



CITY OF GLENDALE, CALIFORNIA
Management Services Department
INTERNAL AUDIT

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June 18, 2014

REPORT #: 2014-15

Steve Zurn, General Manager
Glendale Water & Power

Re: Water Rate Redesign Implementation

Dear Steve,

Internal Audit participated in the new water rate redesign project team. In 2013, staff discovered that the Water Rates adopted in 2012 were not generating the anticipated revenue as set forth by the 2012 COSA and identified a serious flaw in the rate model used by the Willdan Financial Services, the consultant the City hired to conduct the study. To mitigate the loss revenue, the City decided to hire a new consultant, Bartle Wells Associate (Bartle Wells) to identify the fiscal impact of the errors in the 2012 and conduct a new COSA. As a result, the City Council authorized staff to commence the Proposition 218 Notice and Hearing process on May 13, 2014.

The objective of this project was to participate on the water rate redesign implementation team and Quality Control (QC) teams to provide advisory services. These services were to ensure adequate controls were in place to sufficiently confirm the accuracy of the source data and the consistency of the COSA study methodology. The following audit procedures were applied in order to achieve the audit objective:

- Participated on the Implementation Team by attending meetings to observe and to provide advice, feedback, and recommendations;
- Recommended GWP to conduct intensive review of the COSA prepared by Bartle Wells by suggesting the formation of a COSA QC Team and participating in team meetings and reviewing tasks;
- Recommended to GWP management that staff review the reasonableness of the consultant's methodology and the COSA results;
- Conducted independent reviews of the meter counts, consumption and financial data provided by City staff to Bartle Wells for accuracy and consistency;
- Conducted a limited review of the COSA Excel worksheets/tables to identify formula errors and red flags based on Excel best practices and provided feedback and recommended corrections to the consultant;

- Determined the existence and appropriateness of Bartle Wells' internal QC process on the COSA model and Excel worksheets/tables;
- Reviewed the methodology and reasonableness of the private fire line over collection credit analysis prepared by Bartle Wells and provided feedback and recommended corrections;
- Provided feedback and comments on the COSA report, Proposition 218 notice, staff report to the City Council, and ordinance.

It was noted that the City staff have demonstrated substantial involvement and teamwork in reviewing the COSA prepared by the consultant, data provided to Bartle Wells, and the overall methodology of the water rate redesign to ensure that the COSA was prepared following the Proposition 218 requirements, made reasonable assumptions, applied consistent methodologies in the new rate design, and achieved the anticipated objective. Due to the inherent risk of utilizing Excel worksheets in the rate model design, an absolute assurance of the accuracy of the calculation cannot be provided.

Upon reviewing the consumption data with GWP IS, Internal Audit provided recommendations for:

- 1) improving the data accuracy and consistency in the COSA, and
- 2) timely identifying data inconsistencies and errors in the future. For example, Internal Audit recommended that GWP IS:
 - ✓ Standardize its process in providing data to requesting parties by obtaining an understanding of the intended usage of data and documenting the query criteria along with any assumptions;
 - ✓ Create QC reports to identify duplicate consumption data in the billing system and provide these reports periodically to GWP Customer Service for timely correction;
 - ✓ Create QC reports to identify inconsistencies between "Category" and "Bill Code" and provide these reports periodically to GWP Customer Service for timely correction.

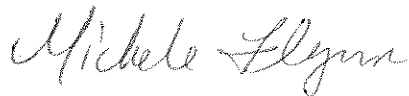
These recommendations have been implemented by GWP IS prior to the issuance of this report.

The City Council authorized staff to commence the Proposition 218 Notice and Hearing process at a special meeting held on May 13, 2014. The City Council selected a different scenario that was not recommended by staff for the purpose of Proposition 218 notification. The staff is now working on revising the ordinance and the details of implementing the new rates. Internal Audit recommends that the following be considered when implementing the new water rates:

- Develop a detailed accounting procedure for implementing the adjustable rates prior to finalizing the language in the ordinance. The accounts, amounts, timeframe and effective dates should be clarified in the detailed procedures. In addition, the formulas and description of the factors used in the formulas and the effective dates should be clearly stated in the ordinance.
- Develop a detailed procedure for implementing the drought rate prior to finalizing the language in the ordinance. Special attention should be paid to the curtailment percentages described in the COSA for each "stage", which is not defined the same way in the current ordinance.
- Evaluate the fees established in the ordinance to ensure that actual costs are covered. Include the fee amounts in a separate schedule to be adjusted annually based on a Consumer Price Index (CPI) factor.

We thank all the staff involved in this project for their assistance and cooperation. Should you have any questions, please feel free to contact Jessie Zhang or myself.

Thank you,



Michele Flynn,
City Auditor

Enclosure

cc: Ramon Abueg, Chief Assistant General Manager
Yasmin Beers, Assistant City Manager
Robert Elliot, Director of Finance
Michael Garcia, City Attorney
Craig Kuennen, Business Transformation and Marketing Administrator
Steven Lins, Chief Assistant General Manager
Scott Ochoa, City Manager
Tami Vallier, Customer Services Administrator
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