



REMOTE MEETING

Board Attendance by Zoom Video/Telephone

Public Attendance by Telephone Only

March 26, 2020 at 1:00 p.m.

1. Call to Order
2. Meeting Facilitation Protocols
3. Call for Public Comment

Members of the public are welcome to testify for a maximum of three minutes on each agenda item.

4. Audit Review
5. Utility Billing System
6. Sewer Lateral Ownership
7. Recess to Executive Session

Convene Executive Session under ORS 192.660(2)(e) to conduct deliberations with persons designated by the governing body to negotiate real property transactions and ORS 192.660(2)(f) to consider information or records that are exempt by law from public inspection.

8. Adjourn Executive Session

If necessary, Board may take action on items discussed in Executive Session.

9. Adjourn Regular Meeting

Oak Lodge Water Services District
 Corrective Action Plan - 2019 Audit
 2019 Audit recommendations

Identification							
Category	#	Audit Finding	Recommendation	Priority Level	Individual Responsible	Planned Action	Estimated Completion Date
Process	1	Review of new rates – During our current year control procedures over the revenue cycle, we noted no formal, documented process in place to evidence the review of rates input into the system. This is particularly important at the time of a Board-approved rate change to mitigate the risk that rates are input incorrectly or are not updated timely in accordance with the effective date of the new rates.	We recommend that a formal process be established to require someone other than the person responsible for making the rate changes to review those changes to verify the accuracy and timeliness.	B	Finance Director	Annually, when rates are entered to Springbrook, the Finance Director will print a report from the system, compare rates to the resolution adopted by the Board, and initial and date indicating their review and approval. The report will be retained until after audit.	July 2020, following the approval of new utility rates.
Process	2	Recalculation of customer bills – During our control procedures we noted no evidence of a recalculation of a sample of customer bills to determine if the bills were calculated accurately using appropriate rates. This is a key control that helps to mitigate the risk that bills are being calculated incorrectly or with incorrect rates, prior to the bills being sent to the customers.	We recommend that management implement controls to require a re-calculation of a sample of customer bills each billing cycle, with a minimum of one bill from each rate class. This procedure should be documented to support which bills were re-calculated, who performed the procedures, and to date when the procedures were completed.	A	Sr. Accountant	Monthly after the bills are generated, the Sr. Accountant will obtain a billing register and recalculate a sample of customer bills to ensure accuracy of the bills. Review will occur prior to mailing of customer bills. Sr. Accountant will maintain a log of customer bills verified and retained until after audit.	Control will be put in place with the April 2020 billing cycle.
Process	3	Manual adjustments to customer accounts – During our procedures we noted that the District often makes manual adjustments to customer bills and consumption amounts.	We recommend that manual adjustments are reviewed and approved by someone other than the person recording the adjustments prior to the bill being sent to the customer. This approval should be documented either electronically through the billing system or in writing. In addition, we recommend that the District run monthly reports to detail the adjustments made during the month, and such a report should be reviewed by someone other than those responsible for recording adjustments, to help identify any unauthorized adjustments.	A	Finance Director	Monthly the Finance Director will run a "Transactions by Date" report from the system for adjustments and review for anomalies. The Finance Director will initial and date evidencing approval, and the report will be retained until after audit.	Control will be put in place immediately, beginning in March 2020.
Process	4	Customer refund approvals – During our inquiries, we noted that the District has a policy in place that requires any customer refunds should be approved by the Finance Director prior to being issued to the customer. However, during our testing we noted instances where the refunds were not approved by the Finance Director and had been issued to customers. We also noted that individuals other than the Finance Director had access to approve refunds in the system.	We recommend that the Finance Director reviews and approves all refunds prior to being issued, and that electronic access to approve refunds be limited to the Finance Director.	A	Finance Director	The Finance Director receives documentation supporting a customer refund which requires signature and date of approval. Documentation is retained as support for AP. Refund batches are committed (posted) in the system by the Finance Director. Access to approve refund batches has been limited to the Finance Director or the General Manager.	Control is currently in place and operating effectively.
Process	5	New customer setup – During our inquiries, we noted that no formal review control is in place to verify the accuracy of the new customer information input into the billing system. This is particularly important for new services to validate that the proper rate class was entered into the billing system.	We recommend that management establish a control to routinely review reports of new customers added and to verify that the customers were setup correctly with accurate billing attributes.	A	Jr Accounting Specialist	Monthly the Jr Accounting Specialist will run an "Account Master List" report indicating all accounts setup during the month and review for completeness and accuracy of information. All exceptions will be addressed and resolved immediately. The report will be initialed and dated evidencing the review, and will be retained until after audit. Upon setup of a new customer account, a service order will be generated for an initial read. Initial read and meter information on each account will be verified to the respective service order for initial read.	Control will be put in place April 1, 2020 with reports run against March 2020.
Process	6	Exceptions – During our inquiries over the exception reporting process, we noted that the exceptions report is a live screen that populates all the variances identified by the system and clears them out as exceptions are cleared by staff. However, no evidence of the exceptions is maintained on file to support the variances that were identified, and the manner with which those exceptions were cleared. This also creates challenges with verifying whether all exceptions were cleared prior to issuing all the bills to customers.	We recommend that the District establish procedures to review the exceptions report prior to issuing customer bills each billing cycle to ensure all exceptions were cleared appropriately and timely. This review should be documented to note who performed the review and when it was completed.	B	Finance Director	The Finance Director will work with Springbrook to identify a report from the system that can evidence exceptions identified, resolution, and approval. That report will be run each month prior to bills being sent to customers and retained until after audit.	April 30, 2020

Process	7	Asset tracking system – We noted that the District does not currently utilize an asset tracking system to track and monitor costs by project throughout the year, and to document when projects were placed into commercial operation and should be moved to assets in service for financial reporting purposes.	We recommend that the District consistently utilize an electronic project tracking system to capture all the costs by project each year and to utilize reports from the system to monitor the costs by project to identify any significant variances from budget or estimate. The information in this system should also be reconciled to the general ledger on a monthly basis and any projects placed into service should be closed to assets in service on the general ledger.	C	Management Team	The Finance Director will work directly with other members of the management team to identify the objectives and requirements of a project tracking system, then evaluate options to best meet those needs. An approach will be selected and implemented to ensure project cost information is complete and accurate on a go-forward basis.	Project will begin with scoping in May 2020 and be fully implemented in July 2020.
Process	8	Capital asset reconciliation to the general ledger – We noted that the District does not currently have a control in place to reconcile certain key, full-accrual accounts on a monthly basis, specifically capital assets.	To improve the accuracy of the monthly financial reports and to reduce the burden of the year end closing process, we recommend that the activity per the asset tracking system be routinely reconciled to the capital outlay accounts on a monthly basis. This reconciliation should be formally documented and reviewed by someone other than the person performing the reconciliation as part of the District's monthly close process.	C	Jr Accounting Specialist	The Jr Accounting Specialist will reconcile capital asset records to asset additions, and other changes in capital assets for fiscal year end June 30, 2020 in preparation for the annual audit. Reconciliations will be reviewed and approved by the Finance Director. Beginning with the 20-21 fiscal year, staff will reconcile capital assets activity quarterly.	Capital assets activity will be reconciled for the June 30, 2020 year end by the end of August 2020. Subsequent quarters will be reconciled by the end of the month following the quarter end.
Process	9	Labor and overhead costs – During our review of project costs, we noted that the District does not currently track and apply internal labor and overhead costs to projects.	With the implementation of an asset tracking system as noted in the previous comment, we recommend that the District begin to track these costs and apply them to the appropriate projects to help capture all costs that were incurred during the construction phase of each project.	C	Management Team	This will be a key component of the project as outlined in number 7 above	Project will begin with scoping in May 2020 and be fully implemented in July 2020.
Process	10	Physical inventory of capital assets – During the audit several assets were identified on the general ledger that were disposed of in previous periods, thus requiring a prior period adjustment for this error.	We recommend that the District establish controls to perform periodic physical inventories of capital assets to help identify assets that were disposed of, but have not been captured appropriately in the financial records of the District.	C	Jr Accounting Specialist	The Jr Accounting Specialist will develop and implement a plan for a physical inventory of the District's capital assets in accordance with best practices. That plan will include identification of all capital assets by location and incorporate property tagging as well as procedures for reporting acquisition, transfer and disposal of capital assets in support of accurate financial reporting.	Some inventory procedures have been undertaken at the treatment plant. A complete physical inventory of the District's capital assets will take place in late summer 2020, prior to finalization of the annual audit for FYE June 30, 2020.
Process	11	Useful lives of capital assets – As we were analyzing depreciation expense and useful lives assigned to assets, we noted that the ability to change useful lives is unrestricted and therefore unauthorized changes could occur and impact the calculation of depreciation expense.	We recommend that access to change useful lives be restricted to certain individuals.	C	Jr Accounting Specialist/Finance Director	System security will be updated to restrict edit authority for capital assets to the Jr Accounting Specialist, with review responsibilities by the Finance Director	March 31, 2020
Process	12	Journal entries – During our review of IT access, we noted that the Finance Director has the ability to both prepare and post journal entries without a secondary approval.	We recommend that any manual journal entry have a documented approval from someone other than the person responsible for posting the entry.	A	Sr Accountant/Finance Director	The District has a policy in place that journal entries be approved/committed by someone other than the initiator. The system captures information on who initiated the journal entry and who approved/committed it. Staff is currently working with Springbrook to identify a report/procedure for documenting review and approval of separation of duties re: journal entries.	April 15, 2020
Process	13	Review of reconciliations – During our testing, we noted no evidence to support that reconciliations are reviewed and approved timely by someone other than the person preparing the reconciliations. This includes bank reconciliations, accounts payable reconciliations, the daily cash summaries, as well as other monthly reconciliations.	We recommend that each reconciliation be reviewed monthly and that the review be documented electronically or in writing.	A	Finance Director	The Finance Director currently reviews all staff prepared reconciliations in a timely manner, and evidences that review with initials and date. Reconciliations are retained in accordance with records retention requirements.	Currently in place and operating effectively.
Process	14	Physical inventory of wastewater inventory – During our inquiries we determined that the District had not recorded materials and supplies inventory previously, which resulted in an audit adjustment of approximately \$116,000.	We recommend that the District record and track wastewater inventory consistently going forward and that physical inventories be performed on at least an annual basis to validate the accuracy of the amounts recorded.	B	Finance Director/Plant Superintendent/Collections Manager	The Finance Director will work directly with the Plant and Operations Managers to identify the required information in support of an effective and efficient materials inventory for Wastewater operations. That inventory will address quantities and costs in support of complete and accurate financial reporting.	Control will be in place by June 30, 2020 in support of annual audit.
Process	15	Inventory costs – We noted that the purchase of inventory items are not being input into the system timely, which has created instances where inventory items are identified during the year end physical inventory count and management may have to call the vendor to obtain the price.	We recommend that all inventory purchases be input into the inventory system on a timely basis to ensure the listing is updated, costs are accurate, and amounts charged to projects will be charged at accurate rates.	B	Finance Director/Plant Superintendent/Collections Manager	This will be a key component of the project as outlined in number 14 above	Control will be in place by June 30, 2020 in support of annual audit.
Process	16	Approval of inventory charged to projects – We noted that the District did not have controls established to require formal approval of inventory to be charged to projects.	We recommend that controls be established to require a formal charge-out approval for any inventory items to be taken from the warehouse and utilized on a project. These approvals should be compared to the actual inventory charged to each project to ensure only authorized costs were captured on the project.	B	Finance Director/Plant Superintendent/Collections Manager	This will be a key component of the project as outlined in number 14 above	Control will be in place by June 30, 2020 in support of annual audit.

Process	17	Obsolete inventory – We noted that the District did not have a process in place to regularly review its inventory listing to identify obsolete or unusable inventory items.	We recommend that as part of the physical inventory process, the District identify any obsolete items that should be expensed in the current year.	B	Finance Director/Plant Superintendent/Collections Manager	This will be a key component of the project as outlined in number 14 above	Control will be in place by June 30, 2020 in support of annual audit.
Process	18	Cutoff of expenditures – During our testing, we noted amounts where the service period per the invoice spanned over both fiscal year 2018 and 2019, but the total amount of the invoice was expensed in fiscal year 2019. In addition, we noted an expenditure for which receiving documentation was not retained for materials that were invoiced in the prior fiscal year, but were recorded as expenditures in the current fiscal year.	We recommend that the District establish controls to review year end cutoff to ensure that costs are recorded in the period in which the service was provided or the materials were received. We also recommend that the District retain all documentation related to purchases including any receiving documentation.	A	Finance Director	The Finance team will initiate communications regarding cutoff to District staff in advance of year end emphasizing cutoff issues. The Finance Director reviews all expenditure batches against supporting documentation prior to payment. One element of review is that expenditures are charged to the proper period. Review is documented with initials and date evidencing approval.	Control is currently in place and operating effectively.
Process	19	Duplicate payment – We noted one instance in our subsequent disbursement testing where an invoice was paid twice by the District and was not discovered during the District's approval process.	We recommend a formal review of all disbursements prior to issuing payment to ensure the amount to be paid matches the amount owed to the vendor for the products or services received and invoiced.	A	Finance Director	The Finance Director is currently working with the new Jr Accounting Specialist to tighten controls and processes over expenditures and utilize system functionality to reduce or eliminate the opportunity for duplicate payments.	Process documentation will be complete by March 31, 2020
Process	20	Review of NCCWC balance – During the audit of the North Clackamas County Water Commission (NCCWC), a prior period adjustment was identified and reported relating to the improper previous amortization of water rights. The restatement of the NCCWC's financial statements had a direct impact on the District's reporting of its investment in the NCCWC on the District's financial statements. The adjustment to the investment in NCCWC was not properly recorded as a restatement in the initial draft of the district's financial statements provided to us.	We recommend that the district provide for a review of the final, audited NCCWC financial statements prior to finalizing the District's financial statements to ensure proper reflection of the investment in NCCWC. The review should be documented as part of the District's year end closing process.	A	Finance Director	The Finance Director will perform a careful and detailed review of NCCWC accounting records and financial statements in conjunction with the audit of NCCWC. That review will translate to a timely update of relevant accounting records and financial statements of the District.	Control is currently in place and operating effectively.
Process	21	Listing of public procurement contracts – As part of our testing of compliance with state procurement requirements, we noted that the District does not maintain a centralized list of all contracts executed during the year.	We recommend that this process be centralized with one employee to help track all procurements and ensure all documentation required is maintained on file to support the District's compliance with the State's procurement requirements.	B	District Recorder	The District Recorder has assumed responsibility for centralizing the District's contracts and related information as well as compliance with State records requirements. The Finance Director will work directly with the District Recorder to ensure all information related to procurements is centralized in support of contracts with vendors.	Contract centralization is currently in process. It is expected that records will be complete and available in support of the audit of the fiscal year ending September 30, 2020.
Process	22	IT user access – We noted that the District does not regularly perform and document its review of user access to the various systems supporting the financial reporting function.	We recommend that the District perform routine reviews of user access, at least annually, to determine whether access to the systems are appropriately updated, terminated users have been removed timely, and any segregation of duties conflicts are identified.	A	Finance Director	The Finance Director will review system access quarterly and work with the appropriate staff to maintain appropriate segregation of duties.	Review and adjustments to system security will occur by March 31, 2020.
Process	23	Pay rate and other employee master file changes – We noted during our payroll testing that once a pay rate is entered into the system, there is no formal review to verify that the rates were entered correctly.	We recommend that the District run reports of any changes made to the employee master file on a monthly basis to verify the accuracy and timeliness of the changes. Such review should be formally documented to evidence who performed the review and when it was completed.	A	Finance Director	System security will be updated to allow the Finance Director "view only" and "reporting" access to the HR module so that changes to employee master files can be reviewed for completeness and accuracy. All changes to employee master files will be supported by a personnel action form approved and dated by appropriate parties. The Finance Director will review these forms against the system as they are implemented.	Control will be implemented by April 30, 2020.
Process	24	Purchase orders – We noted that the District's current policy requires purchase orders to be utilized for any inventory items over \$500. However, non-inventory items do not have a similar requirement.	We recommend that the District update its policy to require purchase orders on non-inventory items over \$500 as well. The purchase orders should be reviewed and approved by someone other than the person requesting the purchase.	B	Finance Director	The District's procurement and related approval policy is currently in review. Once finalized and implemented the policy will allow for consistency across transactions and require training of appropriate District staff in the generation and approval of PO's, supporting documentation for payment, and records retention.	June 30, 2020

STAFF REPORT

To Board of Directors
From Rob Moody, Financial Consultant
Title Water Audit Status
Item No. 5
Date March 26, 2020

Summary

The District has engaged in a water audit under guidance from Cavanaugh Consultants to address concerns over a downward trend in water revenues. That audit is continuing and has identified several contributing factors including inconsistencies in the utility billing system and potential physical factors within the District's infrastructure.

Background

The District, working with Cavanaugh, has identified an amount of non-revenue water with an estimated value of approximately \$250,000. That value is a combination of retail pricing and cost of water purchased in relation to the type of loss (real loss or leakage, versus apparent loss or issues with the billing system e.g.). The District is currently taking specific steps to address the verification of the billing system, which is the focus of the remainder of this report.

It is important to note that any additional action on the part of the District should be balanced against potential return on the investment of those resources (time, effort, dollars). It simply doesn't make sense to spend \$10 to recover \$1. There are political and customer credibility factors that also must be considered in planning our approach to recovery of non-revenue water. These qualitative issues influenced our approach to verification of the billing system as much or more than the potential to recover additional revenues.

Early on in the process, staff identified a course of action that appears both efficient and effective in verifying the completeness and accuracy of information in the billing system, and thus the revenue billed to and collected from customers. The following steps comprise that approach:

1. Verify specific, physical information regarding meters in the ground to attributes in the billing system (i.e. type/make/size of meter, physical condition of the meter, reading units, current read, service address, and specific meter location).
2. Once confident that the meter information is accurate in the system, confirm appropriate rates are associated with each customer account.

3. Test and verify calculations of billed amounts for customer accounts.
4. Identify and resolve all exceptions noted.

As of this week, we have begun to implement the approach in that Todd is deploying resources to field verify all large meters (greater than 5/8 inch) in the District. Once the information is collected the Finance team will verify that information against the billing system and update as necessary. All exceptions will be identified, noted, and resolved.

With respect to small meters (primarily residential, 5/8 inch) the management team has worked together to identify a population of all services within the District using information currently available. That information has been reviewed for accuracy and compared to remove duplications. From that population we are drawing a statistically valid sample for field verification. The sample size is yet to be determined but will incorporate best practices in terms of confidence levels and acceptable error rates. We will determine timing and estimated completion once we determine the sample size and resource allocation.

The sample will be field tested and that data communicated to the Finance Team for verification to the billing system. If the error rate falls within an expected range, we will accept the results of the testing as representative of the system and move to step 2 as described above. If the error rate exceeds acceptable limits, the management team will determine the next course of action, which may include a 100% field test of all small meters.

Recommendation

There are no specific recommendations from staff at this time. We will continue to update the Board with progress and as information becomes available at each step of our process.

Suggested Board Motion

None.



Sanitary Sewer Lateral Maintenance Conversation

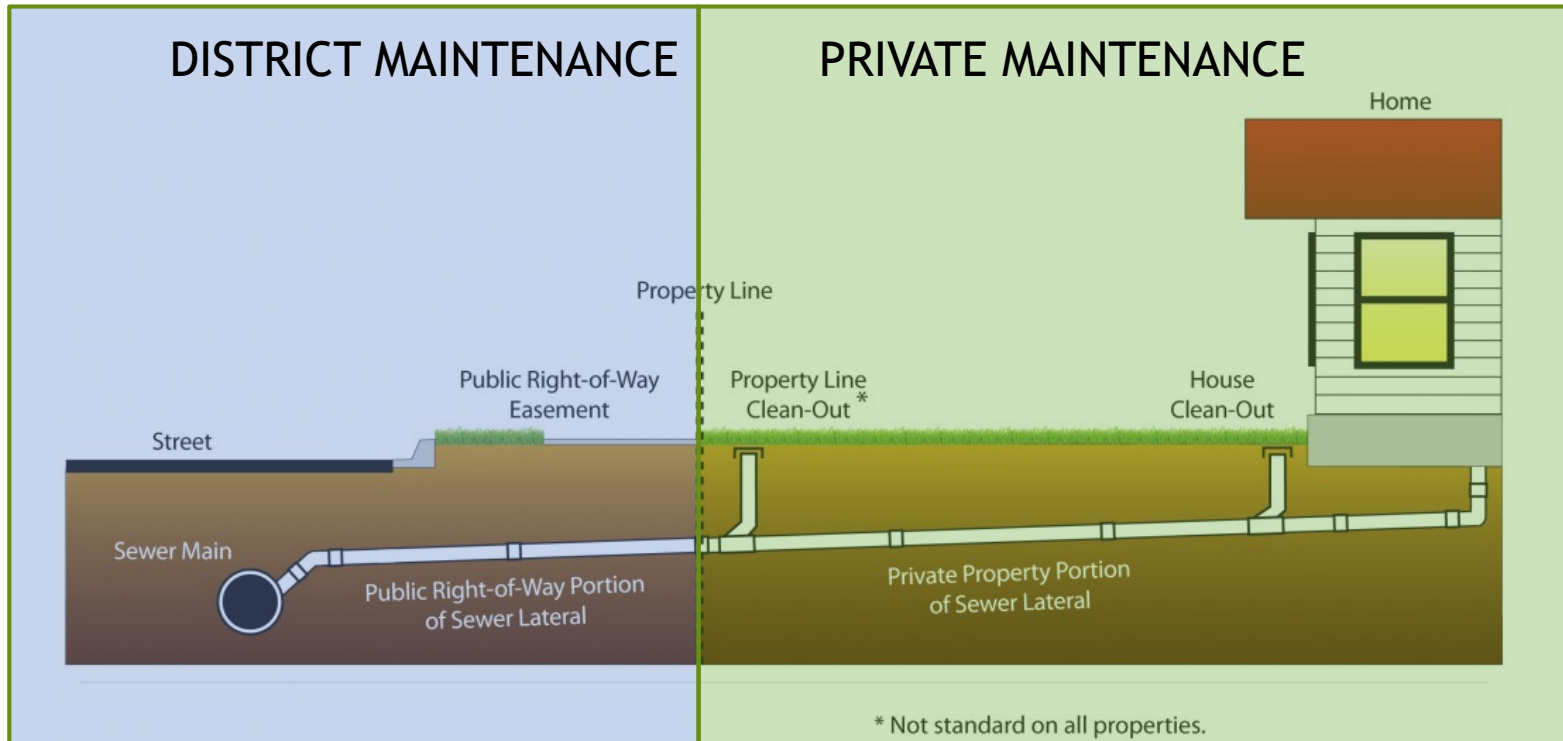
Jason Rice

March 26, 2020

Laterals in Oak Lodge

- ▶ Oak Lodge has approximately 7500 sanitary sewer laterals
 - ▶ Of these 7500 laterals, approximately 6900 are serving single-family residences. These lines are usually 4” in diameter
 - ▶ While approximately 600 laterals are serving multi-family units or businesses. These lines are usually 6” in diameter but can be larger.
- ▶ Laterals typically last 75-125 years based on pipe material and installations practices.
 - ▶ Most of these laterals were installed around 1960 (60 years old)
 - ▶ 75-100 years for asbestos concrete (most of our system)
 - ▶ 100-125 years for PVC; maybe even more for HDPE pipes
- ▶ Currently, the District’s code claims ownership for laterals within the right-of-way or its easements.
 - ▶ What does this look like in the ground?

Current Lateral MAINTENANCE



What does it mean for the District to own the laterals in the ROW or in Easements?

- ▶ For a functioning (non-leaking, not broken) lateral, the District would mostly be providing locates if locates are called in proximity to the lateral.
- ▶ For broken or leaking laterals, the District needs to make a decision; when and if to fix the lateral.
- ▶ This decision to replace or not is made based on the potential liability to the District. If a lateral is known to have collapsed completely and it is likely that in the near future that lateral could cause a backup and damage the structure connected to it. These laterals are often replaced immediately.

How does the District find out if a lateral is failed?

- ▶ Currently, failed laterals are brought to the attention of the District once a lateral is inspected by the property owner the lateral is connected to.
 - ▶ Lateral inspection is usually performed as a requirement of selling home, but it could also be that a lateral is slow to drain or blocked and the property owner is trying to figure out where the blockage is.
- ▶ Waiting to learn about failed laterals from private property owners is only going to work for so long.

Solution #1

Begin video inspecting and replacing laterals now.

- ▶ If the District were to dedicate two full time employees and those two were able to clean and video six laterals per day, it would take 5 years to inspect all the laterals.
- ▶ If the District wanted to accomplish this without hiring additional staff, we would effectively have to go on a rotation, 5 years of laterals inspection, then 5 years of mainline inspection. This would give us an inspection on each asset every 10 years.
- ▶ At an average replacement cost of \$5,000/lateral and assuming approximately 200 laterals have already been replaced.
- ▶ 7300 lateral replacements over the next 40 years would equate to \$36,500,000 or the budgeting of \$912,000/year (in today's dollars), for lateral replacements alone.

Solution #2

Shift obligation to maintain entire lateral to property it is serving.

- ▶ This scenario would not create any additional budgetary needs.

Solution #3

Require first replacement to be done by property owners, then the District maintains and repairs from that point forward. (Lake Oswego model)

- ▶ This scenario would delay the immediate need to create additional budget for lateral replacements and delay the need for additional staff time for inspection.
- ▶ Under this scenario, Staff would need to pick a date at which to go back to for acceptance (meeting today's standards).
 - ▶ These laterals would need ongoing inspections at some point.