

AUDIT SERVICES OVERSIGHT COMMITTEE
Monday, February 27, 2023
Virtual Meeting via Zoom 3:30 P.M.

The Audit Services Oversight Committee met at the above date and time with the following members present: Chairman Nick Long, Vice-Chair Matthew Ruterbories, Resident Member Emily Yeatts, Council Member DeDreana Freeman, and Council Member Jillian Johnson.

Also present: Wanda S. Page, City Manager; Bertha T. Johnson, Deputy City Manager of Operations; Don Greeley, Director, Department of Water Management; Mary Tiger, Assistant Director of Department of Water Management; Tim Flora, Director, Finance Department; Sheila Faucette, Assistant Director, Finance Department; Christina Riordan, Assistant Director, Budget & Management Services Department; Phyllis Russell, Budget Manager, Budget & Management Services Department; Dr. Germaine F. Brewington, Director, Audit Services Department; the Audit Services Department Staff; and other guests.

Chairman Nick Long called the meeting to order at 3:30 p.m.

Chairman Long welcomed everyone to the February, 2023 meeting.

SUBJECT: ADJUSTMENTS TO AGENDA

There were no adjustments to the agenda.

SUBJECT: EXCUSED ABSENCE FOR MAYOR O'NEAL

Dr. Brewington asked for an excused absence for Mayor O'Neal due to a scheduling conflict.

Motion was made and it was properly seconded to approve the excused absence of Mayor O'Neal.

The motion passed unanimously.

SUBJECT: APPROVAL OF MINUTES – January 23, 2023

Motion was made and it was properly seconded to approve the minutes of the January 23, 2023, Audit Services Oversight Committee meeting.

The motion passed unanimously.

SUBJECT: Industrial Pretreatment Performance Audit

Dr. Germaine Brewington, Director of the Audit Services Department gave a presentation on the Industrial Pretreatment Program. She began by stating the audit was performed to ensure that

internal controls and safeguards exist to mitigate the risk of pollutants contaminating the public water supply.

The Industrial Pretreatment Program (IPP) / Industrial Waste Control staff are responsible for administering the Industrial Pretreatment Program at the City. Through this Program, staff enforce federal, state, and local regulations that limit the amount of pollutants industries discharge into the sanitary sewer system. To ensure compliance with regulations, staff issue permits and inspect and survey customers who discharge industrial wastewater into publicly owned treatment plants, commonly known as publicly owned treatment works (POTWs). Currently, there are 12 significant industrial program users (SIUs) that are monitored as part of this program. The IPP staff focus on issuing permits, conducting inspections, and detecting violations. They are also responsible for determining the amounts SIUs will be billed for their pollutants discharged, monitoring activities, and permit applications. A fee schedule is used to determine charges to be billed based on the volume of water and pollutants exceeding pre-determined parameters. These charges are added to the industrial user's water bill by the Customer Billing Services representatives in the Department of Water Management.

She discussed the objectives of the audit: 1) to review the Industrial Pretreatment Program process and verify the Program's compliance with federal and North Carolina regulations; and 2) to evaluate the effectiveness of internal controls over the Industrial Pretreatment Program process. The scope of the audit included examining current practices related to the Industrial Pretreatment Program process. Audit Services Department staff performed analyses on data for the period of FY 2021 to FY 2023 (as of January 2023).

The IPP process is in compliance with federal and North Carolina regulations. In addition, internal controls for the IPP process are in place and staff effectively reach out to potential industrial users that might need to be included in the Program and monitor industrial users and ensure they comply with self-monitoring requirements. However, Dr. Brewington summarized findings regarding the need for enhancement. First, the audit found that Industrial Pretreatment Program surcharges are not consistently billed. Second, the current fee schedule has been in place for over 10 years. Third, written standard operating procedures are not in place for the permit issuance process. These findings led to four recommendations.

Recommendation 1 (Management Concurred)

The Department of Water Management staff should establish written guidelines over the SIU billing process. Written guidelines should incorporate monitoring practices to ensure charges are billed as intended.

Value added: Risk Reduction; Efficiency

Recommendation 2 (Management Concurred)

The Department of Water Management staff should determine Industrial Pretreatment Program fees not billed to SIUs for the past three years and make efforts to bill and recover those fees.

Value added: Risk Reduction; Compliance

Recommendation 3 (Management Concurred)

The Department of Water Management staff should periodically review the fee schedule for the Industrial Pretreatment Program to ensure factors like program costs and inflation are taken into consideration.

Value added: Cost Reduction

Recommendation 4 (Management Partially Concurred)

The Department of Water Management staff should establish written guidelines for the permit issuance process.

Value added: Risk Reduction; Efficiency

Questions/Comments:

Questions by ASOC members:

- Chairman Long asked if there was context or explanation as to what could lead to a 20 month + delay in the billing of those invoices that needed to be calculated manually.
 - Director Don Greeley explained that in looking at the billing overall, it came down to the COVID-19 pandemic and the high staff turnover that happened during that timeframe. Thus, there was inconsistency in the billing, but they have had the chance now to look over the past 3 years. In that preliminary review of the past 3 years, they are about 2/3 billed and 1/3 not billed. In the window that Audit Services reviewed, there was 1/3 billed and 2/3 not billed roughly. One of the key findings in the audit was to establish written policies and procedures for the billing process, so as the department has the staff turnover, they will be able to rely on these policies and procedures.
 - Chairman Long thanked Director Greeley for the context and commented how good it is to hear that controls are in place moving forward.

- Vice-Chair Matthew Ruterbories asked if there was anything preventing these bills that have been historically manually calculated to instead be preloaded in MUNIS the way some other customers are billed. Are these calculations more complicated and thus human input must go into this process? For that reason, can a preestablished formula not be used in MUNIS? Manual calculations can raise antenna. Does this process need to be made objective and automated and can that be done using the software the City of Durham currently has?
 - Director Greeley answered that it is not possible at this time, but it is something that they would like to move toward. Much depends on the discharges of the users and the variability of their waste stream. The charges are based on the pollutants monitored in that waste stream. The Department of Water Management (Department) is fortunate to have good industrial partners. The Department has rarely had to issue notices of violation. In fact, the industrial partners do a good job notifying the Department of issues that may affect their discharge. Until there is technology that is actively monitoring at the sites and providing information,

the Department will have to rely upon manual input in looking at the data. The rest of the process, such as the rates of the discharge, can be loaded automatically. Reviewing the waste stream must be done manually.

- Vice-Chair Ruterbories followed up on his initial question by asking if a person just needs to manually input something and technology helps with the calculation.
 - Director Greeley confirmed that the person inputs the data and then the billing technology does the rest.

SUBJECT: Changes to the 2023 ASOC Meeting Calendar

Dr. Brewington requested that the June 12, 2023 ASOC meeting be cancelled due to Audit Services Department staff attending a training June 12-14. Dr. Brewington proposed the Committee meet on May 22, 2023 (which had been previously cancelled), in place of that June 12th meeting. The continuing professional education three of the five staff will be attending will make it difficult to conduct the June meeting.

Motion was made and it was properly seconded to cancel the June 12, 2023 meeting and conduct the May 22, 2023 meeting.

The motion passed unanimously.

Dr. Brewington will send out a revised 2023 Meeting calendar with the discussed changes.

SUBJECT: Annual Audit Plan Risk Model

Annually, the Audit Services Department staff conduct a risk-based assessment to develop the annual audit plan. The staff begin this process by requesting input from different groups. At the February Directors meeting, staff had a Jamboard session to brainstorm audit ideas. About 30 ideas were received from directors who are experts in their field. Staff also look across the country to see what topics are trending in other audit shops, and staff look at issues that have been received through the Tip Hotline. ASOC members can add their ideas for audits to this process by completing the suggestion form sent with the February meeting materials and scanning it back to Dr. Brewington.

The risk model spreadsheet consists of columns in green and yellow. The columns in green represent the impact to the City (reputational risk, financial risk, etc.) if there is a breakdown in controls in a particular audit process. The columns in green represent 50% of the total point calculation. The columns in yellow represent the likelihood a control deficiency will exist due to the presence of a particular factor (e.g., new management, key staff turnover, process has never been audited before). Likelihood factors are 50% of the total point calculation. Each staff member will use the risk model to evaluate the audit ideas. Each person develops his/her own scores and those individual scores are combined to get a cumulative score. The scores are analyzed for outliers. Staff collectively discuss each potential engagement and come to a

consensus on the scores. Before the list is finalized, Audit staff will match the ideas on the list to the City's risk themes developed by NC State students in 2020 in conjunction with senior leadership at the City. The topics are ranked highest to lowest. The Audit staff will propose the top 10 engagements for the next year's annual audit plan and submit that at the March ASOC meeting. This draft FY24 annual audit plan list will be reviewed by the ASOC members during the month of April. The audit plan will be discussed at the April ASOC meeting once the Committee members have had a chance to review the list of potential engagements; and the submitted plan or a revised plan will be approved at the May 2023 meeting.

Staff commit to doing at least eight (8) audits in a fiscal year and we probably will actually work on nine (9) engagements with one carrying over to the next fiscal year.

The FY23 audit plan included from department directors, 6 topics of the 14 ideas recommended to the ASOC members for their review and approval. Over the past four years or so, the number of engagements submitted by department directors has steadily increased. This collaboration has been invaluable in enabling the Audit staff with its limited capacity to focus on the right processes at the right time.

Questions/Comments:

Questions by ASOC members:

- Resident Member Emily Yeatts asked if topics that are close to making the cut for the final audit plan are automatically reconsidered for the following fiscal years.
 - Dr. Brewington affirmed that the ideas are reconsidered. 8-10 audit ideas become part of the audit plan for that fiscal year. The audit processes on the list that are not selected are added to the list for the next fiscal year. They are also reevaluated because priorities change.

OTHER BUSINESS

The next meeting will be March 27, 2023.

Chairman Long thanked the Audit Services team for their excellent work and for month after month presenting concise and clear reports with conclusions that will improve services to residents and that residents can understand.

Chairman Long adjourned the meeting at 4:09pm.

Respectfully submitted,

Alisha Neblett Thompson