

Memorandum



DATE: June 18, 2004

TO: Honorable Mayor and Members of the City Council

SUBJECT: Follow-up report of the December 27, 2002, *Audit of the Performance of DWU's Finance and Accounting Systems and Water Operations--Report #377*

We conducted this follow-up audit under the authority of Chapter IX of the City Charter, City Council Resolution No. 920779, and performed it according to applicable government auditing standards.

Our objective was to determine whether the Dallas Water Utilities (DWU) had implemented the audit's recommendation or taken other acceptable actions to remedy the control weaknesses identified in the original audit report.

The original audit contained five findings with seventeen recommendations. Management has implemented all of the recommendations.

1. **The water produced by DWU is not accurately accounted for.** We recommended that DWU:
 - A. Define the maximum unaccounted for water (UAW). **(Implemented)**
 - B. Quantify losses by category by using American Water Works Association (AWWA) UAW methods. **(Implemented)**
 - C. Develop an action plan to address losses by category. **(Implemented)**
 - D. Track UAW using AWWA guidelines. **(Implemented)**

2. **The majority of DWU infrastructure is beyond the serviceable life and is continuing to age.** We recommended that DWU:
 - A. Increase funding for the infrastructure replacement program to reduce the replacement rate from 130 years to 50-75 years. **(Implemented)**
 - B. Develop a comprehensive master distribution plan to determine current and future customer needs. **(Implemented)**
 - C. Perform periodic condition assessments to ensure the master distribution plan is meeting the water infrastructure and water delivery needs of the City. The older the system becomes, the more frequently the assessments should be performed. **(Implemented)**

3. **Water meters are not accurately reflecting the amount of water delivered.**

We recommended that DWU:

- A. Perform a post-implementation review of those customers on rout 8-83 to determine why the discrepancy occurred after conversion to the turbine meters using the Automated Meter Reading (AMR) system. **(Implemented)**
- B. Perform a cost benefit analysis to determine the optimum type of water meter to be installed based on customer use. **(Implemented)**
- C. Develop policies and procedures to better account for portable meter use. **(Implemented)**
- D. Assess the life cycle of residential meters to maintain an acceptable level of meter accuracy. **(Implemented)**
- E. Increase the number of large meter crews to effectively maintain a higher level of large meter accuracy. **(Implemented)**

4. **The water rate charged may not be sufficient to meet current and future DWU financial obligations.** We recommended that DWU:

- A. Determine the approach an asset life cycle that is best suited for DWU operations and if switching to the modified approach, comply with the GASB 34 requirements. **(Implemented)**
- B. Include in their next rate request the percentage necessary to pay payment in lieu of taxes (PILOT). **(Implemented)**

5. **Financial controls over water payments, account reconciliations, and collections are not adequate.** We recommended that DWU:

- A. Maintain procedures in order that Cash Clearing Account 0007 nets to zero daily. **(Implemented)**
- B. Monitor EHS' operations more closely in order to strengthen and tighten controls on collection and reporting of cash receipts for water payments. **(Implemented)**
- C. Develop procedures to monthly monitor the amount of water produced to the amount of water billed (less UAW). Senior management should take action to investigate the causes of any significant variances. **(Implemented)**

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We appreciate management's cooperation in this follow-up.

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c: Mary K. Suhm, Interim City Manager
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