAX (301) 600-2180 • TTY: Use Maryland Relay
www.FrederickCountyMD.Gov

MEMORANDUM

TO: Richard A. Kaplan, CIA, Director
FROM: Kevin L. Demosky, Director, Division of Utilities and Solid Waste Management (DUSWM)
DATE: October 28, 2011
RE: Frederick County Interagency Internal Audit Authority (IIAA) Commercial Water and Sewer Capacity Fees [DRAFT 10/14/2011]

In reviewing IIAA DRAFT audit, dated October 14, 2011, of Frederick County Government (Division of Utilities and Solid Waste Management) Commercial Water and Sewer Capacity Fees, each audit result with IIAA's recommendation(s) is followed by DUSWM's response.

RE-INSPECTION POLICY OF COMMERCIAL ACCOUNTS NEEDS TO BE ESTABLISHED AND MONITORED

Recommendation 1: Develop and implement a written policy regarding the need for and frequency of commercial fixture count re-inspections.

DUSWM Response: Agree.

Table with 2 columns: Action, Goal. Rows: DUSWM to draft written policies by: February 1, 2012; Implement policies by: March 1, 2012

These policies must consider numerous issues associated with re-inspections. The frequency of the re-inspections will be driven by staffing (budget) constraints that may affect the water and/or sewer user fees. For example, additional staffing or contacted work associated with re-inspections typically result in one of two outcomes:

- 1. Payment of additional capacity fees, which more accurately accounts for capacity that should have been collected to recover costs associated growth-related capital improvements (along with more accurate user fees — sewer-only customers); or
2. No adjustment in capacity fees, which is because either the collected fees exceed the number of installed fixtures using the appropriate capacity adjustment factor (CAF), or matches what is on file with DUSWM.

Commercial Water and Sewer Capacity Fees

Richard A. Kaplan, CIA, Director
RE: Frederick County Interagency Internal Audit Authority
Commercial Water and Sewer Capacity Fees
October 28, 2011

Page 2 of 6

Recommendation 2: *Develop a formal tracking procedure which identifies the accounts that need to be re-inspected, the date of the next re-inspection, and when re-inspection occurs.*

DUSWM Response: Agree.

	Goal
DUSWM to draft tracking procedures by:	February 1, 2012
Implement procedures by:	March 1, 2012

These procedures must complement the policies established in Recommendation 1.

Recommendation 3: *Establish a monitoring procedure to ensure that commercial accounts are re-inspected in accordance with DUSWM policy.*

DUSWM Response: Agree.

	Goal
DUSWM to draft tracking procedures by:	February 1, 2012
Implement procedures by:	March 1, 2012

These procedures must complement the policies established in Recommendation 1 & 2.

Recommendation 4: *Conduct re-inspections of commercial accounts as necessary, identify any additional fixtures found, and charge and collect any applicable capacity fees as appropriate.*

DUSWM Response: Agree.

Of the 37 accounts identified during IIAA testing, 25 needed to have follow-up inspections performed. Of the 25, to date, 19 follow-up inspections have been performed. Reconciliation of the data is underway and any requests for payments will be mailed by December 31, 2011.

	Goal
DUSWM to complete re-inspections of the 37:	November 10, 2011
Complete re-inspections of other accounts:	ONGOING

POLICIES AND PROCEDURES FOR ENSURING INSPECTOR INDEPENDENCE NEED STRENGTHENING

Recommendation 5: *Notify Payroll of those positions performing fixtures count inspections requiring annual financial disclosure statements.*

Commercial Water and Sewer Capacity Fees

Richard A. Kaplan, CIA, Director
 RE: Frederick County Interagency Internal Audit Authority
 Commercial Water and Sewer Capacity Fees
 October 26, 2011

Page 3 of 6

DUSWM Response: Agree.

	Goal
DUSWM to review position titles performing inspections and report same to payroll to ensure that they are identified for purposes of completing the annual ethics paperwork:	November 30, 2011
With assistance of the Office of the County Attorney, develop a <i>Statement of Independence</i> to be executed by all positions identified above:	February 1, 2012

Once Payroll and the Office of the County Attorney are notified of those positions subject to County's Ethics Ordinance, completion of the annual financial disclosure statements will be required by the appropriate staff, and will be their individual responsibility. For each staff member that has been identified a simple form will be created that establishes reasonable independence performed during fixture count inspections. This form will be executed and maintained in the department's personnel file. For example, if the inspection involved property ownership that turned out to be a direct relative (e.g., blood, marriage, etc.) then an alternative inspector would need to perform the duties. This is only one scenario, but illustrates the need to properly analyze and obtain guidance from the Office of the County Attorney as to what constitutes reasonable independence to address this recommendation.

DOCUMENTATION AND APPROVAL OF WHY ADDITIONAL FIXTURES WERE NOT CHARGED FOR OLDER COMMERCIAL ACCOUNTS ARE NEEDED

Recommendation 6: Document the rationale and management approval when DUSWM decides not to charge older commercial accounts for additional fixtures identified during re-inspection.

DUSWM Response: Agree and already implemented. Decisions are made based on a case-by-case review of each account and documentation placed in the file. In an attempt to make the procedure more efficient, a policy is being developed to provide initial guidance on what fixtures may be exempt from collection and under what conditions.

Similar to Recommendation No. 1, these policies must consider numerous issues associated with re-inspections. Specifically, how long has the property been connected to public water and/or sewer? For example, properties in the Walkersville area may have been connected in the late 1960's or early 1970's and when a re-inspection is conducted, more often than not, the waste fixture count does not match what is contained in the file. This is true for almost any, older non-residential, customer that has remained essentially unchanged since 2001. The *draft* policy may prompt appropriate changes to the *Water and Sewer Rules and Regulations*, which would be subject to Board of County Commissioner approval through a public hearing process. While very cognizant of the BOCC's desire to be business friendly, in crafting a policy, great care must be taken should amnesty toward payment of capacity fees be considered. It is

Commercial Water and Sewer Capacity Fees

Richard A. Kaplan, CIA, Director
RE: Frederick County Interagency Internal Audit Authority
Commercial Water and Sewer Capacity Fees
October 28, 2011

Page 4 of 6

imperative that clear guidelines are established to ensure fairness, but at the same time, recognizing that the equitable payment of capacity fees is necessary to ensure the Water and Sewer Enterprise fund is recovering its costs for making significant infrastructure improvements that are growth-related.

	Goal
DUSWM to draft written policies by:	February 1, 2012
Implement policies by:	March 1, 2012 ¹ (dependent on authority level deemed appropriate)

Recommendation 7: *Notify the customer in writing whenever a re-inspection results in a change to the commercial account's base fixture count.*

DUSWM Response: Agree. Previously DUSWM only contacted the owner when the re-inspection resulted in the need to pay additional capacity fees. Letters are currently being provided to ALL property owners, noting the results of the re-inspection for accounts.

It is conceivable that policies resulting from Recommendation No. 6 may entail standard forms whereby the customer (property owner) is required to acknowledge a revised "base" fixture count, but that going forward from the date of inspection, all new fixtures (or a change in property use) may result in the payment of additional capacity fees. It is important to note that these policies will be complicated by the property owner/tenant relationship, which DUSWM has no control over. For example, there are numerous instances where the property owner does not pay the water and/or sewer capacity fees, but makes a prospective tenant responsible for same. As a practical matter, defining who the customer may be and then, more importantly, who then pays the fees may complicate the implementation of the policy.²

DUTIES OVER THE COLLECTION AND DEPOSIT OF CASH FEES SHOULD BE SEGREGATED

Recommendation 8: *Establish procedures to segregate the collection and preparation of the deposit duties for all DUSWM fees that are paid in cash.*

DUSWM Response: Agree with the concept. With only one Collection Specialist on staff it is more difficult to perfectly segregate these functions without adding staff. DUSWM will review the job descriptions of other employees in the department to identify a position that may allow for this segregation of duties on a daily basis. In the meantime, the supervisor will spot check deposits to assure proper handling of the cash.

¹ If the policies require BOCC approval, changes to the *Water and Sewer Rules and Regulations* would be adopted via a public hearing process and may coincide with other changes needed to the *Rules and Regulations*.

² Previous direction received from the Office of the County Attorney, was that the property owner was DUSWM's customer, i.e., the only entity with which we have any relationship. For example, the owner may have a tenant make the payment on their behalf, as with water bills; however, the owner is the ultimate responsible party.

Commercial Water and Sewer Capacity Fees

Richard A. Kaplan, CIA, Director
 RE: Frederick County Interagency Internal Audit Authority
 Commercial Water and Sewer Capacity Fees
 October 28, 2011

Page 5 of 6

	Goal
DUSWM to review job duties to identify position to handle the deposit duties:	December 31, 2011

A MEMORANDUM OF UNDERSTANDING BETWEEN THE COUNTY AND THE CITY OF FREDERICK REGARDING SEWER CAPACITY FEES NEEDS TO BE ESTABLISHED

Recommendation 9: Develop a MOU with the City of Frederick that represents the current sewer capacity fee process and clearly identifies the responsibilities of each party.

DUSWM Response: Agree. The terms the MOU and the workload of City personnel and the Office of the County Attorney to dedicate resources to this effort are not within the control of DUSWM. Therefore, it is important to recognize that the dates (goals) outlined as follows are heavily dependent on how formal the MOU needs to be and what the approval process could entail.

	Goal
DUSWM to schedule a meeting with appropriate City of Frederick personnel to discuss a framework of a MOU to address concerns:	January 2012
DUSWM and Office of the County Attorney to draft MOU:	April 2012
Present DRAFT MOU to City for review and discuss at a joint BOCC/City (Municipal) Meeting:	May 2012
BOCC approval of MOU:	July 2012
Implement policies contemplated by the MOU:	August 2012

CERTAIN CAPACITY FEE CALCULATIONS SHOULD BE AUTOMATED

Recommendation 10: Work with IIT to program Hansen to correctly calculate and charge fees for new commercial accounts in accordance with the DUSWM Water and Sewer Rules and Regulations.

DUSWM Response: Agree. IIT, as being the primary external resource for this recommendation, will need to evaluate how this fits within their overall priorities for implementation. Additionally, with respect to the Community Development Division (CDD), certain procedures and requirements associated with permit applications may need to be modified to ensure these calculations occur sooner, rather than later, in the process.

	Goal
DUSWM to meet with IIT and Community Development Division (CDD) to discuss processes/additional resources that will be required to implement this recommendation (in addition to Recommendations No. 11 & 12 --- see below):	December 31, 2011
Implement programming (Hansen) changes:	Dependent on IIT priorities

Commercial Water and Sewer Capacity Fees

Richard A. Kaplan, CIA, Director
 RE: Frederick County Interagency Internal Audit Authority
 Commercial Water and Sewer Capacity Fees
 October 28, 2011

Page 6 of 6

Recommendation 11: *Work with IIT to evaluate the cost effectiveness of automating the capacity adjustment factor field in Hansen.*

DUSWM Response: Agree. Similar to Recommendation No. 10 (above), IIT, as being the primary external resource for this recommendation, will need to evaluate how this fits within their overall priorities for implementation.

	Goal
DUSWM to meet with IIT and Community Development Division (CDD) to discuss processes/additional resources that will be required to implement this recommendation (in addition to Recommendations No. 10 & 12):	December 31, 2011
Implement programming (Hansen) changes:	Dependent on IIT priorities

DUSWM NEEDS TO BE INVOLVED IN THE STAND ALONE PLUMBING PERMIT PROCESS

Recommendation 12: *Develop a procedure, in conjunction with CDD, for identifying stand alone plumbing permits for commercial accounts and ensuring that water and sewer capacity fees have been paid prior to the issuance of the plumbing permit.*

DUSWM Response: Agree. With respect to the Community Development Division (CDD), certain procedures and requirements associated with permit applications may need to be modified to ensure these calculations occur sooner, rather than later, in the process. Additionally, certain CDD initiatives with respect to having aspects of the permitting process to be more business friendly may be affected. For example, mindful of these initiatives, CDD's effort to expedite issuance of certain permits is *reducing* the number of reviewing agencies. Therefore, this particular recommendation would require that DUSWM be added to stand-alone plumbing permits, that contradicts CDD's intention.

	Goal
DUSWM to meet with IIT and Community Development Division (CDD) to discuss processes/additional resources that will be required to implement this recommendation (in addition to Recommendations No. 10 & 11):	December 31, 2011
Implement programming (Hansen) and policy changes:	Dependent on IIT priorities