

**CITY OF CHARLOTTE
OFFICE OF INTERNAL AUDIT**

Independent Report of Internal Audit

To: City Manager's Office and Charlotte Water

June 21, 2016

From: Greg McDowell, City Auditor

Re: Union County Wastewater Treatment Agreement – Agreed Upon Procedures

We have performed the procedures detailed below, which were agreed to by the Director of Charlotte Water, solely to assist in evaluating the agreement between Union County Public Works and Charlotte Water related to wastewater treatment plant operations, and to determine if revenues exceeded expenses for fiscal year 2015. Charlotte Water's management is responsible for the operation of wastewater treatment plants related to this agreement. This agreed-upon procedures engagement was conducted in accordance with Generally Accepted Government Auditing Standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants (AICPA). The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Background

Charlotte Water entered into an agreement with Union County Public Works to provide operation and maintenance services for five wastewater treatment facilities. On June 1, 2014, Charlotte Water began operations at these facilities:

- Twelve Mile WRF – designed to treat up to 6.0 Million Gallons per Day (MGD)
- Crooked Creek WRF – designed to treat up to 1.9 MGD
- Grassy Branch WWTP – designed to treat up to 0.050 MGD
- Tallwood Estates WWTP – designed to treat up to 0.050 MGD
- Olde Sycamore WRF – designed to treat up to 0.150 MGD

The agreement outlines the operation, maintenance, and staffing requirements for the five plants, in addition to the development of several programs, improvements, and plans that must be implemented. The first fiscal year of contract operations has been completed. Under the agreement, Union County will pay an annual fee of \$2,227,402 to the City, payable in equal monthly installments of \$185,617.

Overall, the Personal Services, Operations, and Overhead budget for fiscal year 2015 was \$2,227,402. Expenses for Chemical Treatment through the year-end were projected to be \$380,000. The expenditures for Corrective Maintenance were budgeted at \$300,000. Chemicals and corrective maintenance expenses will be incurred by the City and reimbursed by Union

County as the expenses are submitted. These particular expenses (along with others listed in the agreement) are not covered under the base compensation fee that is paid monthly to the City.

Agreed-Upon Procedures

At the request of the Director of Charlotte Water, we have performed the agreed-upon procedures (AUP) which follow:

- Review the contract agreement to determine allowable expenses
- Analyze revenue and expense activity related to this contract from June 2014 through June 30, 2015 using Munis (the City's ERP system)
- Review the FY15 Annual Report provided to Internal Audit by Charlotte Water, detailing Union County Wastewater Treatment Plant Operations (UCWWTP) for accuracy related to information from Munis
- Present our findings to the City Manager's Office

Findings

1. Revenues exceeded expenses by \$580,797 during FY15.

Audit staff obtained data from the City's ERP system, Munis, using the trial balance report as well as the general ledger transaction detail report. Revenues related to the UCWWTP agreement were posted into two accounts (UC Admin and UC Operating). Revenues reported for FY15 totaled \$2,991,709. This revenue amount is comprised of the base monthly compensation paid by Union County to City as established in the agreement, as well as any reimbursements for expenses paid by the City that are not covered in the base compensation amount (e.g. chemicals).

Related expenses were obtained from Munis using the same manner described above. The two broad expense categories were personal services and operations. Expenses reported for FY15 totaled \$2,410,912. Personal services accounted for \$1,005,510 of expense, while operations were \$1,405,402. See Attachment A for a schedule of expenses for FY15.

Response: Charlotte Water does incur some risk in operating the Union plants and the ability to earn revenues in excess of expenses recognizes that risk. Charlotte Water is entitled to retain the excess revenue under the terms of the agreement. The additional revenue earned in the first year may be needed in the future in the event some of the risks are realized and costs exceed that year's revenue. Charlotte Water's agreement with Union County is designed to protect Charlotte Water ratepayers from exposure to risks associated with operating Union County facilities.

2. Detail testing for two months during FY15 found no unallowable expenses.

Auditors randomly selected two months during FY15 to analyze expenses. Munis' Tyler Content Management (TCM) document storage system was used to review invoices, quotes, and receipts related to the agreement for the two months. P-card statements were reviewed

for two cardholders, and all expenses were traced from the card statements back to the transaction detail. Audit staff found no unallowable expenses per the UCWWTP agreement.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the operations per the agreement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for information and use of the City Manager's Office, Charlotte Water and City Council, and is not to be and should not be used by anyone other than these specified parties.

Charlotte Water - Union County Wastewater Treatment Plant Agreement
Schedule of Expenses
For the Year Ended June 30, 2015

Description (Per Munis)	Adopted Budget	Revised Budget	Actuals
Salaries & Wages - Regular	\$ 952,111	\$ 952,111	\$ 719,769
Overtime	39,816	39,816	40,627
Workers Comp Transfer	3,500	3,500	-
Employee Merit Pay	23,128	23,128	-
Social Security Tax	77,652	77,652	53,534
Empl Retirement Expns	75,317	75,317	52,905
Empl Insurance Premium	118,932	118,932	118,932
401K Retirement	30,452	30,452	19,742
Personal Services	1,320,908	1,320,908	1,005,510
Uniforms-Prot Clothing	14,625	14,625	9,890
Auto & Othr Allowances	1,530	2,950	6,767
Meals and Subsistence	750	750	563
Maintenance Materials & Suppli	110,000	110,000	53,571
Fleet ISP - M&R-Auto/Equipment	54,255	66,196	23,182
M&R-Buildings	-	-	3,372
ISP M&R-Bldg Renov and Cons	-	11,350	11,350
Lubricants for Specialty Equip	4,826	4,826	-
M&R-Other	527,962	531,712	563,969
Prof & Technical Services	-	-	9,060
Chemicals & Lab Supply	10,000	10,000	29,799
Chem For Water Trtmt	380,000	396,666	231,273
Utilities - Water	1,575	1,575	42,886
Fees-Laboratory Testing	189,047	189,047	221,678
Safety Costs	14,265	14,265	3,630
Education	-	-	2,511
Landfill Services	22,841	22,841	50,872
Security Services	-	-	100
Misc Contractual Services	14,390	14,390	4,989
Motor Fuels & Lubrcnts	42,735	42,735	16,231
Janitorial & Cleaning Supplies	3,274	3,274	3,686
Specialty Departmental Supplie	-	-	9,962
Equipment Maintenance	-	-	3,448
Sm Tools & Expnd Eqpt	8,650	8,650	28,232
Office Supplies	5,500	5,500	4,762
Technology Services	86,608	86,608	24,555
Other Materials/Supplies	-	-	27,338
Telecommunications	32,578	32,578	9,072
Licenses And Taxes	17,710	17,710	400
Rental Of Equipment	33,200	33,200	275
Travel & Meetings	124,229	124,229	520
Training Conf & Meetings	21,313	21,313	4,045
Postage	1,300	1,300	154
Printing & Publishing	2,000	2,000	-
Dues,Subscr, & Prof Lic	3,471	3,471	631
Pcard expense - unallocated	-	-	2,629
Unexpendable Appropriations	152,000	152,000	-
Operating Expenses	1,880,634	1,925,761	1,405,402
Fund Total	\$ 3,201,542	\$ 3,246,669	\$ 2,410,912



DATE: June 9, 2016

TO: Gregory L. McDowell, CPA, CIA – City of Charlotte Auditors Office

FROM: Barry Gullet, Director - Charlotte Water

SUBJECT: Response to Audit Report-
Agreed Upon Procedures Union County Wastewater Treatment Agreement

Charlotte Water and Union County Public works have both reviewed the audit completed by the City of Charlotte Internal Audit Department. We are in agreement with the findings. The agreement between the City of Charlotte and Union County specifically addresses compensation for services, certain fixed operating costs and costs that are directly passed through to Union County. As stated in the audit, in FY15, the revenues received by the City of Charlotte exceeded expenses. Charlotte Water worked closely with the Finance Accounts Receivable staff to ensure consistent revenue monthly billing for MOU billable services. The negotiation of the contract took into account certain major operating expenses such as chemicals, power and maintenance and the potential for more fluctuation and impact on the overall budget. There is language in the agreement that provides for major changes to the operations or regulatory requirements which may require an agreed to base pay adjustment. We complete a monthly review of operations and budget with a compilation of a yearly report. A budget review is completed annually. The agreement also includes the opportunity for either City of Charlotte or Union County to conduct audits at any time within the said notice. We appreciate and welcome these opportunities for the oversight and review of this Agreement with Union County.