

**STATE OF NEW JERSEY
OFFICE OF THE STATE COMPTROLLER**

CITY OF CAMDEN

**A PERFORMANCE AUDIT OF
THE MANAGEMENT SERVICES AGREEMENT FOR THE
CITY OF CAMDEN'S WATER AND WASTEWATER
COLLECTION SYSTEMS**

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BACKGROUND

In 1994, the City of Camden (the City), in conjunction with the New Jersey Department of Environmental Protection (DEP), commissioned a water management study. The study recommended that the City consider privatizing its water system to improve efficiency.

The City ultimately entered into an agreement (the Contract) with United Water, LLC (formerly U.S. Water) for the operation, maintenance and repair of the City's water supply and wastewater collection systems. The Contract term spans a period of 20 years commencing February 1, 1999 and ending January 31, 2019. Under the Contract, United Water, LLC (UW) is responsible for water and wastewater billings, collections and customer service. The City is responsible for all water and wastewater capital improvements. The City is also responsible for the accounting and financial reporting of water and wastewater operations. At the end of the Contract term, the City will retake possession of all water and wastewater operations and system assets revert back to the City.

UW provides water and wastewater services to a number of communities in New Jersey either through public-private partnerships or through owning and operating regulated utilities. In public-private partnerships, the locality usually retains ownership of the utility and associated resources while the private company operates the utility. In addition to its public-private partnership with Camden, UW has similar municipal agreements with Allamuchy, Bedminster, Hoboken, Jersey City, Kearny, Manchester, Orange, Rahway, and Spotswood. In addition, UW has two corporate affiliates that own utilities: UW New Jersey and UW Toms River. UW New Jersey serves 60 municipalities in Bergen and Hudson Counties, as well as other municipalities in Hunterdon, Sussex, Morris, and Passaic Counties. UW Toms River serves communities in Dover, South Toms River and Berkeley.

The Contract requires payment of an annual service fee by the City to UW that will total nearly \$178 million over the 20-year Contract term. In turn, UW is required to pay an annual concession fee to the City over the life of the Contract. This concession fee was \$500,000 in 1999 and increases by 3 percent each year for a total of \$13.4 million over the life of the Contract.

Pursuant to the Contract, \$75.5 million of the annual service fee was required to be paid by the City as of December 31, 2008. However, payments totaling \$83.8 million were made to UW through the aforementioned period. The \$8.3 million increase was the result of pass-through charges, which are miscellaneous costs charged by UW and paid by the City in excess of the annual service fee.

Since September 16, 2002, the City has been under the control of the State in accordance with the Municipal Rehabilitation and Economic Recovery Act, N.J.S.A. 52:27BBB-1 et seq. (the Act), which provides for the appointment of a Chief Operating Officer (COO) by the Governor. The State oversight commenced in September 2002 for a five-year term and was then extended for another five years until 2012. In accordance with the Act, the COO is responsible for carrying out and supervising the maintenance and rehabilitation of the City. The COO is granted the power to propose rules, resolutions and policies, administer the various local government ordinances, negotiate and execute financial agreements and exercise veto power over City Council actions. The City of Camden is the only municipality in New Jersey under the control of the State pursuant to the Act.

In fiscal year 2008, the City received approximately \$125 million in State aid, including \$62 million in Special Municipal Aid.

Among other factors, we initiated this audit as a result of the New Jersey Department of the Treasury's request that we perform an independent audit to determine whether UW and the City have complied with the requirements prescribed by the Contract.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to evaluate the effectiveness of the City's system of internal control over Contract-related operations, and to assess the extent to which contractual obligations were being satisfactorily discharged for the period February 1, 1999 through September 28, 2009. Specifically, we evaluated:

1. compliance with contract deliverables;
2. the accounts receivable process for water and wastewater services;
3. charges by and payments to UW; and
4. the City's oversight of the water and wastewater operations.

This audit was performed in accordance with the State Comptroller's authority set forth in N.J.S.A. 52:15C-1 et seq. We conducted our audit in accordance with generally accepted government auditing standards applicable to performance audits. 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As part of our audit procedures, we reviewed the Contract, applicable statutes, administrative code provisions, and City and UW policies and procedures regarding water and wastewater operations. We also interviewed City and UW personnel to obtain an understanding of their job responsibilities and system of internal control, including the manner in which the City is managing and overseeing the water and wastewater operations. We reviewed selected financial data concerning UW's Camden operations and City water and wastewater funds, including revenues and expenditures, water and sewer service rates, accounts receivable, billings to customers, and collection results.

We used data provided by the City and UW to examine all payments the City made to UW, and to perform detailed testing of pass-through charges and disputed charges. We also tested the City's water and wastewater assets to ensure their existence and proper recording.

As part of our audit, we also engaged two specialists from DEP to inspect and evaluate selected assets, operations, and policies of the City's water and wastewater operations.

SUMMARY OF AUDIT RESULTS

Our audit found that the City has not exercised adequate oversight of the Contract. In addition, UW has not adequately operated the City's water and wastewater systems. Key personnel within the City are not familiar with important Contract provisions, resulting in a loss of revenue and additional costs to the City, as well as potential health and safety risks to City residents. Since the City will retake possession of all system assets at the expiration of the Contract, it is critical that the City ensures that UW maintains the systems in good working order.

Some of the specific deficiencies we found include:

- Lack of water production monitoring by UW has caused the City to have an unaccounted for water loss percentage comparable to that of developing countries. Specifically, we found that water loss in the City averaged approximately 45 percent for the years 2004 through 2008. Based on our analysis, if UW limited water loss to 10 percent, as required by the Contract, it could generate additional annual revenue of approximately \$1.7 million for the City, and reduce costs associated with operating the system.
- The City does not effectively manage its payment of pass-through charges to UW. We reviewed 64 payments totaling \$8.3 million that were billed to the City as pass-through charges. In many instances, such charges were paid without having adequate supporting documentation and without determining if the charges were permissible under the terms of the Contract. In addition, the City paid UW \$3.8 million in such pass-through charges without the required City approvals. Further, UW assessed administrative fees ranging between 9 and 12.5 percent of the invoice total, totaling \$286,740, that were paid by the City for work performed by UW's subcontractors. Such fees are not authorized by the Contract.

- UW subcontracted and billed the City for \$4.3 million in services not included in the annual service fee. UW did not competitively procure these services, as required by the Contract.
- The City paid UW approximately \$2.2 million, including an administrative fee of 25.95 percent, for increased costs associated with a proposed Contract amendment that was never approved by the City.
- Inadequate system maintenance for assets such as water storage tanks, fire hydrants and well-casing vents poses potential health and safety risks to City residents.
- UW does not have a comprehensive maintenance management system and cannot provide cost information, model numbers, warranty information, or maintenance activity for approximately 28,000 system assets (e.g., water mains, hydrants) valued by the City's external auditor at \$58 million as of June 30, 2008. The City's Finance Department was similarly unable to provide a listing of the water and wastewater fixed assets, and the City's Tax Assessor could only provide a listing that contained such assets totaling \$150,000, which is less than one half of one percent of the total value of the City's system assets. Consequently, the City has no assurance that these assets for which the City has paid are being used for City operations or actually exist.
- UW does not have adequate procedures to perform and monitor meter calibrations to ensure accurate usage readings are being recorded and reliable billings are being generated. As a result, the City, in 2008, wrote-off over \$1 million in water charges that were billed to the Riverfront State Prison, Camden County Correctional Facility, and Camden Housing Authority but could not be substantiated.

- The City is disputing charges totaling \$3.2 million that UW assessed based on proposed Contract amendments which were never accepted by the City. Our audit revealed certain facts that bear upon the proposed amendments. For example:
 - UW proposed an increase of approximately \$243,000 per year because of increased labor charges. However, we found that UW has actually decreased its total labor force by 10 employees (or 20 percent) since inception of the Contract, which should have resulted in cost savings for the City.
 - UW proposed additional annual charges of approximately \$75,000 for labor to establish and maintain a Geographic Information System even though such labor is a requirement of the Contract and already included within the annual service fee.
- The City did not increase its water and wastewater service rates for over ten years. As a result, in the City's fiscal year (FY) 2008, the City's water and wastewater funds required a net contribution of nearly \$2.3 million from the City's general fund to cover operating expenses. A 2009 rate increase to offset a projected water and wastewater operating deficit of \$41 million for the years 2009 through 2013 should avert further contributions from the City's general fund.
- The lack of adequate collection efforts by UW and the lack of a water shut-off program by the City for nonpayment of bills has resulted in \$4.5 million (or 70 percent) of total accounts receivable as of January 1, 2009, having uncollected balances greater than 90 days old.
- UW's accounts receivable reports lack critical information concerning customers' names and addresses, rendering collection difficult. Moreover, UW did not refund approximately \$555,000 in credits owed to City customers.

- UW does not maintain accurate lists of properties with municipal liens resulting from unpaid bills. In 2003, the City relied on one such list and inappropriately sold seven liens. The City then had to repurchase those liens at an additional cost of \$71,658 in interest.

We also found numerous internal control weaknesses within the City resulting from management turnover, reliance on State financial support and fragmentation among City management, the City Council and the COO.

We make 23 recommendations to improve the City's monitoring of Contract deliverables, billings and collections, and UW's performance.

AUDIT FINDINGS AND RECOMMENDATIONS

Contract Deliverables

UW is not providing services as prescribed by the Contract. As a result, operations and long-term sustainability of the City's water and wastewater systems are jeopardized.

The Contract requires UW to perform certain operational and maintenance activities and prepare detailed reports regarding such activities. Based on our review of UW's compliance with specific Contract provisions, we conclude that UW has not delivered services in accordance with several of those provisions.

Maintenance Management System

The Contract requires that UW develop, implement and maintain a comprehensive, computer-based maintenance management program for all components of the City's water and wastewater systems. To accomplish this, UW records fixed assets of the water and wastewater systems using four computerized systems:

- DataStream 7i (7i), a computerized maintenance management system (CMMS) intended to contain all water and wastewater system assets;
- Hiperweb, also a CMMS, intended to ultimately replace 7i;
- WINS, a customer service system used to generate work orders relating to customer complaints; and
- ArcGIS, a Geographic Information System (GIS) used to map the location of water and wastewater assets.

We found that UW is not effectively accounting for the City's water and wastewater system assets. As a result, required maintenance activity is not being performed, as discussed later in this report.

The 7i and Hiperweb systems are specifically designed to track all of the fixed assets contained within the water and wastewater systems. However, UW is not using the systems as intended, and therefore is not maintaining a comprehensive asset maintenance management program, as required by the Contract. While some fixed assets are recorded on the 7i and Hiperweb systems, UW is recording other fixed assets (e.g., vehicles) using spreadsheets, while still other fixed assets (e.g., fire hydrants, manholes, pipes, valves and water towers) are recorded only on GIS.

Further, UW does not consistently update the GIS data to reflect all fixed asset additions and deletions. Our review of UW's GIS data indicated that maps prepared in 2004 did not include significant portions of the water and wastewater systems. For example, the City's primary water treatment plant, Morris-Delair, did not appear on the map. UW did not prepare accurate maps until 2007 or approximately eight years after the Contract was executed. Incorrect and incomplete GIS maps may result in the inability to analyze water flow and distribution data and prevent the identification of geographic problem areas within the water and wastewater systems.

Moreover, UW was required to perform a full asset inventory count at the inception of the Contract for assets exceeding \$5,000 and to subsequently maintain all assets on the City's behalf. Our review of UW records concerning approximately 28,400 system assets, most of which were purchased by UW and paid for by the City, indicated:

- 28,400 assets did not reflect cost information or model numbers;
- 28,372 did not reflect any warranty information;
- 27,672 did not have any maintenance activity recorded; and
- 775 did not have an identification number.

In addition, some assets do not have correct installation dates. For example, we found approximately 20 fire hydrants that had "1950-2008" entered as the installation date.

Since UW does not maintain detailed records that would enable it to locate fixed assets, it is difficult to verify the existence of such assets. For example, when we attempted to physically locate 17 fixed assets maintained by UW (10 from the 7i system and 7 from GIS), we were unable to locate any of the 10 assets from the 7i system and 5 of the 7 from GIS. These assets included pumps, valves and hydrants. Consequently, the City has no assurance that system assets purportedly purchased by UW and paid for by the City are actually being used for City operations or even exist.

Meter Calibration

The Contract required that all industrial and commercial meters older than two years of age at the start of the Contract be tested by UW within one year of Contract commencement. In addition, UW is required to develop a program to ensure that industrial and commercial meters are calibrated at least once every five years.

To determine if UW is properly calibrating meters, we tested 30 meters. Fifteen of these meters were installed in 1998 and therefore should have been calibrated no later than 2003, and again in 2008. The remaining 15 meters were installed during 2003 and therefore should have been calibrated no later than 2008. UW's records indicated that none of the 30 meters had been calibrated within the past 10 years. When we asked UW about these 30 meters, UW explained that they did not calibrate these and approximately 300 other meters in anticipation of the City purchasing new meters in 2004. As of June 2009, none of the 330 meters had been replaced.

UW's failure to perform meter calibrations can result in inaccurate readings, which leads to the assessment of incorrect water usage charges. As a result of incorrect rates, inaccurate estimates, and unreliable meter readings, the City wrote-off over \$1 million during 2008 in water charges, including interest and penalties, incurred by the Riverfront State Prison, Camden County Correctional Facility, and the Camden Housing Authority.

Point of Entry Cleaning

The Contract also requires UW to clean all catch basins, which are commonly referred to as storm inlets, at least once every three years. Obstructed catch basins may result in street flooding.

We found that UW does not maintain adequate documentation supporting the cleaning of storm inlets. To test for proper cleaning, we requested work orders for ten storm inlets. UW could not provide work orders for four of the ten inlets. Therefore there was no evidence that those four inlets had been cleaned. The work orders for the remaining six inlets did not identify the specific inlets we sampled. Instead, the work orders listed only a street name, which was insufficient for us to conclude whether the specific inlet was actually cleaned. In response to our inquiries about the six inlets, UW management stated that the specific information we requested may not be documented on a particular work order. In short, the City has no way of knowing whether any of the required cleaning is actually taking place.

Well Maintenance

The Contract requires UW to monitor, operate and maintain all wells in accordance with State regulations. As part of our audit procedures, we asked DEP to conduct a physical inspection of several such wells. The results indicated poor maintenance at the well head, a structure built over a well to prevent the well and the water supply from being contaminated.

In addition, some well casing vents were either broken or not properly screened and air vacuum relief vents were also not properly screened. Such screens protect against entry of insects, small animals and other contamination which may violate the sanitary integrity of the well. Consequently, UW has not maintained wells adequately, which could lead to damage, additional costs to the City and potential health risks to its residents.

Pressure Filters

At our request, DEP inspected 12 sand/anthracite pressure filters in the Morris-Delair Water Treatment Plant. Such filters remove iron and manganese from water. The DEP inspection found that the pressure filters were losing their effectiveness. Professional literature recommends that pressure filters be inspected at least once every year and core media sampling (a procedure used to evaluate the condition of the water filter) be performed at least once every five years. When asked by DEP, UW could not provide any records to show that it had conducted filter inspections or performed core media sampling.

Water Storage Tanks

The Contract requires UW to maintain and monitor water storage tanks. According to the American Water Works Association, which establishes industry standards, all water storage tanks should be thoroughly inspected at least once every five years to prevent corrosion and unsanitary conditions. When we asked UW to provide documentation for the water storage tank inspections it conducted, UW could only provide a 2008 system audit report. That report and a subsequent physical inspection by DEP performed at our request indicated various levels of corrosion, paint issues, and vegetation around the base of the tanks. Such corrosion can reduce the thickness of the walls of storage tanks and threaten the sanitary and structural integrity of the storage facility over an extended period of time. In addition, the DEP inspection found an unsecure vent screen and a minor leak in the North Camden tank. The unsecure screen allows for contamination and creates a sanitary hazard. The North Camden tank leak causes water loss and calls into question the sanitary integrity of the facility.

Fire Hydrants

The Contract requires all broken or inoperable fire hydrants to be repaired or replaced immediately. However, the Contract does not clearly assign responsibility of such costs to either party. The City and UW do not agree on who is responsible for the costs associated with replacement of the City's

hydrants. The City Engineer estimates that approximately 20 percent of the City's 1,310 fire hydrants need to be replaced, although it is not clear how many are entirely inoperable. Inoperable or damaged hydrants pose a threat to public safety because fire trucks may not have access to water when needed.

Plans, Programs and Reports

Since 1999, as part of the annual service fee paid by the City, the Contract has required UW to prepare various plans, programs and reports that detail the specific water and wastewater operations and system maintenance to be performed by UW. These plans, programs and reports are critical to ensuring that the water and wastewater systems are operated, maintained and repaired in a manner that facilitates long-term sustainability. Such plans, programs and reports also would enable the City to properly monitor UW's performance and the water and wastewater systems' condition. Further, proper completion of these plans and programs would allow UW and the City to monitor compliance with industry standards and State regulations.

For example, UW is required to prepare and annually update Operations and Maintenance (O&M) Plans for the water, wastewater and billing and collections systems. Our review of the O&M Plans revealed the following:

- The Water System O&M Plan has been updated only twice, in 2003 and in 2009.
- The Wastewater System O&M Plan was not updated in 2000, 2001, 2002, 2004, 2005, 2006, 2007, or 2008.
- The Billing and Collections System O&M Plan was not updated until 2009, after we questioned UW as to its existence.

Furthermore, we found that UW either failed to update or never completed the following required plans, programs and reports.

- The Residual Disposal Plan, which should describe the process for the removal and disposal of waste products generated during water treatment, was never created.

- The Well-Head Protection Plan, which should describe preventative strategies concerning possible water pollution in the area which supplies water to a public well, was never created.
- The UW Partner Training Plan, which should describe training concerning modern process control, equipment operation, repair and maintenance, regulatory requirements and supervisory skills, was never created.
- The Preventative Maintenance Program, which should describe maintenance needed for equipment to extend its useful life and avoid or minimize the consequences of equipment failure, was never created.
- The Valve Exercise Program delineates the process and frequency of testing valves determined to be critical for water system operations. Valves are needed to shut off water when repairing a water main break. Inoperable valves result in additional maintenance and capital improvement costs. UW did not prepare the required program until 2006. The City Engineer informed us that inoperable valves were one reason cited in a 2007 contractor's lawsuit that the City settled for over \$1 million.
- The Information Technology Strategic Plan, which describes all software used for customer service, system operations and maintenance, was not updated as required in 2005 and 2008.

Without these plans, programs and reports, the City cannot properly monitor UW's performance, determine the condition of the City's water and wastewater systems, identify problem areas, or commence the timely initiation of capital improvement projects. UW's failure to adhere to this Contract requirement also increases the risk of non-compliance with industry regulations.

Unaccounted for Water Loss

Unaccounted for water loss is the difference between water produced and water accounted for and is mostly attributable to: leakage, storage overflows, meter inaccuracies and errors in customer billing systems.

Water loss imposes unnecessary costs in production and leads to lost revenue for the City from unaccounted water that is actually consumed. Further, significant water loss is contrary to best practices concerning water conservation. Water loss creates the need to produce more water, which results in increased production and operational costs.

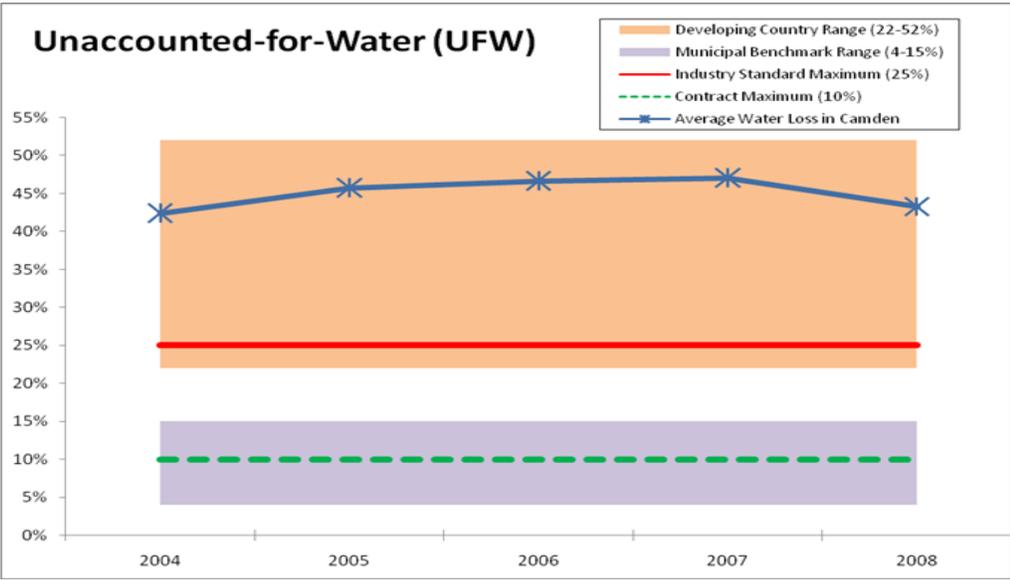
The Contract requires UW to use its best efforts, consistent with industry standards, to meet the unaccounted for water loss standard of less than ten percent.

Our review of unaccounted for water loss (UFW) indicates that UW's water loss in the City far exceeds the Contract standard of ten percent. Specifically, UW's UFW averaged approximately 45 percent for the years 2004 through 2008. That percentage exceeds both the American Water Works Association and National Drinking Water Clearinghouse acceptable ranges of 5-25 percent and 10-15 percent, respectively. A review of municipal UFWs across 28 other states¹ similarly revealed a range of 4 to 15 percent. UW's average UFW of 45 percent is more comparable to that of cities in developing countries according to a 2002 World Bank report.² Figure 1 below compares UW's UFW to relevant benchmarks. In preparing this benchmark analysis, we obtained water production data directly from UW, as well as from water utilization reports submitted to DEP.

¹ Ammons, David N., *Municipal Benchmarks: Assessing Local Performance and Establishing Community Standards* at 446-449 (2001).

² Tynan, Nicola, and Bill Kingdom, *A Water Scorecard: Setting Performance Targets for Water Utilities*, 242 *Public Policy for the Private Sector* at 1-4 (2002). The World Bank Group, *Knowledge Resources for Financial & Private Sector Development* (2002) [Accessed on November 5, 2009. <<http://ru.worldbank.org/PublicPolicyJournal/Summary.aspx?id=242>>].

Figure 1: Unaccounted for Water in Camden 2004-2008



UW’s high UFW may be partly attributable to the age of the City’s water system, inadequate system maintenance and metering and insufficient monitoring of water usage and production. UW was unable to provide documentation showing that it conducts water loss analyses to determine the cause and takes corrective actions.

The magnitude of this water loss represents a significant loss of revenue for the City. If UW were to limit water loss to 10 percent as required by the Contract, in 2008 it would have generated additional annual revenue of approximately \$1.7 million for the City, while lowering UW’s production costs and saving water resources. A less aggressive water loss reduction to 20 or 30 percent would have generated additional annual revenue of approximately \$1.1 million and \$463,000, respectively. The methodology used to calculate the recoverable value of water loss is explained in Appendix A.

Recommendations

1. Ensure that UW implements and maintains a CMMS program for all components of the water and wastewater systems. Specifically, the CMMS should include:
 - All water and wastewater system fixed assets;

- Maintenance activity concerning each asset; and
 - Cost, condition, location, model number and/or identification number, warranty information and installation dates for all system fixed assets.
2. Monitor UW's CMMS and conduct asset reconciliations to ensure proper recording of fixed assets for reporting purposes.
 3. Ensure that UW documents and maintains records of all operational and maintenance activities to allow for proper monitoring of compliance with State and federal regulations as well as the condition of the water and wastewater systems. Specifically, these records should cover:
 - Meter calibration to ensure that all commercial and industrial meters are calibrated at least once every five years.
 - Point-of-Entry cleaning to ensure all catch basins are cleaned once every three years.
 - Well maintenance to ensure adherence to State regulations.
 - Pressure filters to ensure that annual inspections are performed and core media sampling is conducted once every five years to protect the condition of the water filters and protect water quality.
 - Water storage tanks to ensure inspections are performed every five years.
 - Fire hydrants to ensure that all inoperable hydrants are repaired and replaced in a timely manner.
 4. Ensure that UW prepares and implements all plans, programs and reports required by the Contract.
 5. In conjunction with UW, compile information on water production and water usage quarterly in order to calculate water loss. Determine the

cause of the water loss and perform corrective action to the extent possible. Analyze results and apply an adjustment to the annual service fee to reflect any deviation from the Contract.

Billings and Collections

Neither UW nor the City has effective controls over the billing and collection process, resulting in misstatement of accounts receivable and loss of revenue to the City.

Customer Billings

The accounts receivable (A/R) process starts with a claim based on metered water usage leading to a billing, and concludes when money is collected, deposited and credited to the proper account. UW is responsible for billing all customers as well as collecting and depositing all money on behalf of the City. In turn, the City simply records the water revenue based on the billing and collection information prepared by UW. As described below, neither UW nor the City effectively manage the A/R process.

Water and Wastewater Billing Rates

The Contract places the responsibility for setting water rates and charges with the City. According to the Contract, the City is to increase its rates for the supply of water and wastewater services (to the extent permitted by law) to at least cover the Contract's annual service fee.

On April 16, 2009, the City passed an ordinance to increase water and wastewater service rates. On June 9, 2009, this ordinance was amended to apply the rate increases retroactively to January 1, 2009.

Prior to this increase, the City's water and wastewater service rates had not been increased since 1996. In FY 2008, the City's water and wastewater operations required a net contribution of nearly \$2.3 million from the City's general fund to cover operating expenses. Even with that contribution, the City's water and wastewater operations still resulted in a net deficit of \$202,622.

In 2008, the City engaged a consultant to analyze the City's water and wastewater rates. The resulting study projected operating and maintenance

expenses, outstanding debt, planned capital improvement projects, and contributions to reserves for water and wastewater in order to establish a revenue requirement for fiscal years 2009 through 2013. The consultant's findings projected a net operating deficit for water and wastewater operations of approximately \$41 million for the years 2009 through 2013. The rate increase described above should effectively address the projected operating deficit.

Billings and Collections System

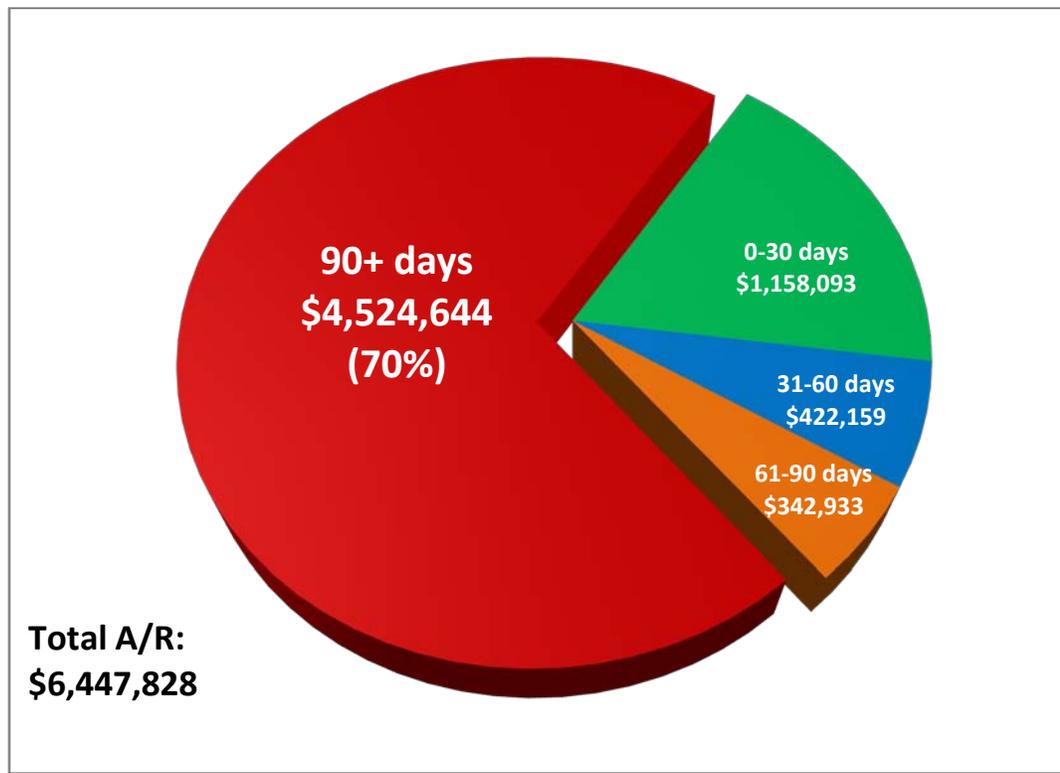
The Contract requires UW to maintain a computerized billings and collections system and customer information system that provide specified data on accounts (e.g., meter size, overdue account status and monthly billing cycles). We found that UW does not have an adequate billings and collections system to account for all customer activity properly. Specifically, our review of UW's billings and collections system revealed the following:

- A/R reports generated by UW do not include service or billing addresses, bill details, or account types (e.g., commercial or residential), which can hinder collections. The lack of sufficient or reliable data can result in erroneous billings and misstated A/R.
- UW did not seek the City's approval to write-off closed accounts. Not writing off such accounts overstates City revenues. There are 794 such accounts, some of which date back to 1999. These accounts have outstanding A/R balances of approximately \$105,000 as of January 1, 2009. Many of the closed accounts had customer names labeled as "General Service," "Hydrant Permit," and "Current Owner."
- Approximately \$555,000 of A/R credits owed to City customers were older than 120 days as of January 1, 2009, of which approximately \$91,000 dates back to 1998. All credit balances owed to City customers should be refunded timely or remitted to the State as abandoned property in accordance with the State's Uniform Unclaimed Property Law.

Accounts Receivable and Collections

As shown in Figure 2, as of January 1, 2009, approximately 70 percent or \$4.5 million of A/R was over 90 days old. This significant amount of uncollected revenue is indicative of considerable problems with the collection of A/R.

Figure 2: A/R as of January 1, 2009 by Number of Days Overdue



A significant factor in UW's inability to collect A/R balances is the fact that up until recently the City did not have a program in place that would enable UW to implement and enforce a water shut-off program as a result of nonpayment, as required by the Contract. On April 28, 2009, the City Council voted against an ordinance that would have allowed the City to implement a water shut-off program that conformed to State laws and regulations. Subsequently, on June 1, 2009, the City's COO vetoed the City Council's vote and adopted the ordinance. The City has indicated that it will begin the water shut-off program in phases, starting with the highest and oldest debts.

Prior to the City's adoption of the water shut-off ordinance, the City's only efforts to collect outstanding A/R were through the sale of municipal liens on

properties with outstanding water and wastewater balances. The City relies on UW to provide a listing of properties with such liens that are eligible for sale. However, UW does not maintain adequate information or have adequate procedures in place to identify such properties. In 2003, the City did not exercise adequate oversight of this listing, which resulted in liens on seven properties being inappropriately sold. Consequently, the City had to repurchase these liens at a 15.9 percent interest rate, which resulted in it incurring interest costs of \$71,658.

The high percentage of outstanding A/R is also a result of the City not conducting an effective review of A/R. Such a procedure would enable it to identify and, when necessary, write-off uncollectible accounts. Specifically, we noted the following:

- A/R reconciliations include various adjustments that are not matched against the customer accounts. City personnel responsible for preparing the reconciliations do not know what the adjustments represent and do not review reconciliations to detect errors.
- Neither the City's Finance Department nor the Department of Public Works have procedures in place to analyze A/R detail.

The City's FY 2008 independent auditor noted in its opinion of the City's financial statements that the City has "material delinquent water and wastewater account receivable balances which [sic] no apparent subsequent activity and the auditor could not satisfy the account balances by performing additional audit procedures."

The City's lack of adequate contract oversight and understanding of basic accounting procedures, in conjunction with UW's inability to provide A/R reports in a useful format, creates a high likelihood of misstatement of A/R.

Pass-Through Charges

The Contract allows UW to assess pass-through charges resulting from the occurrence of unforeseen events, repair costs that constitute capital item costs in

excess of the aggregate annual amount of UW's repair responsibility, increases in the rates charged for electricity and changes in laws and regulations. Pass-through charges represent an increase to the annual service fee the City pays UW. Such charges are paid to reimburse UW on a dollar-for-dollar basis for the additional costs incurred by UW.

Our testing of all pass-through charges paid by the City to UW from the inception of the Contract through December 2008 indicates that the City does not effectively manage the payment of these charges. The pass-through charges we reviewed consisted of 64 payments totaling \$8.3 million. Of the 64 payments, we identified multiple exceptions related to each payment. Specifically, we identified the following:

- Direct vouchers, which in accordance with the City's Purchasing Manual are intended for payment of minor or recurring expenses such as employee reimbursements, were used to pay \$3.8 million in pass-through charges. Since payments using the direct voucher process are not subject to review by the City's Purchasing Review Committee, the payment of these charges circumvented the established controls described in the City's Purchasing Manual. Further, the City was unable to provide any supporting documentation concerning \$2 million of these direct vouchers.
- Additional payments in the amount of \$905,410 were made without the required approval by the City's Purchase Review Committee.
- UW subcontracted and billed the City for services in the amount of \$4.3 million that were not included in the annual service fee and were not subject to a competitive vendor-selection process. Such services included paving and roadway repair, installation of sewer mains, and auto repairs. UW awarded most of this work to the same subcontractor. According to the Contract, the cost for these services must represent a competitive price, which can be assured only through a process of quote or bid solicitation. We also identified a payment of \$955,000 for an emergency project. This project was

also billed as a pass-through charge procured by UW without obtaining quotes, as required by the Contract.

- Three million dollars in work UW outsourced to subcontractors was paid by the City without invoices detailing the subcontractor expenses purportedly incurred by UW. Examples of such work included hydrant removal, valve installation, water main repairs, and roadway repair.
- The City authorized UW to perform services in the amount of \$3.9 million without preparing purchase orders, as required by the City's Purchasing Manual.
- The City paid UW \$1.2 million for goods and services which were approved by City employees who subsequently informed us they had no knowledge of the purpose, quantity, or cost of the goods or services they approved. In addition, payments in the amount of \$576,534 were signed off by the same department head as both the "receiver of goods" and the approving officer. Such a procedure is not consistent with sound internal control practices.
- Invoices in the amount of \$224,992 were paid under blanket purchase orders for sludge removal. However, these invoices were actually for unrelated expenses that included repair costs resulting from fire damage and an auto accident, and construction costs for a storm water drainage system. Further, these payments were not approved by the City's Purchase Review Committee.
- Three million dollars in miscellaneous payments was not properly authorized and approved. For example, receiver of goods certifications, vendor certifications, Department of Accounts and Controls signatures, and department head signatures were missing in whole or in part on all of the supporting documentation we reviewed for these payments. The City's Purchasing Manual requires these approvals in order to process payments.

As a result of the City's failure to properly review UW's pass-through charges and follow the procedures prescribed by the Purchasing Manual, the City may be paying charges that the Contract requires UW to absorb.

Administrative Fees

The Contract requires any pass-through charges to be paid to UW on a dollar-for-dollar basis and does not permit UW to earn a profit on these charges. However, during our testing of pass-through charges, we found that UW was inappropriately adding administrative fees ranging between 9 and 12.5 percent of the invoice for work performed by UW's subcontractors. Since the fee is based on a percentage of the invoice total, the higher the cost of the work performed by the subcontractor, the greater the administrative fee paid to UW. The City paid \$286,740 in such fees over the course of the Contract. Additionally, the City is disputing charges assessed by UW for administrative fees and other fees in the amount of \$447,456. As of September 2009, these disputed charges had not been resolved.

Proposed Contract Amendments

Pursuant to its own terms, the Contract can only be modified by a written amendment signed by UW and the City. However, UW has been billing the City charges based on proposed contract amendments not executed by the parties.

Specifically, in 2001 UW proposed a contract amendment for operational costs concerning a dewatering facility addition. Although the proposed contract amendment was never approved and signed by the City, between July 2002 and February 2008, the City paid UW approximately \$2.2 million, which included an administrative fee of 25.95 percent, based on the increased costs prescribed by the proposed amendment.

In 2007, UW proposed a Memorandum of Understanding (MOU) with the City requesting an annual increase in the amount of approximately \$1.4 million for water plant upgrades which included additional administrative and other fees amounting to 19.5 percent of costs. The City is disputing these charges.

As of July 20, 2009, the City was disputing additional UW charges totaling approximately \$3.2 million that were charged to the City between December 2007 and June 2009. The charges being disputed by the City are comprised of approximately \$2.3 million in charges assessed under the 2007 proposed MOU; \$300,000 in charges assessed under the proposed 2001 contract amendment; and \$335,000 in charges assessed as administrative fees. We evaluated the merits of the cost increases being proposed for the labor and GIS components of the two proposed amendments.

Labor Charges

In 2001 and 2007, UW proposed Contract amendments that would increase labor charges by a total of approximately \$243,000 per year based on the addition of four full-time operators at the Morris-Delair Plant. We compared the City's water utility staffing prior to the Contract's execution to UW's contractually mandated staffing plan, along with UW's present staffing levels.

The Contract required UW to submit a staffing plan 30 days after the commencement of the Contract, establishing the number of personnel needed to operate the water and wastewater systems. The City initially staffed its water utility with 69 employees. The staffing plan submitted by UW called for 49 employees. UW currently operates with 39 employees, representing a 20 percent reduction in staff from its required levels. Given this reduction, there does not appear to be sufficient justification for the proposed increase in labor charges.

Geographic Information System

The Contract requires UW to update existing GIS data to reflect any fixed asset adjustments. The Contract further requires that the Information Technology Strategic Plan shall specifically include provisions for updating and maintaining GIS and incorporating the City's water system into GIS.

The 2007 MOU proposes additional annual charges for GIS labor of approximately \$75,000. However, since the Contract already requires the

provision of GIS-related labor, the charges are already included in the City's payment of the annual service fee.

Recommendations

6. Analyze water and wastewater rates annually to ensure the rates are sufficient to cover the cost of maintenance, operations, debt service and required capital improvements for the water and wastewater systems.
7. Ensure that UW implements an adequate billings and collections system capable of accounting for all customer activity. Such a system should generate A/R aging reports which include service and/or billing addresses and detailed billing information.
8. Review billing reports periodically to ensure all relevant data is included and accounts are properly maintained. Specifically, ensure that:
 - All accounts within the system have a proper customer name, service address, billing address and account number.
 - All closed accounts and outstanding balances are written-off in a timely manner and credit balances are refunded to customers or remitted to the State as unclaimed property.
9. Train City personnel responsible for preparing A/R reconciliations to ensure any errors are detected and to prevent misstatement of A/R balances.
10. Monitor collection rates on a quarterly basis to ensure a collection rate of 90 percent as required by the Contract.
11. Establish procedures for annually reviewing the list of properties with municipal liens due to outstanding water and wastewater balances.
12. Process pass-through payments through Purchase Orders in accordance with the City's Purchasing Manual, and pursue savings by using competitive bidding for outside services.

13. In conjunction with the City attorney, determine the validity of all proposed Contract amendments and formally amend the Contract to reflect any mutually agreed upon changes. As part of this process, resolve disputed charges and recover from UW any overpayments due the City.

Management Oversight

The City does not adequately monitor UW's performance, resulting in additional costs to the City.

Fixed Assets and Capital Improvements

The City is required to maintain a fixed asset accounting and reporting system. Such a system should contain a subsidiary ledger and detailed property records for controlling additions, deletions and transfers of fixed assets in accordance with the New Jersey Administrative Code.³

We found the City's accounting for the fixed assets of the water and wastewater systems to be inadequate. The City's Finance Department was unable to provide a listing of the City's water and wastewater fixed assets, which are valued on the City's financial statements at approximately \$58 million for FY 2008. The only fixed asset listing the City was able to provide was the City Tax Assessor's FY 2008 listing of fixed assets totaling \$150,000, which included only a small portion (less than 1 percent) of the system assets.

The absence of a comprehensive list of the City's fixed assets increases the likelihood of misuse, fraud and theft. Since the City will retake possession of all water and wastewater assets at the expiration of the Contract, the City should properly monitor and account for these assets.

Building Maintenance and Asset Disposal

The Contract requires UW to maintain the water and wastewater systems in good working order, repair system assets when appropriate and maintain the systems in a neat and orderly condition. The Contract explicitly requires regular cleanup of litter and debris as frequently as required or on a daily basis. The Contract also requires UW to perform all predictive, preventative and corrective maintenance procedures and, at a minimum, repair all roof leaks within ten days of discovery.

³ N.J.A.C. 5:30-5.6.

We found that neither the City nor UW is maintaining the City's Puchack Water Treatment Plant (Puchack Plant). The Puchack Plant is listed in the Contract as an asset requiring UW monitoring and maintenance.

During a physical inspection of the Puchack Plant, we observed a leaking roof, rusted equipment and debris throughout the plant. We also found water meters, currently valued at approximately \$10,000, had deteriorated as a result of being located beneath a leaking roof. Since these water meters are no longer being used by the City's water operations, they should have been sold at public auction, as required by the City's asset disposal procedures.

Further, the City has not taken the necessary steps to dispose of other unused or obsolete assets located at the Puchack Plant. We found City-owned vehicles at the Puchack Plant to be inoperable, containing broken windows, moldy interiors and rusted roofs. At the inception of the Contract, these nine vehicles, which previously were used by City staff, were appraised at \$71,000. Based on the vehicles' current condition, the vehicles have an estimated value of approximately \$4,000. Consequently, the City has lost approximately \$67,000 as a result of its failure to follow its asset disposal procedures at the inception of the Contract. Illustrations of the Puchack Plant and some of the vehicles we observed during our inspection are presented on the following pages.

After receiving a discussion copy of this report, UW advised us that it is negotiating a credit with the City for reduced operations and maintenance at the Puchack Plant.

Figure 3



Water Damage inside Puchack Plant - Picture taken March 5, 2009.

Figure 4



Electric Controls inside Puchack Plant - Picture taken March 5, 2009.

Figure 5



Davey Skid Mounted Air Compressor - Picture taken March 5, 2009, in the Puchack Plant Yard.

Figure 6



Backhoe - Picture taken March 5, 2009, in the Puchack Plant Yard.

Figure 7



1992 Ford F-250 Utility Body - Picture taken March 5, 2009, in the Puchack Plant Yard.

Dispute Resolution

The Contract requires the City and UW to establish an Operations Committee which is to meet every three months to discuss issues related to the operation, management, maintenance and repair of the water and wastewater systems. The purpose of the Operations Committee is to enhance communication between the City and UW. The Contract provides that if disputes are not resolved through negotiations, either UW or the City can pursue adjudication in court or another applicable venue.

We found that the required Operations Committee was not established until May 2009, after our audit commenced and ten years after the inception of the Contract. If the Operations Committee had been functioning appropriately, the City and UW may have been able to effectively resolve certain disputed issues.

In the event of a dispute related to payment obligations, the Contract requires the disputing party to deposit the disputed monies in an escrow account until the

issue is resolved. As of July 20, 2009, the City was disputing approximately \$3.2 million in UW charges that date back to December 2007. These charges have not been deposited into an escrow account. During 2009, UW sent the City several letters concerning the disputed invoices and the requirement to deposit the disputed funds in an escrow account.

According to the Contract, both UW and the City are required to continue to perform all respective obligations without interruption or delay during dispute resolution. UW has not consistently abided by the contractual requirement to perform all obligations without interruption. In correspondence to the City dated February 3, 2009, UW indicated that it would “stop work” unless certain disputed charges were paid. In fact, in March 2009, UW refused to manage sewer overflow in accordance with revised DEP regulations, until a determination was made concerning the responsibilities and costs of performing such services. The intervening delay resulted in the City receiving violation notices from DEP on May 8, 2009 and August 7, 2009. In September 2009, the City awarded UW an additional contract in the amount of \$683,000 to operate these facilities for one year.

Access to UW Systems

UW is required to maintain a computerized recordkeeping system for all of the operations and maintenance functions it performs. Further, UW is to provide the City with all equipment, materials and software necessary for it to have view-only access to all such computerized databases and programs.

Other than providing the City with access to customer account balances from 2003 through 2009, UW has not provided the City with the required access concerning its maintenance and operations. The City has not requested access to such systems.

Without sufficient information and access to UW’s systems and databases, the City does not have the ability to monitor whether maintenance is performed timely and sufficiently; whether assets and revenues are properly recorded;

whether there are opportunities for cost savings; or whether revenues are sufficient to cover costs.

UW indicated that upon request by the City it will provide this access.

Certified Operator

The Contract requires that the legally designated Certified Operator of the City's water system shall be dedicated to the operation of the system and be on-site a minimum of 8 hours per day, 5 days a week.

We found that UW's full-time Certified Operator of the City's water system is also the Certified Operator for the Manchester Department of Public Works, where, according to DEP records, he is in attendance 16 hours each week. The roundtrip distance between the City and Manchester is approximately 84 miles, with a total travel time of approximately 2.5 hours.

Considering travel time, it does not appear feasible that the City's full-time operator is able to be present at the Camden water treatment plant for 40 hours per week, and also be present at the Manchester water plant 16 hours per week.

As the results of this audit indicate, the City's water and wastewater systems are in need of a full-time operator.

The Control Environment

The City's poor control environment has contributed to the inadequate contract oversight described in this report. Control environment refers to management's attitude, actions and values that influence the control consciousness of employees across all levels of the organization. Internal controls are more likely to function well if management believes that those controls are important and communicates that view to all employees.

We found that City management has not:

- Promoted communication and sharing of information between City departments including Legal, Public Works, Planning and Development, Administration, Finance, and Purchasing;
- Conducted a thorough review of the monthly operating reports provided by UW;
- Established procedures requiring that qualified employees, such as the City Engineer, inspect and approve water and wastewater infrastructure projects for both work quality and cost reasonableness;
- Defined the role of the Business Administrator as it relates to the UW Contract, resulting in a lack of effective oversight of City departments in connection with the Contract;
- Conducted performance evaluations for any City employees until FY 2008 and has never conducted a performance evaluation for the Director of Public Works or the City Engineer; or
- Monitored and enforced policies and procedures based on the City Purchasing Manual, the Contract, and industry best practices.

The City's weak internal control environment is attributable, in part, to management turnover, reliance on State financial support, and fragmentation among City management, the City Council, and the COO. Unless the City works diligently to address these and the other issues cited in this report, it will continue to face revenue losses, excessive costs and the safety and financial ramifications of a deteriorating water and wastewater system.

While many of the problems identified in this audit resulted from poor contract management and lack of controls, contract provisions that link payment to performance milestones also could have improved outcomes for the City. Such provisions might include incentives for service delivery within a set timeframe and payment schedules tied to completion of tasks such as required maintenance. Liquidated damages provisions may also be appropriate in service

contracts such as this one in the event the failure to perform causes injury to the governmental entity. In negotiating any amendments to the Contract, the City may look to include these types of provisions as another means to remedy the problems identified in this report.

Recommendations

14. Perform annual asset inventory counts and maintain a comprehensive list of all fixed water and wastewater assets.
15. Ensure that UW performs all required predictive, preventative and corrective maintenance procedures and properly remediates the Puchack Plant or provides an appropriate credit to the City.
16. Adhere to the City's asset disposal procedures.
17. Continue to conduct quarterly Operations Committee meetings to enhance communication between the City and UW.
18. Establish an escrow account and deposit disputed monies into the account until such disputes are resolved.
19. Ensure that UW performs all Contract obligations without interruption or delay during the dispute resolution process.
20. Obtain sufficient access to all computerized databases and programs and other information utilized in the operations of the water and wastewater systems.
21. Establish procedures to record and monitor the amount of time the Certified Operator is physically present at the Camden water plant. Such information should be communicated to the City monthly to assure it that the operator is physically present at the Camden plant 40 hours per week.

22. Assign a contract administrator outside of the Department of Public Works who is authorized and qualified to handle all matters pertaining to the Contract including:
 - Monitoring Contract activities and progress;
 - Providing necessary documentation to relevant City personnel involved in Contract operations;
 - Reviewing and monitoring expenditures;
 - Verifying accuracy of invoices; and
 - Reporting Contract disputes to appropriate City personnel.

23. Develop and implement procedures to strengthen internal controls in the areas of:
 - Establishment and communication of uniform goals among City management, the City Council and the COO; and
 - Enforcement and monitoring of policies and procedures established by the City and the Contract.

REPORTING REQUIREMENTS

We provided a draft of this report to City of Camden and United Water officials for their review and comment. Their comments were considered in preparing our final report and are attached as Appendices B and C.

The City's response indicated that our "comprehensive review should greatly assist the City going forward in better managing this contract." The response further indicated that the City is seeking to recover \$28.9 million from UW, \$18.8 million based on the audit findings, for non-performance, under-servicing and credits due the City. City officials agreed with all of the audit's recommendations.

UW's response to the draft report was virtually unchanged from the one it had provided previously in response to the "discussion copy" of the report. The discussion copy of the report serves as the basis for the audit exit conference, a meeting held to discuss the audit results. UW's response did not take into account changes we incorporated into the draft report as a result of that meeting with UW. Further, many of the assertions in UW's response are contrary to the evidence obtained during the course of the audit. We have inserted into UW's response, in brackets, our rejoinder to certain UW comments. In addition, the City of Camden responded in a separate letter to a particular assertion in UW's response. We have attached that letter as Appendix D.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, the City shall report periodically to this Office advising what steps have been taken to implement the recommendations contained herein, and if not implemented, the reasons therefore.

APPENDIX A

Calendar Year 2008 Water Loss Value Calculation

High water losses translate into significant lost value for a utility through extra production costs, lost revenue, and wasted resources. Determining this value requires dividing losses into two categories: real and apparent. Real losses are physical leaks from the system where water is produced but never delivered, causing unnecessary production that wastes City resources and increases costs that may indirectly get passed onto the City. Apparent losses stem from administrative and management errors where water is delivered but not metered or billed properly, resulting in lost revenue for the City.

To put value on these losses, we calculated the average cost of production per million gallons and the average revenue from selling a million gallons (MG) based on Camden's financial records. In Camden, the production cost averages \$1,460 per MG and the selling price averages \$4,139 per MG.¹ Research has shown that generally 60 percent of losses are real and 40 percent are apparent. When real losses are multiplied by the production cost per MG and apparent losses are multiplied by the revenue rate per MG, the result is the total value of lost water due to each type of loss. As it is not feasible to recover all losses, water losses of 10%, 20%, and 30% can be calculated to show the potential value gained by reducing losses.

Value of Water Losses	Total Water Losses 2008 (MG)	% Water Loss 2008 (all accounted usage)
		1366
	Category Water Losses (MG)	Cost or Revenue per MG
Real Losses (60%)	820	\$1,460
Apparent Losses (40%)	546	\$4,139
Total Lost Value	Real	\$1,197,119
	Apparent	\$2,262,029
	Total	\$3,459,148
Potential Gains from Reducing Water Loss		
Water loss to 10%	Real Production Gains	\$879,732
	Apparent Revenue Gains	\$1,662,307
	Total	\$2,542,039
Water loss to 20%	Real Production Gains	\$562,345
	Apparent Revenue Gains	\$1,062,586
	Total	\$1,624,931
Water loss to 30%	Real Production Gains	\$244,959
	Apparent Revenue Gains	\$462,865
	Total	\$707,824

¹ "Real" values are based on the Fixed Management Fee and pass-through charges the City paid to UW (excluding amounts under dispute as of January 1, 2009) during calendar year 2008. "Apparent" values are based on customer billings during calendar year 2008 (excluding penalties).



City of Camden

OFFICE OF THE CHIEF OPERATING OFFICER

ALBERTHA HYPHE
Interim Chief Operating Officer

BRETT WATERS
Chief of Staff

December 4, 2009

William P. Challice, CIA, CFE, CGFM
Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, New Jersey 08625-0024

**Re: A Performance Audit of the Management Services Agreement for
the City of Camden's Water and Wastewater Collection Systems**

Dear Mr. Challice:

The City of Camden appreciates the efforts of your staff in their review of the City's contract with United Water (UW). The City is working to resolve the findings noted in the report and we would like to thank the State Comptroller's Office for the opportunity to provide responses prior to the release of the official report. Your comprehensive review should greatly assist the City going forward in better managing this contract.

I have attached a copy of recent correspondence that was sent to United Water. The City is seeking to recover \$28,888,758 from United Water for non-performance, under-servicing and credits that are due back to the City.

The City's responses to the recommendations are as follows:

Recommendation 1

Ensure that United Water implements and maintains a computerized maintenance management system (CMMS) program for all components of the water and wastewater systems. Specifically, the CMMS should include:

- All water and wastewater system fixed assets;
- Maintenance activity concerning each asset; and
- Cost, condition, location, model number and / or identification number, warranty information and installation dates for all system fixed assets.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. In addition to requiring United Water to implement and maintain these systems, the City will also require that City staff has access to the systems so that the City can track the status and location of the fixed assets. The City will implement procedures to provide greater oversight of the existing contract and any subsequent contract amendments.

Recommendation 2

Monitor UW's CMMS and conduct asset reconciliations to ensure proper recording of fixed assets for reporting purposes.

Response

City Officials agree with this recommendation and will implement procedures to provide greater oversight of the United Water contract. Once an adequate system is implemented, the City will require that United Water maintains the system, conducts an annual inventory, and provides exception reports to the City. And as recommended, the City will implement procedures to monitor the system and conduct asset reconciliations to ensure proper recording of fixed assets for reporting purposes.

Recommendation 3

Ensure that UW documents and maintains records of all operational and maintenance activities to allow for proper monitoring of compliance with State and federal regulations as well as the condition of the water and wastewater systems. Specifically, these records should cover:

- Meter calibration to ensure that all commercial and industrial meters are calibrated at least once every five years.
- Point-of-Entry cleaning to ensure all catch basins are cleaned once every three years.
- Well rehabilitation and maintenance to ensure that the required minimum of two wells are rehabilitated each year.
- Pressure filters to ensure that annual inspections are performed and core media sampling is conducted once every five years to protect the condition of the water filters and protect water quality.
- Water storage tanks to ensure inspections are performed every five years.
- Fire Hydrants to ensure that all inoperable hydrants are repaired and replaced in a timely manner.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. As recommended, the City will implement procedures to ensure that United Water documents and maintains records of all operational and maintenance activities that include the bulleted items noted in the above audit recommendation.

Recommendation 4

Ensure that UW prepares and implements all plans, programs and reports required by the Contract.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. As recommended, the City will implement procedures to ensure that United Water prepares and implements all plans, programs and reports required by the contract.

Recommendation 5

In conjunction with UW, compile information on water production and water usage quarterly in order to calculate water loss. Determine the cause of the water loss and perform corrective action to the extent possible. Analyze results and apply an adjustment to the annual service fee to reflect any deviation from the Contract.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. The City will work in conjunction with United Water to compile the information noted. Regarding the water loss, the City is seeking \$17 million in compensation from United Water for the aggregate value of water loss over the past ten years.

Recommendation 6

Analyze water and wastewater rates annually to ensure the rates are sufficient to cover the cost of maintenance, operations, debt service and required capital improvements for the water and wastewater systems.

Response

The City of Camden has implemented rate increases based on a recent rate study that was conducted by Municipal and Financial Services. The rate study provided for rate increases until 2012 based on the financial model that was provided with the rate study. The City will use this financial model as a mechanism for analyzing water and wastewater rates annually to ensure the rates are sufficient to cover the cost of maintenance, operations, debt service and required capital improvements for the water and wastewater systems.

Recommendation 7

Ensure that UW implements an adequate billings and collections system capable of accounting for all customer activity. Such a system should:

- Generate A/R aging reports which include service and/or billing addresses, detailed billing information.
- Generate reminder bills for all outstanding balances over 30 days late and over \$25.

*
Comment

* We have revised this recommendation based on additional information provided by UW subsequent to the issuance of the draft report.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. Over the past several months, the City has been meeting monthly with United Water to derive specific account receivable aging reports that are conducive to productive analysis from a global perspective as well as a detailed perspective. The City will continue to work with United Water to ensure that an adequate billings and collections system is implemented and is capable of accounting for all customer activity. In addition, the City will require from United Water an integrated systems approach with regard to billings, collections, customer service and reporting.

Recommendation 8

Review billing reports periodically to ensure all relevant data is included and accounts are properly maintained. Specifically, ensure that:

- All accounts within the system have a proper customer name, service address, billing address and account number.
- All closed accounts are written-off in a timely manner and credit balances are refunded to customers or remitted to the State as unclaimed property.
- All outstanding balances and/or credits are written-off and/or refunded in a timely manner.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. The City will require from United Water an integrated systems approach so that reliable data is captured by the vendor in a timely manner; old/closed accounts are properly written-off; and credits are properly addressed. This will ultimately require United Water to perform in an enhanced capacity so as to adjust stale data as well as verify the reliability of the data. As recommended, the City will implement procedures to review billing reports periodically to ensure all relevant data is included and accounts are properly maintained.

Recommendation 9

Train City personnel responsible for preparing A/R reconciliations to ensure any errors are detected and to prevent misstatement of A/R balances.

Response

City Officials agree with this recommendation. The City has been working with United Water to obtain more specific details relative to the monthly account receivables. The City will require from United Water an integrated systems approach so that reliable data is captured by the vendor in a timely manner; old/closed accounts are properly written-off; and credits are properly addressed. This will ultimately require United Water to perform in an enhanced capacity so as to adjust stale data as well as verify the reliability of the data. As recommended, the City will train City personnel responsible for preparing A/R reconciliations to ensure any errors are detected and to prevent misstatement of A/R balances.

Recommendation 10

Monitor collection rates on a quarterly basis to ensure a collection rate of 90 percent as required by the Contract.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. Going forward, the City will require United Water to maintain at least a 90 percent collection rate and, as recommended, the City will implement procedures to monitor this.

Recommendation 11

Establish procedures for annually reviewing the list of properties eligible for sale to prevent ineligible properties from being sold.

Response

City Officials agree with this recommendation. United Water is responsible for certifying the properties as eligible for sale and, as such, the City has been working with them to address this issue. The City will require United Water to establish procedures for annually reviewing the list of properties eligible for sale to prevent ineligible properties from being sold.

Recommendation 12

Process pass-through payments through purchase orders in accordance with the City's Purchasing Manual, and pursue savings by using competitive bidding for outside services.

Response

City Officials agree with this recommendation. The City will process the pass-through payments in accordance with the City's Purchasing Manual. In addition, the City will also begin discussions with United Water to establish procedures for ensuring the City achieves savings through competitive bidding. Once United Water implements the processes for predictive, preventative and corrective maintenance, the necessity for emergency work should lessen.

Recommendation 13

In conjunction with the City Attorney, determine the validity of all proposed Contract amendments and formally amend the Contract to reflect any mutually agreed upon changes. As part of this process, resolve disputed charges and recover from UW any overpayments due the City.

Response

City Officials agree with this recommendation. The City is currently working with United Water to amend the contract to reflect mutually agreed upon changes. In addition, over the past several months, the City and United Water have been working to resolve the disputed charges. With regard to overpayments, the City is seeking a refund of \$857,640 in administrative fees that were paid but are not authorized under the existing contract.

Recommendation 14

Perform annual asset inventory counts and maintain a comprehensive list of all fixed assets and property records.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. The City will require monthly exception reports from United Water and will have the municipal auditor include the asset inventory in their testing.

Recommendation 15

Ensure that UW performs all predictive, preventative and corrective maintenance procedures and properly remediate the Puchack Plant.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. With regard to the Puchack Plant the City is seeking a credit of \$499,200 due to its closure.

Audit Recommendation 16

Adhere to the City's asset disposal procedures.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. The City will require a detailed inventory from United Water and, where appropriate, will follow the City's asset disposal procedures.

Recommendation 17

Continue to conduct quarterly Operations Committee meetings to enhance communication between the City and UW.

Response

City Officials agree with this recommendation and will work with United Water to ensure that the Operations Committee meetings are held at least quarterly. The City will also continue to do its part to facilitate communications with United Water.

Recommendation 18

Establish an escrow account and deposit disputed monies into the account until such disputes are appropriately resolved.

Response

City Officials agree with this recommendation. However, due to financial constraints, the City does not have the means to escrow monies for United Water billings that are unsubstantiated.

The City will work with United Water to implement procedures for ensuring that pre and post approvals are done for any work that is deemed by both parties to be outside of the scope of the contract. In addition, the City will also begin discussions with United Water to establish procedures for ensuring the City achieves savings through competitive bidding. The City will also require adequate documentation from United Water for all billings.

Recommendation 19

Ensure that UW performs all Contract obligations without interruption or delay during dispute resolution.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. The City will work with United Water to ensure that the Operations Committee meetings are held at least quarterly and will also continue to do its part to facilitate communications with United Water. Also, the City will work with United Water to implement procedures for ensuring that pre and post approvals are done for any work that is deemed by both parties to be outside of the scope of the contract. In addition, the City will begin discussions with United Water to establish procedures for ensuring the City achieves savings through competitive bidding. The City will also require adequate documentation from United Water for all billings.

Recommendation 20

Obtain sufficient access to all computerized databases, programs and other information utilized in the operations of the water and wastewater systems.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. The City will continue working with United Water to obtain sufficient access to all computerized databases, programs and other information utilized in the operations of the water and wastewater systems.

Recommendation 21

Establish procedures to record and monitor the amount of time the licensed operator is physically present at the Camden water plant. Such information should be communicated to the City monthly to assure it that the licensed operator is physically present at the Camden plant 40 hours per week.

Response

City Officials agree with this recommendation. The attached letter to United Water is specifically requesting that they provide to the City a response to this recommendation that includes a plan and a timeline for completion. The City will require United Water to provide staffing reports and timesheets for the licensed operator to assure that the licensed operator is physically present at the Camden plant 40 hours per week. The City will review the reports and will perform spot checks to monitor.

Recommendation 22

Assign a contract administrator outside of DPW who is authorized and qualified to handle all matters pertaining to the Contract including:

- Monitoring Contract activities and progress;
- Providing necessary documentation to relevant City personnel involved in Contract operations;
- Reviewing and monitoring expenditures;
- Verifying accuracy of invoices, and
- Reporting Contract disputes to appropriate City personnel.

Response

The City agrees that there needs to be greater oversight of the United Water contract and will work toward putting processes in place and assigning staff to ensure the contractual relationship between the City and United Water is better managed. The audit report now provides a structure that will serve to clarify a number of the City's concerns with the language in the existing contract. The City will begin discussions with United Water to amend the contract language to more clearly outline the responsibilities of both parties.

Recommendation 23

Develop and implement procedures to strengthen internal controls in the areas of:

- Employee job descriptions and performance evaluations;
- Establishment and communication of uniform goals among City management, the City Council and the COO; and
- Enforcement and monitoring of policies and procedures established by the City and the Contract.

Response

City Officials agree with this recommendation. The City will develop and implement procedures to strengthen internal controls in the areas noted in the above audit recommendation.

Thank you for your constructive recommendations. If you require anything further on this, please let me know.

Sincerely,



Albertha Hyché
Interim Chief Operating Officer

Attachment (1)

Cc: Brett Waters
Christine T.J. Tucker
Lewis Wilson
Patrick Keating
Joseph Galdo



City of Camden

OFFICE OF THE CHIEF OPERATING OFFICER

ALBERTHA HYCHE
Interim Chief Operating Officer

BRETT WATERS
Chief of Staff

December 4, 2009

John D. Bonomo, Vice President
United Water
15 Dartmouth Drive – Suite 300
Auburn, NH 03032

Dear Mr. Bonomo:

The City of Camden has been in ongoing negotiations with United Water for the purpose of amending the existing contract. This process has included United Water's claims for additional compensation for the services performed in accordance with the Management Services Agreement. The most recent communication from the City to United Water identified a list of items for which United Water should provide a credit back to the City due to savings to United Water. As you are aware, the New Jersey Office of the State Comptroller has completed the audit of the contractual relationship between United Water and the City of Camden and the performance of both parties under the existing agreement. The findings in the audit have identified several instances of non-performance and under-servicing by United Water and have raised a number of issues that must be addressed before the negotiations can be successfully concluded.

Based on specific audit findings, the City of Camden is now requesting that United Water immediately compensate the City for the following items that were identified in the report:

- The value of the unaccounted for/ lost water for the full ten years of the contract thus far (\$1.7 million per year for 10 years or **\$17 million** – page 5 of audit report);
- The value of the unauthorized charges for administrative fees (**\$286,740** related to the pass-through charges and **\$570,900** (\$2.2M x 25.95%) related to contract amendments – pages 5 and 7 of audit report respectively);
- The value of United Water's failure to competitively bid items (**\$860,000** (20% estimated value of loss x \$4.3M) – page 6 of audit report);
- The value of the cost of the "buy back" of liens, which were created by the improper submission of data by United Water (**\$71,658** – page 8 of audit report);

The bulleted items, which total **\$18,789,298**, are in addition to the list of credits that were previously presented to United Water (see the attached updated list) – these credits now total **\$10,099,460**. At this time, the City is seeking to recover **\$28,888,758** from United Water for non-performance, under-servicing and credits that are due back to the City. The City will continually review the contract deliverables and will be actively looking to identify other areas that may be eligible for either refunds or credits to the City.

In addition, the City is requesting that United Water resubmit the Below Ground (BG), Above Ground (AG) and Maintenance and Repair (MR) funds reconciliation information by project and segregated into costs attributable to either the water or sewer utility. Please submit the revised reconciliation reports by Friday, December 18, 2009. Going forward, we are requesting that these reconciliation reports are submitted to the City on a monthly basis so that the City can more closely monitor and review the expenditures for appropriateness and accuracy.

Lastly, the audit also identified a number of issues related to record keeping, undelivered plans and flaws in the United Water billing system. During the course of the negotiations thus far, United Water and the City of Camden have been working to resolve a number of these issues. The audit report now provides a structure that will serve to codify these items. We are requesting that United Water provide a detailed response that includes plans and timetables for resolving all of the items identified as findings and recommendations relative to United Water's contractual responsibilities under the existing contract. Specifically, we are requesting responses to audit recommendations numbered 1, 3, 4, 5, 7, 8, 10, 11, 14, 15, 16, 19, 20, and 21. Please provide the responses to the City by Friday, December 18, 2009.

Due to the seriousness of these matters and the significant amount of money that is owed to this fiscally distressed city, we look forward to a quick resolution. Please provide the requested reports and audit responses by the due dates previously noted in this letter. In addition, **please remit \$28,888,758 to the City of Camden by Monday, January 4, 2010 or contact this office immediately to discuss possible alternative payment arrangements.**

Your cooperation and immediate attention to this would be greatly appreciated.

Sincerely,



Albertha Hyche
Interim COO

Attachment (2)

Cc: Brett Waters
Christine T.J. Tucker
Lewis Wilson
Patrick Keating
Joseph Galdo
Mark Horberg
Rick Pfleiderer
Lynne Allaker

**CREDITS DUE AS A RESULT OF CAPITAL IMPROVEMENTS
BY THE CITY OF CAMDEN**

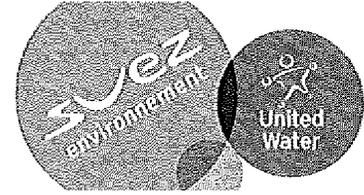
Item/Task	Occurance	In Service Year	Years in service	Projected Benefit	Total Benefit to UW for Component	Total Projected Credit Due per Capital Project
Water Meter/Erts Installation		2002				\$1,872,000.00
Meter Readers Prior To Conversion = 4						
Meter Readers Required Subsequent To conversion = 1						
Cost Savings Due to Meter/Erts Installation						
3 0 x 1.25 x 30 x 52 x 4	Yearly		8	\$234,000.00	\$1,872,000.00	
Upgraded Facilities @ MDWTP		2006				\$97,650.00
Automation Of Pressure Control & Backwash (Reduction In Operational Man-hours)						
1/10 Employee x 40 x 30 x 1.25 x 52	Yearly		3	\$7,800.00	\$23,400.00	
Reduction In Labor Due To Installation Of SCADA System						
1/4 Employee x 40 x 30 x 1.25 x 52	Yearly		3	\$19,500.00	\$58,500.00	
Installation Of Sanitary Force main (Alleviates Keeping And Maintenance Of The Existing Cesspool)						
Cost Of Septic Replacement	Lump Sum		1	\$15,000.00	\$15,000.00	
Inspection Of Septic System	Yearly		3	\$250.00	\$750.00	
System Improvements-Morris Delair & Parkside WTP		2003				\$3,420.00
Closure Of Sludge Lagoon (Maintenance & Regular De-sludging)						
CCMUA User Costs For Filter Backwash Water At Parkside						
User Fee \$450.00 per year	Yearly		6	\$450.00	\$2,700.00	
Sampling requirements at Parkside for sludge no longer discharged to sewers	Yearly		6	\$120.00	\$720.00	
Sewer Phase I, II						\$512,000.00
Replacement Of Sewer At Various Locations Within The City Of Camden. If This Capital Improvement Had Not Been Undertaken Numerous Small Collapses Would Have Occurred. The Small Collapses Would Have Been The Responsibility Of UWC.	Lump Sum	2005	4	\$128,000.00	\$512,000.00	
Replacement Of Lead Service Line		2005				\$6,000,000.00
Replacement Of Lead Service Line At Various Locations Within The City. The Replacement Is The Responsibility Of UWC	Lump Sum		1	\$6,000,000.00	\$6,000,000.00	
Sludge Lagoon Closure		2006				\$110,190.00
Maintenance of sludge piping, decant basin and sludge berm						
0.75 hour/day x 1 operator x 365 days x \$30/hr x 1.25	Yearly		3	\$10,265.00	\$30,795.00	
Sludge removal from lagoon						
1/4 x 2680.24 dry tons (base volume) x 39.50	Yearly		3	\$26,465.00	\$79,395.00	
Closure Of Puchack Water Treatment Plant						\$499,200.00
1 operator x 40hr/week x \$30/hr x 52 weeks	Yearly		8	\$62,400.00	\$499,200.00	
Total of avoided costs / credits for capital projects conducted by the City of Camden						\$9,094,460.00
Total credits due as a result of undelivered plans (see next page)						\$1,005,000.00
Total for Credits due back to the City						\$10,099,460.00
Total Identified in the Audit Report						\$18,789,298.00
Total Due Fund United Water						\$28,888,758.00

CREDITS DUE THE CITY OF CAMDEN AS A RESULT
OF UNITED WATER NOT DELIVERING PLANS

Item	Status	Base Cost	Since	# of Years	Cost
Well Head Protection Plan	<i>not provided by United Water, preparation of plan 100 hours of consultant @\$250.00</i>	\$25,000.00	1999	10	\$250,000.00
Water, Sewer, and Billing O&M Plan	<i>not provided by United Water, preparation of plan 100 hours of consultant @\$250.00</i>	\$25,000.00	1999	10	\$250,000.00
Information Technology Strategic Plan	<i>not provided by United Water, preparation of plan 100 hours of consultant @\$250.00</i>	\$25,000.00	1999	10	\$250,000.00
Water Conservation and Drought Mgmt Plan	<i>prepared on behalf of Contractor by City personnel, has not been updated</i>				\$5,000.00
Water, and Sewer Operations O&M Plan	<i>not provided by United Water, preparation of plan 100 hours of consultant @\$250.00</i>	\$25,000.00	1999	10	\$250,000.00
Total Value					\$1,005,000.00

UNITED WATER
Edmund M. DeVeaux
Vice President, External Affairs
200 Old Hook Road
Harrington Park, NJ 07640
TEL 201-750-3505
FAX 201-767-2848

APPENDIX C – UNITED WATER RESPONSE



December 4, 2009

Robert J. Bartolone
Audit Manager
State of New Jersey
Office of the State Comptroller
PO Box 024
Trenton, NJ 08625-0024

Dear Mr. Bartolone,

United Water is in receipt of the discussion copy of the performance audit conducted by your office concerning the Management Services Agreement for the City of Camden's Water and Wastewater Collection Systems. We disagree with the conclusions of the audit as to United Water's management of the Camden contract. While we recognize the need for oversight and periodic review of such important agreements and operations, we feel it is important to clarify several of the elements of the audit, which are factually incorrect, and provide you with information that when reviewed by you would lend to amending the performance audit. In addition, we believe that the audit has failed to take into account the very significant improvements United Water has made to the City's water and wastewater operations.

Before addressing the specifics of the discussion copy of the performance audit, we feel it is critical that the state and the city consider the following factual information for inclusion in the final copy of the performance audit.

- I. The United Water/Camden City Public-Private Partnership
 - o For years, governmental entities across the globe have entered into public-private partnerships for the provision of many different services, e.g. water and wastewater treatment, distribution and customer service; solid waste collection; transportation
 - o This Partnership was formed under the premise that the private sector will perform more efficiently than the public sector; because in the private sector has the incentive to be innovative, to invest in technology, and to be competitive
 - o Private sector service providers assume varying levels of risk when entering into a partnership, e.g. accuracy of municipal records with respect to condition, quantity of assets



- Governments trust that proposals are reflective of the potential partners' intent and ability
- Contracts, or Service Agreements are meant to provide scopes of service, quantify benefits, and qualify performance measures for both the municipal and private partners
- in the end, the goal is to improve service, manage costs, enhance revenue, and develop socially responsible corporate citizens

II. Camden – Overall system improvements

- United Water has Improved water quality through effective system management, e.g. distribution system flushing, and through partnering in the capital project planning and implementation process
- United Water has provided timely customer service and technical/field responses to resident concerns, and reduced recorded resident complaints by approximately 90%
- United Water has installed radio-read meters which have increased the number of actual meter reads.
- United Water has improved the accuracy of information technology systems and provided clear and concise service records for future municipal needs.

III. Camden Community Involvement and Morale

- United Water installed a water bottling facility in Camden, and has donated thousands of bottles of water to Camden Residents at various events. United Water has been a great community supporter by donating sporting event and NJ Aquarium tickets to Camden's children. United Water was recognized by the NJ Tree Foundation for their support in planting trees throughout Camden.
- United Water representatives have been volunteers in Camden City for causes including– *Habitat for Humanity*; *Hopeworks* youth organization; Guest Speakers for schools and other community-based organizations
- United Water is a good corporate citizen, and a member of the Chamber of Commerce. in 2008 donated a Christmas Tree and lights when the city was without and contemplated canceling this annual event. During snow events United Water donates equipment to assist the city in snow removal to help the City meet the needs of the residents,
- Contributions upwards of \$20,000 annually in funds, volunteer hours and equipment – all paid for by United Water out of its own funds

As much too briefly discussed in the audit, the city's systems came with their challenges. United Water assumed the risk of existing systems, and can say with confidence the city is better off today than it was without the partnership. We will now address several of the inaccuracies outlined in the audit and propose changes based upon information not included in the audit.



CONTRACT DELIVERABLES

Maintenance Management System, pgs 10-11

Draft Audit: UW is not using the systems as intended. While some assets are recorded on the 7i and Hiperweb systems, UW is also recording some fixed assets using spreadsheets, while other fixed assets (e.g. hydrants, manholes, pipes, valves and water towers) are recorded only on the GIS.

Fact: All assets are now recorded on either Hiperweb or GIS. The vehicle assets are recorded in a Lease Plan data bases.

[OSC: UW states that all assets are now recorded on Hiperweb or GIS. We note that GIS does not meet the requirements of a comprehensive maintenance management system as defined in the Contract, as it does not include certain critical information, such as maintenance activity.]

Draft Audit: UW does not consistently update the GIS to reflect all fixed assets additions and deletions.

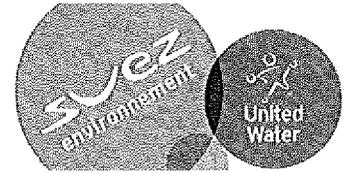
Fact: There were some system errors in the 2004 maps but we have been consistent in our updates and system corrections since 2007.

Draft Audit: Review of fixed assets recorded by United Water indicated that many did not have cost information or model numbers, warranty information, or maintenance activity. Some assets do not have correct installation dates.

Records do not enable easy determination of the asset's physical location therefore it cannot be determined if the assets exist.

Fact: Since the City could not provide exact installation dates to United Water, a default date was inserted. Cost information on upgrades was not provided to United Water by the City. The projects were bid as a lump sum, not individual costs, so United Water does not have this information.

Records indicate the assets exist, but since many asset entries are duplicated, the exact one is difficult to determine. Maintenance would be performed on an asset as instructed. United Water has labeled assets to clarify and address this problem.



Meter Calibration, pgs 11-12

Draft Audit: The contract requires that all industrial and commercial meters older than two years be tested within one year of contract commencement. In addition UW is required to develop a program to ensure that industrial and commercial meters are calibrated at least once every five years. UW's records indicated that none of the 30 meters checked were calibrated in the past 10 years. As a result of the unreliable meter readings and UW's inability to substantiate related billings, the City wrote off over \$1 million during 2008 in water charges incurred by the Riverfront State Prison, Camden County Jail, and the Camden Housing Authority.

Fact: All deliverables were delivered to The Alaimo Group Engineers (City's consultants) at the beginning of the contract as Alaimo was appointed to ensure all deliverables were met. United Water could not locate all of the City's original documents, nor is it a requirement to maintain records older than five years old.

The referenced \$1 million write-off was not due to meter calibration issues. There was no settlement with Riverfront Prison and Camden County Jail, but rather account adjustments to remove interest penalties, which were not due and owed to the City. In the case of the Housing Authority, some meters were broken and could not be serviced without replacement of isolation valves. The cost of the valve replacement was the responsibility of the Housing Authority. The Housing Authority refused to cooperate. When the City ultimately authorized United Water to replace the valves, the meters were replaced.

[OSC: The language cited above does not represent the language in our draft audit report. Instead, it was the language from an earlier "discussion copy" of our report which we revised subsequent to the audit exit conference. These revisions indicated that the \$1 million in write-offs included interest and penalties, and were a result of incorrect rates, inaccurate estimates, and unreliable meter readings.]

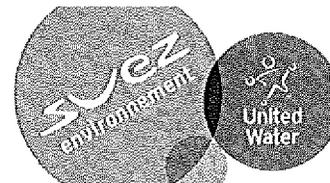
Point of Entry Cleaning, pg 12

Draft Audit: We found that UW does not maintain adequate documentation supporting the cleaning of storm inlets.

Fact: There are records kept that indicate which basins were cleaned on a monthly basis. To ensure ease of use, UW has since entered the catch basin data in Hiperweb to improve the documentation.

Well Rehabilitation and Maintenance, pg 12

Draft Audit: The contract requires that UW rehabilitate a minimum of two wells per year or a greater number of wells as can be rehabilitated for the amount of \$107,000 annually. UW did



not rehabilitate any wells in 2008. NJDEP found poor maintenance at the well head and structures. Some well casing vents were broken or not properly screened. UW has not rehabilitated or maintained wells adequately which could lead to damage, additional costs to the City, and potential health risks to its residents.

Fact: Well rehabilitation is funded through the contract Below Ground (BG) Fund, which is funded by the City. The BG Fund was significantly overspent in 2008 and we suggested to the City in our regular monthly meeting that we rehabilitate the wells in 2009, for a total of four wells in 2009. This would prevent a deficit to the City in 2008 and could possibly reduce the unit well rehabilitation costs in 2009 due to economies of scale. The City agreed. At no time did United Water compromise the health and safety of the residents of the city.

[OSC: The issue of well rehabilitation was not included in our draft audit report. Instead, it is the language from the earlier discussion copy of our report which we revised subsequent to the audit exit conference.]

Pressure Filters, pg 13

Draft Audit: UW could not provide any records to show that it had conducted regular filter inspections or performed core media sampling.

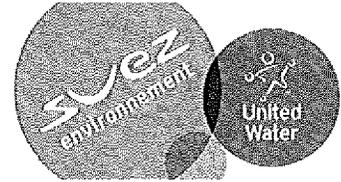
Fact: UW had previously inspected the filters in 2006 and determined that the filter media and underdrains were in need of replacement and advised the City accordingly in every monthly meeting. Our assessment is that it would be wasteful to continue testing a unit when the result is already known. Based on the results of our testing, the City sought funding for filter rehabilitation.

[OSC: As indicated in our report, when DEP asked for such records, UW could not provide them.]

Water Storage Tanks, pg 13

Draft Audit: UW's 2008 system audit report and NJDEP inspection indicated various levels of corrosion, paint issues and vegetation around the base of the tanks. NJDEP found an unsecure vent and a minor leak in the North Camden tank and a hole in the roof of the Kaighn Ave Tank. The unsecure screen and hole allow for contamination and create a safety hazard, The North Camden tank leak causes water loss and calls into question the sanitary integrity of the facility.

Fact: UW had the tanks that are included in the Contract inspected twice during the period, and the inspection reports were sent to the City. Based on the evaluations, the City sought funding for rehabilitation of the tanks. The hole that is referred to in the Kaighn Ave. tank was repaired. Inspections completed by NJDEP on annual basis have found all facilities in



satisfactory condition. We find objectionable the alarmist language used by the auditor that suggests that the sanitary integrity of the system has been compromised.

[OSC: The issue regarding the hole in the Kaighn Avenue tank was not included in our draft audit report. Instead, it is the language from the earlier discussion copy of our report which we revised subsequent to the audit exit conference. Further, the reference to the sanitary integrity of the system was that of the DEP inspector as a result of the inspection he conducted at our request.]

Fire Hydrants, pgs 13-14

Draft Audit: The City and UW do not agree on who is responsible for the costs associated with the City's hydrant replacement. City Engineer estimates that 20% of hydrants need to be replaced.

Fact: United Water has replaced more than 100 (this may be over 200) failed hydrants since 1999. The city has elected to replace 75 RD WOOD hydrants with improved K-81 hydrants which have better flow for firefighting. United Water tests all hydrants twice per year unless limited by state regulations.

Plans, Programs and Reports, pgs 14 – 15

Draft Audit: The water and wastewater system O&M plans were updated only once, in 2003,

Fact: The plans were updated again in 2009 when construction was completed and the bond had expired on the improvements at the water plant. This was discussed and agreed to by the city to ensure that the most current plans were on file.

[OSC: The language above does not represent the language in our draft audit report. Instead it is the language from the earlier discussion copy of our report which we revised subsequent to the audit exit conference.]

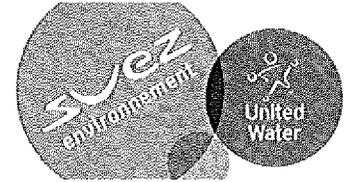
Draft Audit: The billing & collections plan was not updated until 2009

UW never completed the Residuals Disposal Plan, Well-Head Protection Plan, Training Plan, and Preventative Maintenance Plan.

Fact: These deliverables were reviewed by Alaimo Engineering who oversaw the project on behalf of the City for the first several years. Based on these plans the City built a new sludge handling facility and installed ten (10) new wells above the flood area. UW used Maximo CMMS at the beginning of the contract for a Preventive Maintenance plan. This program could also be accessed by the Utilities Director. The City's maintenance records were over 10 years old and could not be found.

[OSC: To date, neither the City nor UW could provide these plans.]

Draft Audit: The Valve Exercising Program was not created until 2006



Fact: United Water began exercising valves in 1999. Based on this program, specifications on valve replacement were completed on the large main projects completed in 2001 and 2003.

[OSC: While UW may have been exercising valves, the formal program was not in place until 2006.]

Draft Audit: The IT Strategic Plan was not updated in 2005 and 2008

Fact: The City did not request nor provide input for an update of the plan during this period.

Draft Audit: We found no formal communication between the City and UW in the development of annual long term capital improvement plans.

Fact: The monthly meeting allows discussion for long term plans. Several of the projects for which the city requested stimulus money were for items that were recommended by United Water.

[OSC: We deleted this finding from our final report.]

Unaccounted for Water Loss, pgs 16-17

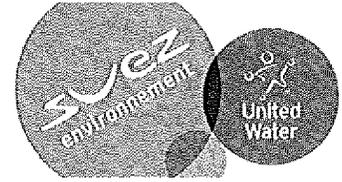
Draft Audit: UW's water loss in the City far exceeds the contract standard of 10%. UW's average of 45 percent is more comparable to that of cities in developing countries according to a 2002 World Bank report. Although high UFW may be partly attributable to the age of the City's water system, inadequate system maintenance and metering and insufficient monitoring of water usage and production. UW was unable to provide documentation showing that it conducts water loss analysis to determine cause and take corrective action.

The magnitude of the water loss represents a significant loss of revenue for the City. If UW were to limit water loss to 10% as required by the contract it would generate an additional \$2.6 million in revenue to the City.

Fact: The above statement is incorrect. It assumes that unaccounted-for-water is being supplied to customers for free, when in actuality it is water lost through leaks in the City's aging pipes. The cost for treatment and delivery of water lost through the system is borne by United Water. This does not represent lost revenue to the City.

In addition, UW has installed more than 200 locking devices on hydrants to prevent illegal use. We have worked with the City to have the devices installed on all capital projects that have new hydrants installed.

[OSC: The language above does not represent the language in our draft audit. Instead, it is the language from the earlier discussion copy of our report which we revised subsequent to the audit exit conference. The revision indicates as explained in Appendix A, that \$1.7 million is a revenue loss to the City due to water that is delivered but not metered or billed properly.]



BILLINGS AND COLLECTIONS

Draft Audit: Neither the City, nor UW effectively manage the A/R process.

Customer Billings — Water & Wastewater Billing Rates, pg 20

The contract places the responsibility for setting water collection rates and charges with the City.

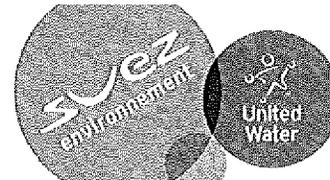
Fact: United Water provided all the necessary assistance to the team of Tatum and Associates, LLC (T&A) to conduct the rate increase study. The rate was approved on June 9, 2009 and applied retroactively to January 1, 2009. On June 19, 2009 United Water executed the first billings with the retroactive piece of the rate in effect.

We took action immediately recognizing the need for the additional revenue for the City and put together a team of experts to program a system to implement this complex increase. United Water had maintained the regular billing schedule and billed customers throughout the June 9th date. The program that needed to be created had to take into consideration a number of factors:

- ***Consider what was billed at the existing rate and what should have been billed had the rate increase taken effect on January 1, 2009 and determine the delta to be billed.***
- ***Change the existing residential rate that had three consumption blocks at specific pricing to two consumption blocks***
- ***Write a separate program to identify residential and industrial customers to be able to reclassify them to meet the ordinance requirements.***
- ***Apply the rates to the newly redefined residential customers; those with a meter size of 5/8" to 3/4" and commercial customers 1" and above, prior residential customers were defined as services with 5/8" to 2".***
- ***Execute the actual retroactive billing.***

Once this was completed we then had to create a second rate increase for Fiscal Year 2010 with an effective date of July 1, 2009 as per the ordinance.

Throughout this process United Water's methodology for rate increases was utilized. This procedure involves the testing of the rates in the model office environment prior to pushing the rate increase into production, holding of the bills prior to sending them to customers and the communication to all the customers via a bill message of the increase.



All these changes were executed without consideration to the additional costs to United Water associated with the work involved. United Water understood the need to bill the revenues as quickly as possible and worked jointly with the City to achieve this goal. United Water did not bill the City for this additional customized work.

Customer Billings – Billings and Collections System, pgs 21-22

Draft Audit: We found that UW does not have an adequate billing and collections system and customer information system to account for all customer activity properly.

- a) A/R reports generated by UW do not include service or billing addresses, bill details, or account types (e.g., commercial, or residential), which can hinder collections.

Fact: The billing and collections system has an array of reports, all of which have different sorts of data. There is a long list of these reports that represent functional areas of the system, billings reports, meter readings reports, payments reports, adjustment reports, field work order reports and so on. If a given request for a report with specific data fields does not exist we follow a process that involves a change request where the report is created. This is the case during the audit process where a report was created to provide the needed data.

The AR reports are a statement of the age of the moneys owed. Depending on the collections strategy the report can be used as the main tool for collections or a complimentary report to monitor progress. The United Water billing system performs the collections activity within the system itself and uses the AR report for monitoring purposes. As part of the process the shut-off function in the system creates a field work order to perform the physical shut-off that lists the premise information, bill information and the class of the property.



United Water recognized the need for additional information on the AR report to allow for more detailed evaluations of debt, and did so by adding additional fields to two of the existing AR reports. Report "UOORN53T" now has Service Address, Mailing Address and Block and Lot number fields. Report # "UOORN53T" now includes fields the revenue classes as well.

b) 784 closed accounts, some of which date back to 1999, were not written-off by UW and have outstanding A/R balances of approximately \$105,000 as of January 1, 2009. Many of the closed accounts had customer names as "General Service", "Hydrant Permit", and "Current Owner".

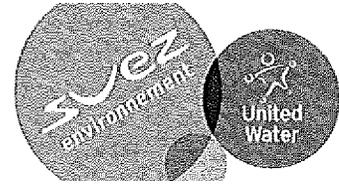
[OSC: The number of closed accounts was revised to 794.]

Fact: United Water does not write-off receivables unless authorized by the City. We will gladly work with the City on any efforts to further address outstanding receivables. In reference to the customers' names, "General Services" is the bill payer information although the owner is under the name of "United States of America". This account reflects charges for discharge related to volumes been delivered by the collection systems for the Federal Court House. "Hydrant Permit" account reflecting charges and payments collected for allowing hydrant usage as permitted by the city ordinance. "Current Owner "is mostly for sewer accounts only where records are provided by NJ American. Although the name is under current owner we do have the owners name at the account level as well.

c) Approximately \$555,000 of A/R credits owed to City customers were older than 120 days as of January 1, 2009, of which approximately \$91,000 dates back to 1998.

Fact: There are approximately \$171,900.92 credits on final accounts as of October 31st 2009, which are the first priority for processing. During this process we will identify whether owners with such credits have other properties with due balances. Credits then should be applied against those debits first prior to the refunds.

There are approximately \$419,013.93 credits on active accounts. Because some customers may pay in advance and then use credits to pay off future bills due to particular circumstances this category should be looked at on a case by case basis. The process to identify open balances on other accounts that may be owned by a



d) We identified six accounts that did not have billing addresses, and two that had incorrect addresses.

Fact: United Water relies on information provided by the customers at the time the service is initiated and a record is entered in the billing system. All of the six accounts did have mailing addresses. Five accounts were final accounts that had mailing addresses, and subsequent new active account numbers. One of them was active all along and also has a mailing address. This detailed information has been provided to the auditors.

[OSC: Based on the information provided by UW subsequent to the issuance of the draft audit report, we have deleted this finding.]

e) As of January 1, 2009, there were 43 open accounts totaling approximately \$32,000 with balances greater than \$25 and older than 30 days. During calendar year 2008, no reminder bills were generated for those accounts. According to UW, its system was supposed to automatically generate reminder bills.

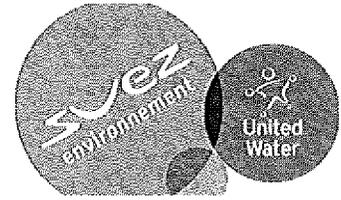
Fact: The billing system generates reminder notices for past due amounts at 32 days. There are exceptions to this rule specific to the account type. For example bankruptcy accounts, Municipal Lien accounts, and Public Properties are exempt from this type of notice.

The majority of the 43 accounts noted fall into the exception category, where notices are not required. The rest of the properties did have a history of reminder notices being sent. The detailed information about these 43 accounts has been sent directly to the auditors.

[OSC: Based on the information provided by UW subsequent to the issuance of the draft audit report, we have deleted this finding.]

Draft Audit: All credit balances owed to City customers should be refunded timely or remitted to the State as abandoned property in accordance with the State's Uniform Unclaimed Property Law.

Fact: The timing of customer refunds is affected by the requirement for City Council approval of all refunds, which is often a lengthy process.



Customer Billings - Customer Billings Free Water Service, pg 22

Draft Audit: We found that UW does not maintain a comprehensive listing of properties receiving free water.

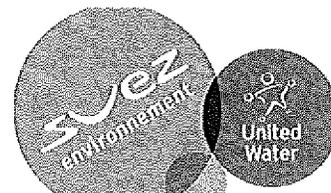
Fact: The list on the following page represents the free water and sewer service list as per the contract. Although the list has limited address information it was investigated and results found no matching records in our billing system for all with the exception of Our Ladies of Lourdes Hospital and the Walter Rand Transportation Center. These two names, part of this list under the title of "Police Department and Mini Stations" may have been excluded at a later point as records show activity since 1999.

[OSC: This finding was in the discussion copy of our report but was deleted subsequent to the audit exit conference. It did not appear in the draft report.]



**Table 1-16
Customers Receiving Free Water and Sewer Service**

Fire Stations and Shops
Headquarters, 3rd & Federal Street
St. Ephraim & Kaighn
Liberty Station, 1301 Broadway & Liberty
10th & Morgan
17th & Hayes Avenue
11th & Kaighn Avenue
1150 Wright Avenue
127th & Federal Street
Local #788
Credit Union
Police Department Sub-Stations and Mini-Stations
Administration Building, 1 Police Plaza, 800 Federal St.
1st Police District, 7th & State Street
2nd Police District (temporarily located at 800 Federal St.)
3rd Police District, 29th & River Road
4th Police District, 1222 Kaighn Avenue
1st District, Walter Rand Transportation Center
2nd District, Yorkship Square
3rd District, 2612 Federal Street
3rd District, 33rd and Westfield
3rd District, 219 Mariton Pike



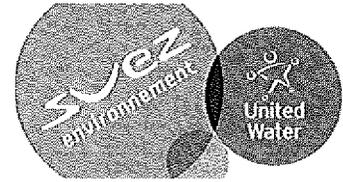
Customer Billings - Accounts Receivable and Collections, pgs. 22-24

Draft Audit : This significant amount of uncollected revenue is indicative of considerable problems in the collection of A/R. A significant factor in UW's inability to collect A/R balances is the fact that up until recently the City did not have a program in place that would enable UW to implement and enforce a water shut off program as a result of nonpayment.

Fact: United Water has been committed to reduce the AR receivables an example of which is demonstrated on the table below. The receivables represent where we were in January ft 2009 and where we are as of November 1st 2009 with the percentage reduced on the 90 days and older bucket. The receivables include the two rate increases, the retroactive to January 1st 2009 and the July 1st for fiscal year 2010.

The shut-off program will further assist in the collection of the oldest debt and United Water is working with the city in administering this program that will target the oldest debt first.

<u>CAMDEN RECEIVABLES</u>				
<u>January 1st 2009</u>				
0- 30	<u>31 TO 60</u>	61 TO 90	90+ DAYS	<u>GRAND TOTAL</u>
\$1,158,093	\$422,159	\$342,933	\$4,524,644	\$6,447,829
<u>November 1st 2009</u>				
0- 30	<u>31 TO 60</u>	<u>61 TO 90</u>	90 + DAYS	<u>GRAND TOTAL</u>
\$1,551,478	\$1,331,205	\$684,076	\$2,257,844	\$5,824,603
<u>VARIANCE -OLD DEBT</u>			50%	<u>REDUCTION</u>



Draft Audit: United Water does have the proper codes that allows the Tax Collector to run yearly lien sales

Fact: The way United Water is able to provide this information is by tracking these properties by the use of a collection codes "C" for lien candidacy and "P" for paid that are clearly identified in the billing database. Properties sold during the Lien Sale are done via the Tax Collector's Office. A certification number is assigned to each property sold and the office of the Tax Collector maintains this information. A property owner has the right to redeem the lien sold and does so by reaching out to the Tax Office to obtain the amount that is attached to the specific certificate that may include interest for the amount that was initially paid.

[OSC: Neither our discussion copy nor our draft audit report contained this statement.]

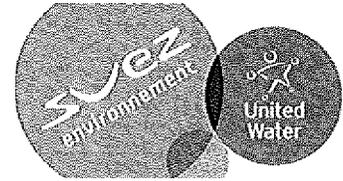
Draft Audit: The City relies on UW to provide a listing of properties with such liens that are eligible for sale. However UW does not maintain adequate information or have adequate procedures in place to identify such properties.

Fact: Historically the Lien Sale process is a very successful collection tool that involves the joint collaboration between the Office of the Tax Collector and United Water. Every year the Tax Collector provides United Water with the eligible criteria as well as the dates for the Sale. Every year United Water provides the Tax Collector with the necessary information that allows for the execution of this sale. It is because of the ability of United Water's billing system to maintain collection codes such as "C" for lien candidacy, "B" for bankruptcy accounts, "M" for municipal accounts, "T" for accounts with outside liens, "P" for accounts paid and therefore not eligible for lien sale and so on that we can provide the information required by the office of the Tax Collector to run the sale. The information is a specific formatted file with eligible records for the sale broken down by receivables, water and sewer, that is sent to the Tax Collector on May 11th of any given year.

Draft Audit: In 2003 the City did not exercise adequate oversight of this listing which resulted in seven properties being inappropriately sold.

Fact: In 2003 the City sold seven properties that we believe were the Housing Authority properties. If so, this category of properties are what is called "public properties" with a tax code of 15C. The coding of properties as municipal is a City function, and this is what determined which properties are exempt properties from the Lien Sale. As an assistance to the City United Water has coded properties with a collection code of "X" based on information provided but certainly United Water is not responsible for excluding public

Mr. Robert
Bartolone
December 4, 2009
Page 16



properties or other type of exempt properties on the lien sale as we are not administering the City's tax rolls.

Draft Audit: A high percentage of the outstanding A/R is also a result of the City not conducting an effective review of the A/R.

The City's lack of adequate contract oversight and understanding of basic accounting procedures, in conjunction with UW's inability to provide A/R reports in a useful format creates a high likelihood of misstatement of A/R.

Fact: Please see responses outlined above as to United Water's response.

Pass-Through Charges, pg. 24

Draft Audit: This project was also billed as a pass through charge by UW without obtaining quotes, as required by the contract. Further, the Contract does not allow for the assessment of administrative fees for emergency projects.

UW outsources work to subcontractors in the amount of \$3 million which was paid by the City without invoices detailing the subcontractor expenses incurred by UW.

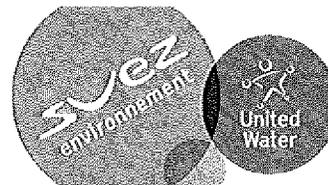
Fact: United Water has a contract for emergency work that is competitively bid. Since the rates for that work were competitively bid, it is not necessary to bid every task order performed under that contract. This enabled United Water to take care of the emergency situation promptly. All invoices to the city for emergency work have the original bills attached. The contract allows United Water to recover overhead costs.

[OSC: As indicated in our report, the \$4.3 million in pass-through charges that were not subject to a competitive process as required by the contract included only one emergency project totaling \$955,000. Instead, UW's contract with the subcontractor broadly projected all possible repairs, both emergency and non emergency, thereby assuring almost all work would be awarded to a single vendor and eliminating the possibility of awarding such contracts based on a competitive price. Further, the invoices provided to the City were from UW, not the subcontractors. Therefore, the City had no assurance that the charges were dollar-for-dollar and did not include any add-on fees.]

Administrative Fees, pg 27

Draft Audit: UW was inappropriately adding administrative fees ranging between 9 and 12.5 percent on these invoices for work performed by UW's subcontractors.

Fact: The Contract allows for, and recent meetings with the Department of the Treasury representatives confirm, the recovery of UW's overhead costs.



[OSC: As our audit states, the Contract requires that costs related to pass-through charges be billed to the City on a dollar-for-dollar basis. As indicated in the attached letter from the City of Camden (see Appendix D), UW's statement concerning Treasury's position on this issue is incorrect.]

PROPOSED CONTRACT AMENDMENTS

Draft Audit: UW has been billing charges based on proposed contract amendments that have not been executed by the parties.

Fact: United Water presented the costs to the city and requested comments. The city agreed to the charges and an amendment was created but not presented to Council. United Water started incurring charges when the facilities were built and requested payment. This work could not be separated from the other work performed by United Water. The City paid the charges relating to the first amendment for over five years. United Water is not responsible for the determining the City's processes for payment, and United Water relied on the payments and other approvals of the City as evidence that the City agreed to pay these charges. These charges are fully supported by the language of the contract, whether formalized in an amendment or not, and the City has received the value of the work that has been performed.

Labor Charges, pg. 28

Draft Audit: The City initially staffed its water utility with 69 employees. UW currently operates with 39 employees, representing a 20 percent reduction in staff from its required staffing-plan levels. Given the reduction, there does not appear to be sufficient justification for the proposed increase in staffing.

Fact: Part of the dramatic savings realized by the City with the Contract was related to a reduction in staffing which occurred primarily at the start of the Contract. The staff reductions were possible due to UW's expertise, efficiency and innovation in water operations and were an essential element in order to perform the services at the agreed-to fee. The proposed increase in staffing is related to additional work requested of UW by the City. The additional work requires UW to hire additional staff which would otherwise be unnecessary.

[OSC: UW's own staffing plan calls for a staff of 49. As it is currently operating at a level of 10 less than agreed upon at the inception of the Contract, it should not be proposing additional labor changes.]

Geographic Information System, pg. 28

Draft Audit: The 2007 MOU proposes additional annual charges for GIS labor of approximately \$75,000. However since the Contract already requires the provision of GIS, the charges are already included the City's payment of the Annual Service Fee.



Fact: The request from the City for the enhanced GIS services was made at the 4/27/07 monthly meeting. We incorporated the full time GIS Tech into the proposed MOU for the City's review and approval. The City reviewed and approved the scope in the MOU. These are enhanced services in addition to those required by the contract.

The enhanced services included 1. Incorporate City's separate storm water system into the GIS, maintain inventory and update as needed 2. Update City's wastewater collection system for CSO solids/floatable facilities required by revisions to CSO permit 3. Assist City with integration of GIS into other City information systems as needed 4. Support special projects related to researching and mapping orphan sewers, flow investigations and water distribution studies.

[OSC: The updating of GIS is a Contract deliverable. Therefore, the services listed above are included in the annual service fee the City pays UW and, as such, are part of UW's obligation. Further, the MOU was never approved by the City.]

MANAGEMENT OVERSIGHT

Fixed Assets and Capital Improvements, pg. 31

Draft Audit: We found the City's accounting for the fixed assets of the water and sewer systems to be inadequate.

Building Maintenance and Asset Disposal, pg. 31

Draft Audit: We found that neither the City nor UW is maintaining the Puchack Water Treatment Plant. Since the Puchack Plant is not used by the City, UW has taken the position that this asset does not need to be maintained pursuant to the Contract. We observed a leaking roof, rusted equipment and debris throughout the plant.

Fact: The facility is not in use and due to water quality and legal issues, all of which preceded the contract date, will likely not be used again. The plant is being used for storage of city assets. UW is negotiating a credit with the City for reduced O&M services at this location.

Dispute Resolution, pgs. 35 - 36

Draft Audit: We found that the required Operations Committee was not established until May 2009. If the Operations Committee had been functioning properly the City and UW may have been able to resolve certain disputed issues. In the event of dispute issues related to payment



obligations, the Contract requires the disputing party to deposit monies in an interest bearing account until the issue is resolved. Until such resolution both UW and the City are required to continue to perform all respective obligations without interruption or delay. In correspondence to the City, UW has threatened to discontinue operating the water and wastewater systems during dispute resolution.

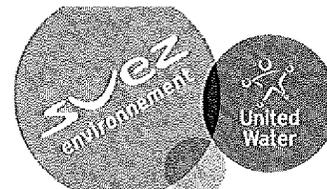
During 2009 UW sent the City several letters concerning the disputed invoices and the requirement to deposit the disputed funds in an escrow account. As of May 2009 the City has not yet complied with this requirement.

For its part UW has not consistently abided by the contractual requirement to perform all obligations without interruption. As a result of changes in NJDEP regulations UW was required to operate a facility used to manage sewer overflow which it has refused to do until a determination was made concerning the responsibilities and costs of such operations. The delay resulted in the City receiving notices of violations from DEP.

Fact: United Water had repeatedly requested that the Operations Committee be formed. The city had difficulties finding members to attend. United Water has always been willing to meet with the City. The Operations Committee was formed in May 2009.

The CSO facilities were not part of the original system and therefore were not included in the scope of operations. Therefore, UW was not required to operate them. There is no requirement for UW to operate additional facilities without fair compensation. UW presented proposals to operate these facilities but the city failed to approve until September 2009. Due to the significant outstanding receivables (more than \$5 million) owed, UW was not willing to undertake this work without a formal agreement and assurance of payment. This has now been accomplished, and UW is performing the work. In addition, United Water has not stopped work under the contract. We did note in correspondence that our covenant to continue work is contingent on the City placing the disputes monies into an escrow account as required by the contract, which the City has not done. UW notified the City of this requirement several times during 2009, in connection with our efforts to collect outstanding funds. These matters represent contractual disputes, which both the City and United Water have been attempting to resolve through the Operations Committee process.

[OSC: The services in question are included in the Contract and, as such, are an obligation of UW.]



Access to UW Systems, pg. 36

Draft Audit: Other than providing the City with access to customer account balances from 2003 – 2009, UW has not provided the City with the required access concerning maintenance and operations, including customer complaints. The City has not requested access to such systems.

Fact: We have created a UW mailbox where complaints are received and we submit the complaints received weekly to a distribution list supplied by the city. The Company previously provided the City with access to CMMS using the Maximo system, although the City did not access the information . We can easily provide this access again upon request of the City.

Certified Operator, pg. 37

Draft Audit: We found that UW's full time Certified Operator of the City's water system is also the licensed operator of the Manchester Dept. of Public Works, where according to NJDEP records he is in attendance 16 hours each week. Considering travel time it does not appear feasible that the City's full time operator is able to be present at the Camden water treatment plant for 40 hours per week.

Fact: The City full time work week is 35 hours. The project manager works a 50 to 55 hour work week, which affords sufficient time to operate both facilities. The City was aware that the licensed operator was involved in Manchester also. During the recent audit conference, it was noted that the project manager has accepted a promotion to another position. In the interim, our requirements for a certified operator are met as follows. Our Manager-Municipal Operations, holds a C4 license, and our Assistant Project Manager has W4 and T3 licenses. The company expects to make an offer to a T4 operator in the next few days.

Respectfully,

A handwritten signature in black ink that reads 'Edmund M. DeVeaux'.

Edmund M. DeVeaux



City of Camden
OFFICE OF THE CHIEF OPERATING OFFICER

ALBERTHA HYCHE
Interim Chief Operating Officer

BRETT WATERS
Chief of Staff

December 8, 2009

William P. Challice, CIA, CFE, CGFM
Director, Audit Division
Office of the State Comptroller
P.O. Box 024
Trenton, New Jersey 08625-0024

Dear Mr. Challice:

United Water provided to me a copy of their response to the Office of the State Comptroller's audit. At the bottom of page 16 of their response, under Administrative Fees, the response states that "the contract allows for, and recent meetings with the Department of the Treasury representatives confirm, the recovery of UW's overhead costs". For the record, please be advised that the Department of the Treasury took no such position.

When I first became involved in reviewing the expenditures for the City of Camden and became aware that United Water was adding the administrative fees to their billings, I questioned whether or not the fees were appropriate. Because I was unable to get an adequate response, I advised the City to immediately stop paying the fees. As the audit report states, the City is disputing over \$400,000 in charges assessed by United Water for administrative and other fees. The City is disputing these charges based upon the advice and direction of the State Department of the Treasury representatives.

Notwithstanding this audit that was conducted by the State Comptroller's Office, Treasury representatives had previously requested from United Water an independent audit of how the fees were derived. If we had received the results of the requested audit, we were then going to have the City Attorney's office review to determine if the fees were allowed. To date, neither the City nor the State Treasury Department has received from United Water an audit report of the fees.

Sincerely,

A handwritten signature in black ink, appearing to read "A. Hyché".

Albertha Hyché
Interim Chief Operating Officer