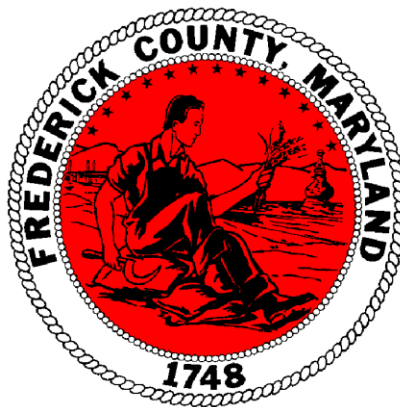
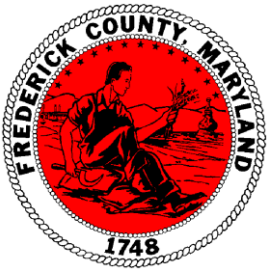


**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FOLLOW-UP TO REPORT #12-06
FREDERICK COUNTY
DUSWM COMMERCIAL WATER AND SEWER
CAPACITY FEES**

**REPORT #13-01
SEPTEMBER 19, 2012**





**INTERAGENCY INTERNAL AUDIT AUTHORITY
INTERNAL AUDIT DIVISION
FREDERICK COUNTY, MARYLAND**

COUNTY GOVERNMENT PUBLIC SCHOOLS COMMUNITY COLLEGE
12 E. Church Street • Frederick, Maryland 21701
301-600-1154 • FAX 301-600-2211 • TTY Use Maryland Relay
www.FrederickCountyMD.gov

MEMORANDUM

COMMISSIONERS

Blaine R. Young
President

C. Paul Smith
Vice President

Billy Shreve

David P. Gray

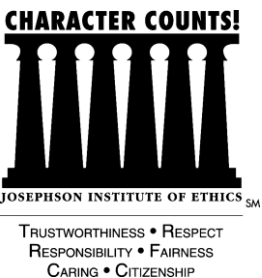
Kirby Delauter

COUNTY MANAGER

David B. Dunn

CAE/DIRECTOR

Richard A. Kaplan



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www.charactercounts.org

To: Kevin L. Demosky
Director of Utilities and Solid Waste Management (DUSWM)

From: Richard A. Kaplan
Director, Internal Audit Division

Date: September 19, 2012

Subject: Follow-Up Review of Report #12-06
Commercial Water and Sewer Capacity Fees

We have completed our follow-up review of the recommendations from Report No. 12-06, issued on November 16, 2011. The work performed in this review did not constitute an audit that would have required compliance with *Government Auditing Standards*.

We reviewed your August 28, 2011 memo and attachments (see attached) regarding implementation of the 12 recommendations contained in our report. We also reviewed a copy of the re-inspection tracking spreadsheet and evidence of the fee charging enhancements in Hansen subsequently provided. The written policy for the re-inspection of fixture unit counts, the re-inspection tracking spreadsheet, the daily confirmation of the cash deposit of DUSWM fees by someone other than the main cashier, and the fee charging enhancements in Hansen have strengthened internal controls over the commercial water and sewer capacity fee charging process. In addition, DUSWM re-inspected 25 commercial accounts as a result of our audit and collected \$35,421 from 3 commercial accounts for additional fixtures. We consider all recommendations, except Recommendations 5 and 9, closed.

Regarding Recommendation 5, you informed me that DUSWM's proposed *Statement of Independence* is expected to be drafted with the assistance of the County Attorney's Office and completed by December 31, 2012. Regarding Recommendation 9, you informed me that a MOU with the City of Frederick that describes the current sewer capacity fee process and responsibilities of each party is expected to be completed by June 1, 2013. These recommendations will remain open until they have been implemented. When these recommendations

have been fully implemented, please provide us copies of supporting documents so that we can close them.

If you need further information regarding this follow-up, please contact me at (301) 600-1675.

Interagency Internal Audit Authority

Interagency Internal Audit Authority

Attachments

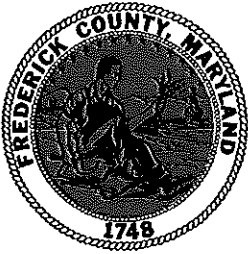
pc: BoCC

David Dunn, County Manager

Brenda Teach, Accounting Team Leader, DUSWM

Lauren Englar, Utility Support Technician, DUSWM

Kelly Hammond, Senior Auditor II



UTILITIES AND SOLID WASTE MANAGEMENT DIVISION
FREDERICK COUNTY, MARYLAND

Office of Accounting and Finance Support

4520 Metropolitan Court • Frederick, Maryland 21704
 (301) 600-2354 • FAX (301) 600-2998 • TTY: Use Maryland Relay
www.FrederickCountyMD.Gov

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David B. Dunn

UTILITIES AND SOLID
 WASTE MANAGEMENT
 DIVISION

Kevin L. Demosky
Division Director

OFFICE OF
 ACCOUNTING AND
 FINANCE SUPPORT

Brenda K. Teach
Team Leader

CHARACTER COUNTS!



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MEMORANDUM

TO: Richard A. Kaplan, Director, Internal Audit

THRU: Kevin L. Demosky, Director, Division of Utilities and Solid Waste Management (DUSWM)

FROM: Brenda Teach, Team Leader, DUSWM Office of Accounting and Finance Support

DATE: August 28, 2012

RE: **Status of Audit Recommendations**
Report #12-06 Commercial Water and Sewer Capacity Fees

Per your request, below please find an update on each of the responses to the recommendations since the initial October 28, 2011 memorandum.

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.

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.

To address each of the items listed above, DUSWM created a Capacity Fee/Fixture Count Reconciliation Policy, dated June 22, 2012. The Policy provides written confirmation of the documentation and timing of fixture unit counts and the administrative handling of the counts, including notifications both to the customer and the file. Status of the accounts is tracked in an Excel spreadsheet residing on the Division's share drive for continuous update and review. All accounts listed in the original audit have been reconciled and a copy of results is included in this report.

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

The position of Industrial/Commercial Inspector is now required to complete an Annual Financial Disclosure Statement. No action yet undertaken on DUSWM's proposed *Statement of Independence*, which is to be drafted with the assistance of the County Attorney's office.

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

A review of procedures and discussion with the Treasurer's office led to a new procedure whereby the cash deposit is confirmed by someone other than the main cashier for the day. This second person initials off on the deposit and confirms the drawer's cash balance at the end of each day. Though this does not fully segregate the duties, it provides an independent count at the end of each day. [Note: In addition, Accounting reconciles daily deposit amounts back to both the source document(s) and the bank.]

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.

No action yet undertaken on this recommendation.

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.

For the two recommendations above, IIT has completed the required "trigger" to calculate the fixture fees, based on whether the first ten (10) units need to be charged at full or weighted values. Also, the Capacity Adjustment Factor has been added as a field, which will automatically calculate the fees, using the appropriate weighting factor.

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 met with staff from the Community Development Division (CDD) regarding this recommendation. Currently DUSWM runs a copy of the report of Final Plumbing Permits and schedules its fixture count inspection as close to the same time as the plumbing permit was issued. CDD was reluctant to withhold the issuance of the plumbing permit pending additional capacity fee payment; however, being aware of when the permit was issued is expected to reasonably allow DUSWM to follow up with an on-site visit in a timelier manner.

Attachments: Update of list of 25 properties not counted since 2001
Capacity Fee/Fixture Count Reconciliation Policy, dated 6/22/2012

25 Properties in Internal Audit's Sample that were determined not to be inspected since 2001:

Property Tax ID	Property Name	Fixture units billed	Fixture units paid	Comments as of 08-27-2012
1 01-000152	EASTALCO (Taps 4 plant)			Not counted due to closure and pending demolition of building
2 01-0211168	DUSWM Admin Bldg			241 fixtures units (we don't charge ourselves)
3 01-026763	Brewery Building LLC			416 orig paid for. 430 installed. They paid add's fu's based on flow
4 02-135213	Rentals Unlimited			No additional fixture units found. Count was 55
5 02-176025	Aushman Office Building	\$13,539.50	\$13,539.50	\$13,539.50 add'l fu fees for 85 fu's invoiced. Paid 6-19-12 as part of tax sale
6 02-227398	Latter Day Saints			23 fixtures units credit (paid for condensation drains that are actually connected to storm water system, not sanitary)
7 07-244185	Urbana Dental Group LLC			No additional fixture units found. count was 55
8 09-231471	Grange Hall Antiques			Residential use for all fixtures- No count needed.
9 09-231935	The Founders House Inn	\$12,689.96	\$12,689.96	\$12,689.96 add'l 67 fu fees (77 counted, 10 paid) Balance paid 11-29-11
10 09-239944	Racine			Residential use for all fixtures- No count needed.
11 09-241884	SHOOK			Residential use for all fixtures- No count needed.
12 09-249680	PISCOPO			Residential use for all fixtures- No count needed.
13 09-254188	Shaw			Residential use for all fixtures- No count needed.
14 09-257004	Connollys Antiques			Residential use for all fixtures- No count needed.
15 09-260862	Caulfield			Residential use for all fixtures- No count needed.
16 09-262415	Wood			Residential use for all fixtures- No count needed.
17 09-298916	Theresa's Hair Design - Residential			Residential use for all fixtures- No count needed.
18 14-307257	Briercrest Apartments			254 fu counted/ 240 paid apts built in 1993 (grandfathered in, no charge)
19 14-308296	Jefferson Apartments			No additional fixture units found. count was 60
20 14-314997	Walter King			parking lot only. No fixtures to count
21 24-444171	My Red Bow			Property owner removed apartment.count now 22 - all paid for.
22 25-472861	Smith			Residential use for all fixtures- No count needed.
23 26-435455	Walkersville Exxon			Did not count, property abandoned, no access to count
24 26-487382	Children's Park (Creamery Park)	\$9,192.00	\$9,192.00	\$10,167.90 add's 29 fu's counted, billed Dec 2011. Discussions between the Burgess and Mike Marschner - new fee is \$9,192 - rebilled July 2012. Paid 7/12/2012
25 28-538693	Admar Construction			No additional fixtures found. 142 paid for, 81 installed at this time.

FREDERICK COUNTY Division of Utilities and Solid Waste Capacity Fee/Fixture Count Reconciliation Policy

BACKGROUND: As part of the Interagency Internal Audit Authority *Frederick County Government Commercial Water and Sewer Capacity Fees (Report #12-06, dated November 16, 2011)*, it was determined there was no written policy related to the reconciliation of paid versus unpaid fixture units found installed at a property.

AUTHORITY: Capacity fees are charged in accordance with the *Frederick County, Maryland Water and Sewer Rules and Regulations (last amended 5/18/2010)*.

POLICY:

For properties that have not been counted in the last 10 years

Priority – VERY HIGH

Required Field Documentation: Schedule an on-site (“live”) waste fixture count. Perform thorough count of waste fixtures at the property. Have the property owner (or other representative) escort County staff member(s) during the count to assure access to all areas of the building(s). Have the escort (or other representative of the owner) sign the fixture count sheets as acknowledgement that the all areas with plumbing were disclosed and counted. Document waste fixtures installed with annotated photos. Also include any notations, drawings, overall photos, etc., that will assure a complete file. Provide completed file of all items to the Utility Analyst within 10 working days.

Required Office Documentation: Confirm through all available sources the number of paid fixture units. Adjust paid fixture count for any changes in fixture values. Grandfather the total of all fixtures that may exceed the adjusted paid count to match those found as installed during the on-site live count. Document all such adjustments for the file. This becomes the new basis for future adjustments to the account, service charges if the account is a sewer-only customer, or use in any reporting in which fixture units are involved. Provide a letter to property owner identifying the process for determining the fixture count now recognized by the Division. Affirm that any additional fixtures installed after the date of the letter (with or without proper permits) will be charged at the prevailing rates. Request that they sign and return a copy of the letter, acknowledging receipt of the notice.

For properties that have not been counted in the last 5 to 10 years

Priority –HIGH

Required Field Documentation: Schedule an on-site (“live”) waste fixture count. Perform thorough count of waste fixtures at the property. Have the property owner (or other representative) escort County staff member(s) during the count to assure access to all areas of the building(s). Have the escort (or other representative of the owner) sign the fixture count sheets as acknowledgement that the all

areas with plumbing were disclosed and counted. Document waste fixtures installed with annotated photos. Also include any notations, drawings, overall photos, etc., that will assure a complete file. Provide completed file of all items to the Utility Analyst within 10 working days.

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For properties that have not been counted in the last 3 to 5 years-

Priority –MEDIUM HIGH

Required Field Documentation: Schedule an on-site ("live") waste fixture count. Perform thorough count of waste fixtures at the property. Have the property owner (or other representative) escort County staff member(s) during the count to assure access to all areas of the building(s). Have the escort (or other representative of the owner) sign the fixture count sheets as acknowledgement that the all areas with plumbing were disclosed and counted. Document waste fixtures installed with annotated photos. Also include any notations, drawings, overall photos, etc., that will assure a complete file. Provide completed file of all items to the Utility Analyst within 10 working days.

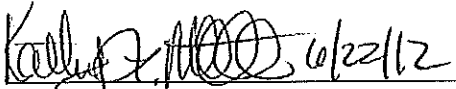
Required Office Documentation: Confirm through all available sources the number of paid fixture units. Adjust paid fixture count for any changes in fixture values. Any discrepancies that are identified as being related to the difference in a 2-inch vs. 3-inch drains will be grandfathered along with fixtures related to the characterization of certain sink types (e.g., kitchen vs. service vs. pot sink vs. classroom). Other fixtures may be grandfathered at the sole discretion of the Division; document all such items and adjustments for the file. Search for any building and/or plumbing permits issued by the County through research of the "legacy" or Hansen permitting systems. Provide a letter to the property owner identifying any fixtures that were installed without the proper payments. Provide the property owner a thirty (30) day period in which to provide additional receipts, remove fixtures or make payment. If no action occurs within the noted time frame, work with the billing supervisor to have the unpaid amount added to the water/sewer account and a bill issued for the amount due. If fixtures are removed, have the inspector (Industrial/commercial from Regulatory Compliance) schedule a follow-up visit to document all changes. This new fixture count becomes the new basis for future adjustments to the account, service charges (if the account is a sewer-only customer), or use in any reporting in which fixture units are involved. Provide a letter to the property owner identifying the process for determining the fixture count now recognized by the Division. Affirm that any additional fixtures installed after the date of the letter (with or without proper permits) will be charged at the prevailing rates. Request that they sign and return a copy of the letter, acknowledging receipt of the notice.

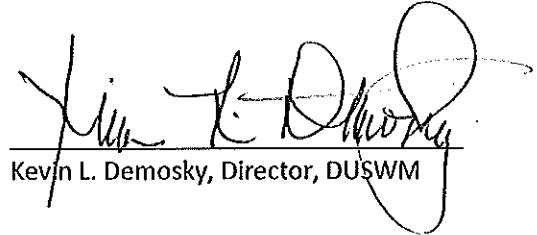
For accounts that have not been counted in the last 0 to 3 years-

Priority - AS NEEDED

On-site ("live") waste fixture count will be initiated only if required in conjunction with a permit application or other inquiry. At that point the priority becomes VERY HIGH so that the issuance of the permit is not unnecessarily delayed. Follow all documentation requirements noted above. Provide completed file of all items to the Utility Analyst in a timely manner.

The last count date will be monitored so that once the interval is approaching three (3) years an on-site count can be scheduled following the requirements noted above.


Approved for legal sufficiency


Kevin L. Demosky, Director, DUSWM

Date of Formal Adoption 6/22/2012