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## **State Comptroller finds Camden's mismanagement of water contract cost taxpayers millions**

### **City of Camden seeking to recover costs based on Comptroller's findings**

The city of Camden's failure to properly manage its water services contract cost taxpayers millions of dollars while leaving important public safety assets improperly maintained, according to an audit released today by the Office of the State Comptroller (OSC).

The OSC audit determined, among other findings, that from 2004 to 2008 an average of 45 percent of the city's water production either went unbilled or unused. The water loss – a combination of leakage, storage overflows, meter inaccuracies and errors in customer billing systems – far exceeds the 10 percent maximum in the city's contract with its water service provider as well as the acceptable range set forth by agencies that establish industry standards. An OSC analysis determined Camden can generate approximately \$1.7 million in additional annual revenue while lowering production costs and saving resources if water loss were held to the standards defined in the contract.

The city entered into a 20-year contract with United Water LLC in February 1999 for the operation, maintenance and repair of the city's water supply and wastewater collection systems.

The OSC audit found a series of examples of contract mismanagement that proved costly to taxpayers. For example, the city paid United Water \$2.2 million, including a 25.95 percent administrative fee, for increased costs associated with a proposed contract amendment that was never approved by the city. Also, a review of 64 payments totaling \$8.3 million for add-on charges to the contract found multiple problems with all 64 payments. Specifically, there were numerous instances of charges paid without adequate supporting documentation, proper authorization or a determination of whether the charges were permissible under the contract.

In response to the audit, the city of Camden has sent notice to United Water seeking to recover \$28,888,758. The city directly attributed \$18,789,298 of its claim to the findings in the audit.

State Comptroller Matthew Boxer said the audit should send a clear message to all municipalities regarding the management of contracts.

“If a municipality decides to outsource a basic service such as providing water, it needs to understand that its responsibilities do not end with the awarding of the contract,” Boxer said. “The city of Camden had an obligation to safeguard the public’s tax dollars and it failed to do so.”

In some cases, the contract mismanagement led to both costly and embarrassing consequences. For example, in 2003 the city relied on United Water’s lists of properties with municipal liens relating to unpaid water bills to sell seven such liens to third parties for enforcement purposes. The list, however, was inaccurate and so the city had to repurchase the liens at a 15.9 percent interest rate and an additional cost to taxpayers of \$71,658.

The audit makes 23 recommendations to Camden for improving its contract management going forward. Camden’s interim chief operating officer noted that the city agreed with each recommendation and that the audit “provides a structure that should greatly assist the city going forward in better managing this contract.” OSC auditors will follow up with the city to ensure the recommendations are implemented.

### **Potential health and safety risks**

Though tests conducted by the New Jersey Department of Environmental Protection (DEP) determined that the city’s water quality currently meets minimum standards, a number of findings in the audit point to potential health and safety risks for Camden residents.

At OSC’s request, the DEP conducted a series of inspections of water storage tanks throughout the city. The inspections found various levels of corrosion that could reduce the thickness of the tank walls and threaten the sanitary and structural integrity of the storage facilities over a period of time. An inspection of one tank found a leak and an unsecure vent screen, which could allow for contamination.

Inspectors also found that some well casing vents – which protect against entry of insects, small animals and other items that could contaminate water wells – were either broken or not properly screened. The audit also determined that the city does not maintain adequate documentation to determine if the required cleaning of catch basins has taken place. Obstructed catch basins can result in street flooding.

A DEP inspection, at OSC’s request, of 12 pressure filters that remove iron and manganese from water found the filters were losing their effectiveness. United Water could not provide any records to show it had conducted the recommended inspections or evaluations of the water filters.

The failure to replace city fire hydrants also poses serious safety implications, the audit found. While the city’s contract with United Water requires broken or inoperable fire hydrants to be repaired or replaced, it does not clearly assign responsibility for the costs of such replacements to either party. The city engineer estimates approximately 20 percent of the city’s 1,310 fire hydrants need to be replaced.

## **Millions of dollars wasted**

The majority of findings in the audit, however, dealt with fiscal issues. Among them:

- United Water charged the city administrative fees ranging as high as 12.5 percent for work that the company subcontracted to other entities, even though such fees were not authorized under the contract.
- The city allowed United Water to subcontract and bill the city for \$4.3 million in services carried out by subcontractors not selected through a competitive process as required by the contract. United Water awarded most of the work to the same subcontractor.
- OSC auditors tested 30 water meters and found none had been calibrated within the past 10 years as required. Failure to perform routine 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 in water charges in 2008, including interest and penalties, that were billed to the Riverfront State Prison, Camden County Jail and the Camden County Housing Authority but could not be substantiated.
- United Water failed to refund approximately \$555,000 in credits owed to city customers.
- Collection efforts were lacking as 70 percent of customer accounts had uncollected balances greater than 90 days old. United Water's accounts receivable reports lacked critical information such as customers' names and addresses, rendering collection difficult.

## **“Left to rot”**

OSC auditors attempted to locate 17 city-owned assets purportedly maintained by United Water, including pumps, valves and hydrants, and could not locate 15 of them. The city could not give assurances that the 15 assets even exist.

Perhaps more troubling, Boxer said, were a group of assets that actually could be located. An OSC inspection of a water treatment plant in the city found unused city assets that should have been sold at auction - including water meters and nine vehicles – were instead left to deteriorate. The physical inspection revealed a leaking roof, rusted equipment and debris throughout the plant. The vehicles – now inoperable with broken windows, moldy interiors and rusted roofs – had depreciated in value from \$71,000 to an estimated \$4,000. The water meters, left under a leaking roof, also had deteriorated.

“These are public assets that belong to taxpayers,” Boxer said. “And yet they were treated like junk and left to rot.”

United Water has acknowledged that it did not maintain the plant and owes the city a credit. The city contends the credit should be \$500,000.

The OSC initiated its audit as a result of information received from the New Jersey Department of Treasury. Boxer thanked both the Treasury Department and the DEP for their assistance.