



State of New Jersey

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March 31, 2016

The Honorable Dana Redd
Mayor
City of Camden
520 Market Street
Camden, NJ 08101-5120

Re: Follow-Up Report F-15

Dear Mayor Redd:

Pursuant to the Office of the State Comptroller's (OSC) authority as set forth in *N.J.S.A. 52:15C-1 et seq.*, we have followed up on the actions taken by the City of Camden (City) and United Water (UW) to implement the recommendations contained in our audit report, *City of Camden: A Performance Audit of The Management Services Agreement for the City of Camden's Water and Wastewater Collection Systems* (Report PA-06) issued on December 16, 2009. Our findings and conclusions are set forth below.

Background, Scope and Objectives

On February 1, 1999, the City entered into a 20-year agreement (Contract) with UW for the operation, maintenance and repair of the City's water supply and wastewater collection systems. Under the Contract, UW was responsible for, among other things, water and wastewater billings, collections and customer service. The City was responsible for all water and wastewater capital improvements. The City was also responsible for the accounting and financial reporting of water and wastewater operations.

Our initial audit report identified widespread weaknesses in the City's contract management practices and internal control structure, resulting in a loss of revenue and additional costs to the City, as well as potential health and safety risks to City residents. We found these weaknesses

across numerous fiscal and operational areas. Specifically, we found that controls were lacking in areas of billings and collections, management oversight and contract administration.

In March 2012, the City and UW executed an amendment to the Contract. The amendment included, among other things, changing the Contract end date. UW continued providing services until January 31, 2016.¹

The objective of our follow-up engagement was to determine if the City has implemented the 23 recommendations contained in our initial audit report. Our follow-up engagement covered the actions taken by the City during the period immediately following our initial audit, September 29, 2009 through June 26, 2015, related to the UW contract.

Summary Conclusion

We found that the City has made progress in implementing the recommendations set forth in our initial audit report. Of the 23 recommendations, 13 have been implemented, 6 have been partially implemented and 2 have not been implemented. Two recommendations are not applicable. Although the City indicated that it has made additional progress toward the implementation of the recommendations noted as partially or not implemented, this progress was made after our field work concluded and is therefore unverified.

Status of Initial Audit Recommendations

Recommendation 1

Ensure that UW implements and maintains a Computerized Management Maintenance 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.*

¹ Pursuant to the “New Jersey Water Supply Public-Private Contracting Act,” N.J.S.A. 58:26-19 *et seq.* and N.J.S.A. 58:27-19, *et seq.*, the City entered into a contract with a new vendor to provide services related to the operation and maintenance of its water supply and wastewater assets. That contract term began on February 1, 2016.

Status: Partially Implemented

UW implemented a CMMS program for most components of the water and wastewater systems, including all fixed assets and their respective maintenance activity. The condition, location, model number, warranty information and installation dates of fixed assets were also included in the program. However, the costs of assets were not included in the program. Neither UW nor the City tracked the costs of fixed assets.

Recommendation 2

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

Status: Partially Implemented

Various key personnel within the City were given read-only access to CMMS, which allowed them to monitor fixed assets, however, the City did not provide any evidence that reconciliation of fixed assets of the water and wastewater systems were performed.

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 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; and*
- *Fire hydrants to ensure that all inoperable hydrants are repaired and replaced in a timely manner.*

Status: Implemented

Through CMMS, UW documented and maintained records of all operational and maintenance activities of the water and wastewater systems. Specifically, we reviewed:

- A sample of meters and work order reports and determined that meters were calibrated at least once every five years;
- Work orders of a sample of catch basins confirming that the point-of-entry cleanings were performed at least once every three years as required by the Contract;
- Reports that show wells were maintained and periodic status reports were provided to the City;
- Work orders to confirm that pressure filters were inspected annually and core media sampling was conducted once every five years;
- Reports to verify that water storage tanks were inspected in 2009, making the next inspection due in 2014;²
- Work orders to verify that fire hydrants were being repaired and replaced as needed.

Recommendation 4

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

Status: Implemented

As part of the annual service fee paid by the City to UW, the Contract required UW to prepare various plans, programs and reports that detailed the specific water and wastewater operations and system maintenance to be performed by UW. These plans, programs and reports were critical to ensuring that the water and wastewater systems were operated, maintained and repaired in a manner that facilitated long-term sustainability. Such plans, programs and reports also would have enabled the City to properly monitor UW's performance and the water and wastewater systems' condition, as well as its compliance with industry standards and State regulations.

OSC found that UW prepared and provided to the City all contractually required plans,

² The City, however, issued an Invitation to Bid in 2014, to have capital improvements completed on the three City tanks, in lieu of performing the 2014 inspections.

programs and reports during the relevant follow-up period. This included the Annual Operations & Maintenance plans, the Capital Improvements Plan, the Information Technology Strategic Plan and monthly progress reports, which contained information about the systems' operations and maintenance.

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.

Status: Implemented

In our initial audit, we found that UW's unaccounted for water loss (UFW) in the City far exceeded the Contract standard of 10 percent. Specifically, UW's UFW averaged approximately 45 percent for the years 2004 through 2008.

During our follow-up, we found that in 2010 the UFW average was reduced to approximately 39 percent. UW provided monthly reports to the City on water production and water usage. Based on these reports, as well as periodic leak surveys, UW performed corrective actions to minimize water loss. No deviations from the Contract occurred due to preventative measures taken by UW. As a result, there was no need to adjust the annual service fee paid by the City to UW.

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.

Status: Partially Implemented

The most recent five-year rate study was completed in 2009 and covered 2009 through 2013. The City could not provide evidence of a rate study for 2014. Further, the City could not provide support to show that water and wastewater rates are analyzed annually. We also noted that rates have not been adjusted since 2009.

Recommendation 7

Ensure that UW implements an adequate billings and collections system capable of accounting for all customer activity. Such a system should generate Accounts Receivable (A/R) aging reports which include service and/or billing addresses and detailed billing information.

Status: Implemented

During the initial audit period, OSC found that UW did not have an adequate billings and collections system to properly account for all customer activity. For example, A/R reports generated by UW did not include service or billing addresses, bill details or account types (e.g., commercial or residential) which can hinder collections.

In 2011, UW implemented a new billings and collections system that accounts for all customer activity. Additionally, it generated A/R aging reports, which included service and/or billing addresses and other detailed billing information.

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 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.*

Status: Partially Implemented

Since our initial audit, UW improved its billings and collections system, which tracked all accounts by customer name, service address, billing address and account number. We were, however, unable to obtain a detail of closed accounts and outstanding balances that were written off in a timely manner from the City's financial system or City resolutions approving the write-offs. Further, we were unable to obtain a summary of the accounts that were closed or had balances and adjustments prior to January 2013. Nevertheless, we were able to verify that credit balances had been refunded to customers.

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.

Status: Implemented

We obtained and reviewed a copy of UW's Customer Care and Billing Training Guide that was used to provide training to City employees on how to obtain end-user billing reports used in account reconciliations.

Recommendation 10

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

Status: Implemented

UW provided monthly reports to the City on A/R collection rates and maintained the required collection rate of at least 90 percent for the past three years.

Recommendation 11

Establish procedures for annually reviewing the list of properties with municipal liens due to outstanding water and wastewater balances.

Status: Implemented

In our initial audit, we concluded that the City relied on UW to provide a list of properties with liens that were eligible for sale. However, UW did not maintain adequate information or have adequate procedures in place to identify such properties.

During our follow-up, we found that the City established procedures to review the list of properties with municipal liens due to outstanding water and wastewater balances on an annual basis.

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.

Status: Partially Implemented

In our initial audit, OSC noted that the City did not effectively manage its payment of pass-through charges, which are miscellaneous costs charged by UW and paid by the City in excess of the annual service fee. 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.

Since our initial audit, only two pass-through payments were processed by the City. Only one of the two payments followed the City's purchasing procedures and was processed through a purchase order.

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.

Status: Implemented

Pursuant to its own terms, the Contract can only be modified by a written amendment signed by UW and the City. Our initial audit found that UW had been billing the City for charges based on proposed contract amendments not executed by the parties.

In March 2012, the initial Contract was formally amended to reflect all mutually agreed upon changes. Both the City and UW have advised OSC that there were no outstanding disputes.

Recommendation 14

Perform annual asset inventory counts and maintain a comprehensive list of all fixed water and wastewater assets.

Status: Not Implemented

In March 2014, the City contracted with an outside firm to conduct an inventory of all water and wastewater fixed assets. As of May 2015, however, that inventory had not been conducted.

Additionally, the City could not provide evidence that there had been a manual inventory count since our initial audit. Further, the City does not have or maintain a comprehensive list of all water and wastewater assets.

Recommendation 15

Ensure that UW performs all required predictive, preventative and corrective maintenance procedures and properly remediates the Puchack Run Water Treatment Plant (Puchack Plant) or provides an appropriate credit to the City.

Status: Implemented

During the initial audit period, neither the City nor UW maintained the City's Puchack Plant. The Puchack Plant was listed in the Contract as an asset requiring UW monitoring and maintenance.

According to the amended Contract, UW was only required to maintain the grounds at the site of the Puchack Plant. We observed that this was being done.

Recommendation 16

Adhere to the City's asset disposal procedures.

Status: Not Implemented

In our initial audit, we found the City did not follow its asset disposal procedures, specifically at the Puchack Plant. During our follow-up, OSC noted that the Puchack Plant continued to house unused and obsolete assets.

Recommendation 17

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

Status: Implemented

The Contract required the City and UW to establish an Operations Committee which was to meet every three months to discuss issues related to the operation, management, maintenance and repair of the water and wastewater systems.

During our initial audit period, we found that the required Operations Committee was not

established until May 2009, 10 years after the inception of the Contract. If the Operations Committee had functioned appropriately, the City and UW may have been able to effectively resolve certain disputed issues.

We obtained minutes of meetings and attended a meeting to confirm that the City and UW held monthly Operations Committee meetings.

Recommendation 18

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

and

Recommendation 19

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

Status: Not Applicable

Both the City and UW advised OSC that there have been no outstanding disputes since the Contract was amended in March 2012. Therefore, these recommendations are no longer applicable.

Recommendation 20

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

Status: Implemented

OSC noted that officials from the City and UW worked together to enable sufficient access to CMMS, which allowed assigned employees to oversee and review bills, collections and other information related to the water and wastewater operations.

Recommendation 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.

Status: Implemented

As part of our follow-up, we reviewed copies of the Certified Operators' time sheets to ensure the operators are physically present at the plant 40 hours per week. We further noted that the time sheets of each Certified Operator are sent to the City monthly for review.

Recommendation 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.*

Status: Partially Implemented

In December 2013, the City entered into a Shared Services Agreement with the Camden County Municipal Utilities Authority (CCMUA). Under this agreement, CCMUA is responsible for monitoring current and future water and sewer contracts. The agreement also requires CCMUA to review operations and expenditures and to provide monthly reports to the City. As of the end of our field work, however, neither of these activities actually had commenced.

Recommendation 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 Chief Operating Officer; and*
- *Enforcement and monitoring of policies and procedures established by the City and the Contract.*

Status: Implemented

The City has strengthened the communication between the City Council and management in areas related to water and wastewater operations through monthly meetings with UW focusing on the enforcement and monitoring of the current Contract. The minutes of these monthly meetings are provided to the City Council.

Reporting Requirements

We provided a draft copy of this report to City and UW officials for their review and comment. A response is not required and neither the City nor UW chose to provide one.

The Office of the State Comptroller is required by statute to monitor the implementation of our recommendations. To meet this requirement, City officials shall report periodically to this Office advising what additional steps they have taken to address the unresolved issues discussed in this report. This Office will continue to monitor those steps.

We thank the management and staff of the City and UW for the courtesies and cooperation extended to our auditors during this engagement.

Sincerely,



Yvonne Tierney, CPA
Director, Audit Division

- c: Francisco Moran, City Council President
- Marc Riondino, City Attorney
- Robert Corrales, Business Administrator
- Patrick Keating, Director, Department of Public Works
- James P. Hopkins, PE, Buchart Horn
- Kevin Chandler, Vice President/General Manager, United Water
- Shaun Niles, Area Manager, United Water
- John Manganaro, Project Manager, United Water