



CITY OF
Santa Fe

City of Santa Fe
Public Utilities Division
Internal Audit

March 2021

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Internal Audit**

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City of Santa Fe Public Utilities Division Internal Audit Report

City of Santa Fe
Audit Committee and Management

INTRODUCTION

We performed the internal audit consulting services described below to assist the City of Santa Fe Public Utilities Division (the “Utility Division”) in evaluating policies, procedures, processes, and related internal controls over billing and collections process, application of customer account adjustments, management of customer accounts, document retention, cash collections and deposits, system access, actions to collect on debt and corresponding write off adjustments, and services provided by third-party consultants.

Our services were performed in accordance with the terms of our Professional Services Agreement and engagement letter for internal audit services and the applicable Standards for Consulting Services prescribed by the American Institute of Certified Public Accountants. Although we have included management’s responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

An entrance conference was held on December 4, 2020, and fieldwork began December 7, 2020, and continued through March 2021. An exit conference was held on March 31, 2021.

PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating processes over major areas of the Utility Division including billings and collections, customer account adjustments, systems access, cash collection and deposits, and the collections process to determine if processes were performed in compliance with policies and procedures, City Code sections and other applicable laws and regulations.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSE

As a result of our testing, REDW identified the following observations:

1) CONTRACTOR RELIANCE WITH OUTDATED SOFTWARE

The City uses a third-party consulting firm that provides database, development, training, and support services for the Utility Division. The consultant has been working with the City in various capacities for approximately 15 years. One of the main consultants working with the City is a former City employee with a strong background in information technology and possesses the most experience with UCIS, the utility billing system currently utilized by the City. Since August 2019, the City of Santa Fe has expended approximately \$1 million in consulting fees, which translates to about \$52,000 per month.

Our testing determined that some tasks performed by the consultant would be more appropriately performed by a City employee. Additionally, we did not find any instances where the consultant has developed, provided, and managed a detailed plan for training as included in the most recent contract signed in 2018.

Lastly, it appears that the increased administrative costs incurred by the City and the increased dependence on external consultant is largely caused by the age of the UCIS billing system, which is outdated and has limited functionality.

Potential Risk – High: The City has a high dependency on the third-party consultant. This is in a large part caused by technology that is antiquated with few around who understand it, which has resulted in increased administrative expenses in needing a consultant to navigate the system and troubleshoot. While a great deal of work performed entails technical support requests that the consultant is best equipped to handle, there also appears to be some overlap between other types of work that would be more appropriately performed by a City employee.

Recommendation: The Utility Division should upgrade to a more modern system with adequate functionality that interfaces better with other systems utilized by the Utility Division as well as the City's current ERP system, Munis.

Depending on the timing of the new system implementation, the City should consider avenues to reduce the dependency on external consultants by completing the trainings, as listed in the contract, and documenting key processes and procedures. A formal training and knowledge transfer program facilitated by the consultant should be created. Additionally, the Finance Department should also consider implementing a training program for appropriate employees in the Utility Division on year-end close, quarterly review processes, reconciliations, reporting requirements and report formatting to further reduce the dependency on the consultant who assists in the completion of these tasks.

Management Response: City Council approved a new billing system on March 31, 2021. We anticipate beginning the 14-month implementation in May 2021 with an estimated completion date by the end of FY 2022. While the third party consultant will be the project administrator for the upgrade, the intent is to have ITT become the support for the system and eventually reducing the need for the third party consultant over time to just limited assistance.

The Finance Department will work with Utilities employees to identify key financial processes including year-end close, quarterly reviews, reconciliations, and reporting requirements to ensure employees are versed on the requirements to further assist in reducing the dependency on the consultant. We anticipate this training being implemented by the end of FY 2022 to allow for the new system to be fully implemented and trained on.

2) ADVANCED BILLING IMPLEMENTATION DELAYS

The Utility Division has been utilizing UCIS since 2001 for billing processes and customer account management. The software utilizes an operating system that will no longer be supported effective April 2021 and the system does not have the functionality needed to properly oversee and monitor the various processes. While the Utility Division began the process to upgrade to a new billing system in 2013, there have been significant delays and issues encountered and the new system has yet to be implemented. The goal is to begin the implementation of the new utility billing software, Advanced Utility Systems, by the end of fiscal year 2021.

Potential Risk – High: UCIS has limited functionality in comparison to more modern billing systems and few people have been able to master the ins and outs of the system. This has resulted in increased administrative expenses and an increased dependency on third-party consultants to provide support for the system. Risks associated with using outdated technology include: crashes and system downtime, increased maintenance costs, decreased productivity, increased security vulnerabilities, and other potential legal or regulatory compliance risks.

Recommendations: The City, in collaboration with the Utility Division, should upgrade the current billing system with a sense of urgency to a more modern billing system with adequate functionality. Once the new billing system is implemented, Utility Division policies and procedures should be updated accordingly. Training should be conducted on the new system to ensure proper usage and functionality is utilized after implementation.

Management Response: City Council approved a new billing system on March 31, 2021. We should be able to start the 14-month implementation period for the new billing system May 2021. Once the system is implemented and employees are trained, the Utilities Division will work to implement policies and procedures over various processes and will implement a periodic review schedule to ensure they are reviewed and updated on at least an annual basis. We anticipate the system implementation to be completed by the end of FY 2022 with the policies and procedures implemented during FY 2023.

3) CUSTOMER ACCOUNT ADJUSTMENTS

Adjustments to customer accounts can be initiated by a customer request (e.g. Low Income Credit), when billing errors are identified during the billing cycle review process (e.g. Out of Balance Adjustment), or when accounts are closed. Adjustments are to be documented in the customer's account in UCIS and reflected on the customer's next bill following approval of the adjustment by the Utility Billing Supervisor, Utility Billing Utility Division Director, Utility Department Director, and City Manager, depending on the total adjustment amount.

The current billing system, UCIS, does not have transaction-level approval capabilities so any employees in the Utility Division can initiate an account adjustment, and depending on the nature of the request, most can process an adjustment as well. This includes individuals who handle cash. Additionally, our testing of a sample of 60 adjustments found two had missing documentation and one where the adjustment was done incorrectly.

Potential Risk – High: The absence of segregation of duties, strong systems access controls and functioning audit trails present an opportunity for inappropriate account adjustments. Additionally, there is an absence of transaction-level approvals in UCIS.

Recommendation: To help reduce the risk of accidental or intentional adjustments to customer accounts, no one person or function should be able to record and authorize an adjustment, especially those handling cash. Account adjustment access should be limited for employees with incompatible job duties. To help ensure that all entries are appropriate, properly authorized, and entered correctly, all staff should submit supporting documentation, regardless the type of adjustment.

The Utility Division should upgrade to a more modern billing system that provides sufficient controls for segregation of duties and transaction-level approvals.

Management Response: The new billing system will have authorization levels for each user, and reviewers or approvers for any adjustments to accounts depending on users job title, supervisor level, or functional area. The Utilities Division will review who should be authorized to perform account adjustments and will set up the new system to reflect that authorization. Employees who process adjustments will also be trained on necessary documentation to be obtained to support the adjustment. This process will be implemented in sync with the new billing system implementation and should be completed in FY 2022.

4) SYSTEMS ACCESS

The Utility Division utilized three systems for billing, collections, meter reading, and processing online and recurring electronic customer payments with an additional banking platform to complete different types of financial transactions. Brief descriptions of each systems purpose is described below:

- **Utility Customer Information System (UCIS)** – UCIS is used for billing trash, sewer and water for over 35,000 utility customers in the City of Santa Fe.
- **Paymentus** – The City utilizes Paymentus to process online customer payments and to accept automatic payments via credit card or debit card.
- **Beacon** – The City has replaced over 32,000 residential meters with a new automated meter reading cellular technology (SIM cards). Beacon is a cloud-based software that offers a utility management to meet meter reading, proactive exception management and reporting needs.
- **Banking Platform** – The City uses a banking platform to initiate and complete different types of financial transactions.

The systems and platforms are governed by the City’s ITT Department and ITT Computer Access Control Policy which establishes security requirements for the logical access to and control of all City of Santa Fe computer resources. Our testing determined that as of December 2020, there does not appear to be compliance with the “Computer Access Control Policy” which has been broken down by each system below:

UCIS

- 5 of 8 current and active admin/program manager users are employed with a third-party consulting firm. Two of these individuals are classified as working for the ITT

Department and not identified as employees of the third-party consulting firm. Additionally, all 8 admin users do not have a secondary (non-administrative) account set up as required by ITT policy.

- 25 enabled accounts had been inactive for more than 30 days and should have been disabled by ITT. Variances range from 43 days to 1,507 days.
- 2 disabled accounts for terminated employees were not disabled on the day of separation, or the following day. One account was disabled 14 days after separation, the other 1,081 days after.
- 5 enabled accounts remain enabled for terminated employees. Variances range from 8 to 1,052 days.
- 22 currently enabled accounts were set up, but never accessed. These are inactive accounts.
- 3 enabled users had multiple user names.

Banking Platform

- 4 active administrative users did not have a secondary (non-administrative) account set up per ITT Computer Access Control Policy.
- 35 active accounts had been inactive for over 30 days. Variances range from 56 days to 921 days.
- 31 deleted accounts were not deleted on the same day, or following day, of an employee's termination from the City. Of the 31, 6 still remain active in the system. Variances range from 3 days to 1,250 days.
- 2 active users were identified who have 2 active profiles with the same or similar permissions.
- 2 terminated employees were identified with duplicate active accounts with the same or similar permissions.

Paymentus

- 6 of 48 employee user accounts were set up by employees of the third-party consulting firm as opposed to the ITT Department, which violated IT best practices.

Beacon

- 5 active accounts had been inactive for over 30 days. Variances range from 42 days to 80 days.
- 1 terminated employee with administrative access was not deactivated until 13 days after separation.
- 1 terminated employee was not deactivated until 659 days after employee was terminated.

In addition, our testing over the audit logs determined the audit logs for the UCIS system were turned off, therefore, user activity was not being captured to ensure proper monitoring could occur. Lastly, we determined user activity monitoring was not occurring on an annual basis as required by the ITT policy.

Potential Risk – High: The absence of functioning procedures over various systems access components increases the risk that inappropriate access may be given and/or retained after an employee separates from the City. In addition, the absence of audit logs increases the risk inappropriate changes may not be caught. This risk is further escalated as administrative users from external parties have increased levels of access with no monitoring in place to ensure the actions they are performing are appropriate.

Recommendations: The ITT Computer Access Control Policy should be enforced and acknowledged citywide and amongst third-party contractors to ensure compliance, and should be updated regularly as necessary. An active and formal monitoring program, especially over administrative users, should be put into place and performed in accordance with policy. In order to do so, audit logs should be enabled on all systems utilized. All user access should be reviewed and monitored on a regular basis to ensure that current employee access is appropriate, and terminated employee access is restricted appropriately and timely.

Management Response: The Utilities Division will implement periodic system access reviews on at least an annual basis over the new billing system to ensure user access roles are aligned with job responsibilities. In the event roles need to be changed, the Division will work with ITT to update roles within the system. All reviews will be documented. In addition, we will work with ITT to transition user set up responsibility back to ITT to reduce the need for the third party consultant in this area. We anticipate this process to be implemented by the end of FY 2022.

The ITT Department is currently going through an internal audit where systems access and compliance with the Computer Access Control Policy are being tested. We will plan to address action steps City-wide to ensure compliance with access policies and ensure various platforms within departments are properly monitored for user access changes.

5) CUSTOMER WRITE-OFFS

NMSA 1978 Section 3-37-7 “Determination of Uncollectible Accounts; Removal from Accounts Receivable” states that after a utilities account has been uncollectible for a period of more than four years and efforts have been made to collect, the utility account may be removed from the listing of accounts receivable. Our testing determined the Utility Division has only completed one write-off in 2017 for approximately \$2.69 million and a subsequent write-off is pending approval for 2021 for approximately \$1.12 million, which includes amounts identified as uncollectible for years 2013 through 2020. This has resulted in bad debt sitting in accounts receivable for longer than it should.

Further testing determined the Utility Division does not have current policies and procedures in place as the policies utilized had remained in draft form since 2013 and were not reflective of the current practices. The absence of policies combined with an outdated billing system had resulted in little to no supporting documentation on file for the accounts included on the write-off nor consistent procedures applied when write-offs need to occur to ensure they were performed timely and received proper review and approvals.

Additionally, the draft policy mentions that certain fees are to be assessed in relation to certain actions to collect (such as the delivery of 2-day notices). Our testing determined that fees of this nature had not been assessed consistently.

Potential Risk: High – The absence of a formal write-off policy and procedure to support the process increases the risk that the Utility Division will continue to experience large write-off requests that do not contain the necessary level of support and review to ensure they were appropriate. Since this process is not functioning on an annual basis and therefore impacting the accuracy of the financial data, this escalates the risk to high.

Recommendation: The Utility Division, in collaboration with the Finance Department, should update and finalize the policies and procedures. The write-off process should include annual procedures to review and submit a write-off on uncollectable accounts. In order to assist the Finance Department with their review process, requirements should be developed to ensure proper supporting documentation is maintained for each customer account documenting the steps of the collection process and support for the review and approval of the subsequent write-off. In addition, the Utility Division expressed they have identified a new billing system that they hope to implement mid-2021. The Utility Division should ensure the new billing system will have the proper capabilities to ensure the attempts for collections on past due accounts can be tracked, documentation maintained, and provide reports so uncollectible accounts can be properly monitored. Lastly, the Utility Division should establish procedures to estimate an allowance for bad debts each year.

Management Response: The Utilities Division will work with Div./Dept./Finance/Legal/Council to implement yearly write-off policies and procedures for uncollectable debt of old accounts and prepare for a annual yearly write-off of accounts per state statute and city policies. The Division will also work with the Finance Department to determine estimates surrounding allowance for uncollectable accounts. We anticipate the policies and formal process to be implemented by December 2021.

The Finance Department will develop a set of templates to assist the Utilities Division with preparing proper supporting documentation when submitting the write-off requests.

6) ACTIONS TO COLLECT AND WRITE-OFF ADJUSTMENTS

In February 2017, the Utility Division was approved to determine uncollectible utility accounts and remove them from accounts receivable in the amount of \$2,695,881.82 in accordance with NMSA § 3-37-7 which allows for utility accounts that have been deemed as uncollectible for a period of more than four years to be removed from accounts receivable (written off). During this same time period, the Utility Division began redesigning their collections process to be more effective, efficient, and to prevent continued revenue losses. Prior to 2017, collections efforts were largely non-existent.

In 2020, a moratorium was placed on water shut-offs for non-payment of the bill. As such, since the moratorium was put in place, no actions to collect on past due customer accounts had been performed and many customer accounts have become severely past due. At this time, there does not appear to be a plan in place for collection efforts once the moratorium is lifted.

Potential Risk – Moderate: Lack of consistent follow-up on uncollectable accounts elevates the risk that write offs will continue in subsequent years, which is lost revenue to the City.

Recommendations: Policy 10.0.0 – Utility Billing Collections & Uncollectible Debt Policy should be revised, finalized, and enforced department-wide to ensure that controls are consistent throughout the process (whether an employee works in billing, collections, or customer service)

and to ensure that sufficient evidence of attempts to collect on the debt have, in fact, occurred prior to amounts being written off. Account delinquency and actions to collect should be well documented, per Policy 16.0.0 – Utility Billing Account Adjustment Policy, in anticipation of future write offs. Policy 10.0.0, 16.0.0, and other relevant adjustment specific policies should also be updated to reflect what additional fees can be assessed to account owners and when for non-payment (such as the delivery of 2-day notices). Additionally, the Utility Division should implement a plan for collections over past due customer accounts post-moratorium. The Utility Division should also work with legal to address the potential contradictory nature of New Mexico Constitution, Article IX, Section 14 and NMSA § 3-37-7 in order to add clarifying language to relevant policies and procedures.

Management Response: The Utilities Division will document current procedures for debt collection, two day notices, turn off/on procedures due to non-payment as well as procedures for third party collection for closed accounts and final bills. In addition, this policy will also be reviewed to ensure compliance with state statute and any other City rules as applicable. This policy will be finalized and approved by the end of FY 2022. The new billing system should have automatic reports for these non-payment procedures either during COVID or any type of moratorium to assist the department in identifying past due accounts and monitor them appropriately.

7) CASH HANDLING – COLLECTIONS & DEPOSITS

The Utility Division has a separate cashiering function operating as an arm of the City’s Cashier Office. The Cashier Office Policy, NMSA § 6-10-2 *Public Money; Cash Books; Daily Balance; Public Record*, and NMSA § 6-10-3 *Payment of State Money into Treasury* define rules and procedures for the operation of cashiering functions, including requirements to deposit monies daily within 24-hours of receipt, daily reconciliations, and restricting access to secure offices for the safeguarding of cash and cash equivalents. When the Cashier Office Policy was put into place in June 2018, the Finance Department and Treasury Utility Division expressed an intention to review and update the cash handling policy on an annual basis. The policy has not been updated since it was put into place.

Our testing determined that appropriate controls are not in place regarding end-of-shift cash balancing and drawer reconciliation. The Cashier Office Policy states that cash counts should always be performed in the presence of the individual responsible for the cash and by an individual who is not performing cashiering functions. The count is to be reconciled with daily receipts by someone independent of cashiering and cash count functions, when possible. Cash counts and review of related paperwork were not always performed simultaneously in the presence of an appropriate reviewer or supervisor.

The Cashier Office Policy states that revenues should be deposited daily for amounts greater than \$100 and NMSA § 6-10-3 does not indicate a dollar threshold; therefore, this policy is out of compliance with NMSA. Additionally, 9 of 40 deposits tested were not deposited within 24 hours or by the close of business the following day.

Potential Risk – Moderate: Cash handling policies that are not followed increases the opportunity for loss or theft to occur.

Recommendations: Adherence to the Cashier Office Policy establishes uniform practices to safeguard the City's financial assets and to prevent mishandling of funds. Internal controls require separation of duties and preventative and detective measures. The Utility Division has a responsibility to properly segregate job duties so that no one person handles cash transactions from beginning to end and to assign responsibilities in a manner, which encourages checks and balances. When it is not possible to properly segregate duties due to size or staffing constraints, management should identify compensating controls to minimize the impact and likelihood of the deficiency related to the review and approval of daily deposits and cash counts. All assignments of responsibilities should be documented and the Cashier Office Policy which should be reviewed and updated to ensure compliance with NMSA. A contingency plan should be put into place to ensure that all monies are deposited within 24-hours of receipt in accordance with the Cashier Office Policy and NMSA § 6-10-3 in the case that Loomis isn't able to pick up deposits timely. Such a plan should take into account the proper safeguarding of assets as well as employee safety.

Management Response: The Utilities Division/Cashiering will work with the Finance Department to ensure that pickups for deposits are done daily. In the event a deposit cannot be picked up, the Utilities Division will identify alternate procedures to get the deposit to the bank within the 24-hour rule to ensure compliance with state statute. In addition, a permanent role will be established to help the Accounting Technicians with their end-of-shift count. If an employee outside the Cashiering function cannot be found, the Account Technicians will validate all paperwork under the 24/7 cameras. Camera footage will be reviewed the next day by someone other than the Account Technicians to ensure processes were followed. Lastly, the Cashier Office Policy will be reviewed to ensure compliance with City policies and state statute. This will be completed by the end of FY 2021.

8) ORPHAN AND LEGACY ACCOUNTS

Within the UCIS Billing system, several accounts exist where there is a receivable balance but no associated utility account (orphan account) or the account was a transfer from an old accounting system (legacy account). The orphan accounts total approximately \$200,000 and the legacy accounts total approximately \$130,000. Our testing determined these amounts have remained in the City's accounts receivable balance since at least 2001.

Potential Risk: Moderate – The absence of a process in place to ensure orphan and legacy account balances are removed from the UCIS system escalates the risk that accounts receivable balances will continue to be overstated.

Recommendation: The Utility Division, in collaboration with the Finance Department, should review all orphan and legacy accounts and provide a detailed listing of the specific accounts that need to be removed. The listing should include a description of the source of the account, a reason why it is necessary to remove, as well as any other supporting documentation that validates why the account should no longer be in the accounts receivable balance. Once the accounts have been removed, a comparison to current data should be performed to ensure no additional data was erroneously removed from the UCIS system.

Management Response: The Utilities Division will work with Div./Dept./Finance/Legal/Council to write-off the orphan and legacy accounts which are intended to be included in the 2021 proposed write off. In order to properly document this, we will run reports for these accounts with balances, prepare a memo with amounts broken out by GL off-set (Water, WWM, ESD,

Storm Water, etc.), prepare a resolution and request a Councilor to support the resolution as well as receive a memo from Finance supporting the write-off amount, send through committees and to Council meetings to be included in a immediate write-off. We anticipate trying to complete this by the end of calendar year 2021.

9) UNALLOCATED FUNDS/CUSTOMER REFUNDS

When a customer begins utility services, a security deposit is required in order to commence services. This deposit is held in a trust account until the customer closes the account at which point the Utility Division refunds the deposit amount. For several accounts, which existed prior to 2003, the security deposit still remains in trust despite several attempts to issue a refund. While these balances should have been transferred to the State of New Mexico Unclaimed Property, processes were not in place over these accounts to collect personal information such as social security numbers, alternate mailing addresses, etc. which is required information to submit an amount to Unclaimed Property. While the Finance Department was able to segregate the accounts to a liability account which is currently at approximately \$15,000, many of the accounts have remained for extended periods of time with no process in place to transfer the funds as owners cannot be located nor will Unclaimed Property take over the funds.

Through our inquiries, we also determined a stale dated check report has not been produced in over a year and as a result, there is a high likelihood that many accounts that were issued refunds need to be reversed and voided to place the credit back on the account since the check was never cleared.

Potential Risk: Moderate – The absence of a process in place to ensure funds are transferred to appropriate individuals increases the risk that funds will continue to be held in the liability account despite the significant age of the accounts.

Recommendation: The Utility Division should work to identify a plan to either issue refunds to customers or work with the State of New Mexico Unclaimed Property to determine what next steps are allowable to ensure funds can be properly removed from the Utility Division's liability account. In addition, a review process should be put in place over the stale dated check report and required actions steps post review should be taken to ensure customer accounts reflect accurately. A process to annually review unclaimed funds and transfer those funds to the State should be implemented.

Management Response: The Utilities Division will work with city departments, Finance, Legal and State of New Mexico Unclaimed Property section to try to return funds to customers. In addition, we will create targeted policies addressing how unclaimed funds should be handled so that these do not continue to happen. We will work with Finance to establish a process for receiving the stale dated checklist on a monthly basis to ensure proper reviews can be performed. We plan to have this implemented by the end of calendar year 2021.

10) BILLING CYCLE CHECKLISTS

On a monthly basis, the Utility Division runs a series of reports in coordination with the billing cycle to determine if potential variances exist in the billing data. Examples include sudden increased usage, missed meter reads, and other instances which may indicate a problem. This process is tracked utilizing a Billing Cycle Checklist which is reviewed by the Utility Billing Supervisor, or designee, each billing cycle to ensure each step was completed. We identified 4 of the 12 months tested where the number of adjustments recorded for the billing cycle were not

noted on the checklist, nor was the adjustment listing attached. Additionally, there is an absence of policies and procedures in place to assist employees with ensuring Utility Division processes are followed when a variance is discovered (i.e. when a missed meter is identified and needs to be corrected within a specific amount of time to ensure the billing process can continue).

Potential Risk: Low – The absence of policies and procedures escalates the risk that employees may not be aware of Utility Division processes when it comes to correcting billing and irregular usage variances. This risk is reduced to low however as the Billing Cycle Checklist has been developed and is reviewed monthly to ensure proper steps were followed.

Recommendation: The Utility Division should implement policies and procedures over the billing review process to ensure process steps are clearly stated and employees are aware of the expectations when investigating and resolving billing errors. The policies and procedures should include detail regarding when variances must be corrected by, the process to investigate and resolve, as well as what supporting documentation is required to support the correction and identified resolution. These policies should be periodically reviewed to ensure they reflect potential changes in the process if applicable.

Management Response: The Utilities Division will continue to add to the current billing checklists and summarize these checklists into a formal policy. As the billing system is changing we will update these checklist and policies once finalization of the new billing system is completed. We plan to have this implemented by the end of FY 2022.

PROCEDURES PERFORMED AND INFORMATION GATHERED

We performed the following testwork:

Billing Cycle Checklists: We selected 12 Billing Cycle Checklists from July 2019 to June 2020, and tested to determine if:

- Necessary error and irregular usage reports were produced and attached to the Billing Cycle Checklist;
- Errors and irregular usage identified were investigated, resolved, and reviewed;
- Number of adjustments recorded for cycle were noted on checklist and adjustment listing was attached; and,
- Checklist and attachments were reviewed and signed by the Billing Staff Member and Billing Supervisor.

Write Off Process: We gained an understanding of policies, procedures, and internal controls related to the 2017 write off as well as the proposed 2021 write off and tested to determine if documentation was in place to support the amount and proper reviews had taken place.

Actions to Collect and Write Off Adjustments: We selected 20 accounts written off in 2017, 20 accounts included in the proposed 2021 write off, and 20 accounts from a future write off estimate listing and tested to determine if:

- Level one delinquency – 30 days past due notice was delivered;
- Level two delinquency – 60-day notice was delivered and phone call was performed signifying that waster would be shut off in 15 days;
- Level three delinquency – 2-day notice was hand delivered signifying that water would be shut off in 2 days if no payment is received;
- No payment was received after delivery of 2-day notice, water service was shut off (pre-COVID-19 only);
- No payment was received after 90 days and the customer account had an outstanding balance of \$500 or more, the City recorded a lien against property per NMSA 1978 3-23-6;
- No activity was reflected in the account for at least 4 years and write off adjustment was correctly recorded in the account for account balance plus finance charges per NMSA 3-37-7;
- The proper fee(s) were imposed on the account for delivery of 2-day notices or the recording of a lien.

System Access (UCIS, Paymentus, Beacon, and Wells Fargo CEO): For the UCIS, Paymentus, Beacon, and banking platform, we obtained a listing of enabled and disabled users within each as of December 2020. We then obtained a listing of terminations, promotions, and transfers from the City of Santa Fe Human Resources Department as of December 2020 and tested to determine:

- Employees who had terminated, were promoted or transferred were disabled on the same day of the termination;
- Active users whose accounts had not been utilized for 30 days were disabled;

In addition, for each system, we tested to determine if audit logs were enabled and monitored for irregular activity and all users had a unique username. Lastly, we tested to determine if administrative user access was set-up and monitored in compliance with ITT policies and procedures.

Third-Party Consultant Scope of Work: We obtained the service agreement in place with the third-party consulting firm as of August 2018 and two amendments to the original service agreement dated May 2019 and June 2020. We also obtained IT work orders, vendor invoices for the period October 2018 through January 2021, and weekly status reports. We tested to determine if the work performed was within the scope of the service agreement and did not appear to overlap with departmental employee responsibilities per job descriptions.

Cash Handling – Cash Collections and Deposits: From a total population of approximately 700 cash batches performed from July 1, 2019 through November 30, 2020, we selected a sample of 40 cash batches. Within each batch, we then selected 1 cash receipt and requested the supporting documentation in place. We then tested to determine the receipt given to the customer and the receipt retained by the city agreed to the batch entry.

In addition, we performed an analysis over the general ledger from July 1, 2019 to November 30, 2020, and identified all payments received over \$10,000. From this listing, we excluded payments submitted electronically, or via direct debit or lockbox. From a total population of 116 payments, we selected 26 and tested to determine if cash was received that exceeded \$10,000, the IRS Form 8300 was filed.

We also gained an understanding of the processes in place to secure, record and deposit cash receipts and tested to determine:

- Deposit slip contained the required information including date of deposit and the signature and department of deposit preparer;
- Cash deposits were completed within 24 hours of receipt or before the close of the business the following days; and,
- The Account Technician/Cashiers balanced and validated their cash drawer and deposit slips were reviewed and verified by a second individual.

Additionally, we compared the Cashier Office Policy with NMSA § 6-10-3 *Payment of State Money into Treasury* to ensure that the timing of daily deposits was appropriately reflected in the Cashier Office Policy.

Customer Account Adjustments: From a total population of 20,856 account adjustments performed from July 1, 2019 through November 30, 2020, we selected a sample of 60 and tested to determine:

- An adjustment report was produced;
- Adjustments were routed to the Utility Billing Supervisor for review;
- Documentation for the adjustment included the adjustment form, memo, account history, adjustment calculations, and the data application form;
- Adjustments were routed through each level of approval based on the adjustment amount; and,
- Adjustment was correctly reflected in the customer's account history.

Orphan/Legacy Accounts: We gained an understanding of the orphan and legacy accounts, which currently reside within the Utility Division's accounts receivable balance, including their source and approximate cumulative amount. We determined if processes were in place to remove the accounts to ensure accounts receivable were properly reflected.

Unallocated Funds: We gained an understanding of the different types of funds included in the unallocated funds universe, including where they originated from and what actions had been taken by the Utility Division to return funds to account owners.

In order to gain an understanding of the processes and operations, we interviewed the following personnel:

Utilities Division

- Shannon Jones, Public Utilities Department Director
- Nancy Jimenez, Utility Billing Utility Division Director

- Halona Crowe, Utility Billing Supervisor
- Kathy Valdez, Utility Billing Supervisor
- Andrea Tapia, Collections Account Specialist
- Maya Martinez, Public Utilities Fiscal Administrator
- Stephen Morales, Public Utilities Senior Financial Analyst

Information Technology & Telecommunications Department

- Manuel Gonzales, Information Technology and Telecommunications Program Manager
- Bradley Purdy, Information Technology and Telecommunications EAS Manager Chief Information Security Officer
- Felix Herrera, Information Technology and Telecommunications System Administrator
- Steven Santistevan, Information Technology and Telecommunications EAS Manager
- Chris Miller, Information Technology and Telecommunications System Analyst

Finance Department

- Mary McCoy, Finance Director
- Debra Harris-Garmendia, Accounting Officer

In order to gain an understanding of the processes, we read relevant portions of:

- Santa Fe City Codes:
 - Chapter XIII – Stormwater Utility
 - Chapter XV – Utility Bills
 - Chapter XXI – Environmental Services
 - Chapter XXI – Sewers
 - Chapter XXV – Water
- City of Santa Fe Comprehensive Annual Financial Report (CAFR) Financial Statement Findings for fiscal year 2018 and 2019.
- 2015 New Mexico Office of the State Auditor Government Accountability Office Risk Advisory on Municipal Utilities
- 2013 New Mexico State Statute, Chapter 23 – Municipalities, Article 23 – Public Utilities
- 2006 New Mexico State Statute – Section 3-37-7 – Determination of uncollectible account; removal from accounts receivable
- 2006 New Mexico Statute – Section 6-10-2 – Public money; cashbooks; daily balance; public record.
- 2006 New Mexico Statute – Section 6-10-3 – Payment of state money into treasury; suspense funds.

- Utility Billing Policy 2.0.0 – Dispute Resolution Policy & Procedure (effective July 1, 2003)
- Utility Billing Policy 3.0.0 – Utility Billing Appeals Procedure (effective July 18, 2003 and revised November 5, 2003)
- Utility Billing Policy 4.0.0 – Utility Billing Special Fee and Penalty Policy and Procedures (effective September 30, 2003 and revised April 22, 2014)
- Utility Billing Policy 5.0.0 – Utility Billing Finance Charges (effective April 4, 2004)
- Utility Billing Policy 6.0.0 – Customer Requested Cut-Out (Water) Policy (effective April 1, 2004)
- Utility Billing Policy 7.0.0 – Water Leak Credit (effective June 26, 2013 and revised May 6, 2013)
- Utility Billing Policy 9.0.0 – Utility Billing Payment Arrangement Policy (effective February 17, 2006)
- Utility Billing Policy 10.0.0 – Utility Billing Collections & Uncollectible Debt Policy (DRAFT dated March 1, 2013)
- Utility Billing Policy 13.0.0 – Low Income Credit Policy (effective January 1, 2006)
- Utility Billing Policy 14.00 – Incoming Mail Policy (effective January 26, 2006)
- Utility Billing Policy 15.0.0 – One-Time Credit for High Consumption Due to Unknown Cause (effective March 31, 2006)
- Utility Billing Policy 16.0.0 – Utility Billing Account Adjustment Policy
- Utility Billing Policy 17.0.0 – Utility Billing Disconnect for Non-Payment Policy (effective June 26, 2013)
- Treasury Department Cashier Office Policy (effective January 1, 2018)
- Cashier Unit Financial Management Manual (draft)
- AS400 Billing Schedule Procedures
- Standard Operating Procedures
 - 2-Day Notices
 - 725 Work Orders (Disconnect for Non-Payment)
 - 740 Work Order (Reconnect)
 - Bankruptcy
 - Final Bill Letter
 - Lien Placement
 - Release of Lien
 - Meter Tampering
 - Nonpayment Disconnect for NSF Checks
 - Payment Arrangements

- Collection Agency
- Entering Account Adjustments
- Low Income Credit
- One-Time Credit for High Consumption Due to Unknown Cause
- Vacancy Applications
- Seller-Buyer Transfers
- City of Santa Fe Job Descriptions
 - Account Specialist
 - Administrative Assistant
 - Automated Meter Reader Tech
 - Customer Service Representative
 - Meter Reader
 - Project Administrator
 - Project Specialist
 - Senior Financial Analyst
 - Utilities Collections Specialist
 - Utility Billing Utility Division Director
 - Utility Billing Investigator
 - Utility Billing Manager
- City of Santa Fe ITT Department Computer Access Control Policy
- ITT Department Policy 2600-3-2 – Technology Resource Acceptable Use Policy (effective January 1, 2001 and revised October 2, 2003)
- Third-Party Consulting Professional Services Agreement (signed August 2018) and Amendment No. 2 to Professional Services Agreement (signed June 2020)

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This report is intended solely for the information and use of City of Santa Fe’s management, Audit Committee and City Council members. If additional procedures had been performed, other matters might have come to our attention that would have been reported to you.

We received excellent cooperation and assistance from City of Santa Fe personnel during the course of our testing. We very much appreciate the courtesy and cooperation extended to our personnel. We would be pleased to meet with you to discuss our findings and answer any questions.

REDW LLC

Albuquerque, New Mexico
May 18, 2021