



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

Project Team

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Project Number

1240019

This report can be made available in alternate format upon request.

**Water Services Department
City of Tolleson Water Services Agreement**

April 04, 2024

Report Highlights

Revenue

Overall, invoices were paid on time by Tolleson. However, procedures were not in place to update the billing rates as required by the Agreement.

Water Usage

Consumption reports were provided by Tolleson.

Maintenance

Procedures were in place to ensure maintenance was performed as required by the Agreement.

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Executive Summary

Purpose

Our purpose was to determine that the City of Tolleson (Tolleson) was paying the City of Phoenix (City) according to the Intergovernmental Agreement, that water usage did not exceed annual limits, and that the equipment used to treat and transport the water was properly maintained by the Tolleson.

Background

In December 2020, the City entered into a 10-year Intergovernmental Agreement (Agreement) with Tolleson for the Water Service Department (WSD) to divert, treat, and transport all or part of Tolleson's entitled water per the Salt River Valley Water Users' Association (Association). The Agreement limits the quantity of Entitlement Water that the City will treat and transport to Tolleson to the amount of annual water the Association determines; additionally, Tolleson is financially liable to the City should it exceed the annual limit. Additionally, should there be an emergency condition where Entitlement Water is not available, the City agreed to provide emergency backup water.

Tolleson agreed to pay the City its wholesale water costs for these services. The costs are based on the actual capital, operating, and maintenance costs of diverting, treating, and transporting the water. Tolleson is responsible for all calibration and maintenance of the equipment at the point of delivery, as well as the associated costs for the maintenance.

In fiscal year (FY) 2021 and 2022, WSD treated and transported 2.6M gallons of water for Tolleson.

Results in Brief

The amounts invoiced to Tolleson were accurate based on the usage and rate in place for the period reviewed. However, the rate model used to calculate the rate was not updated in 2022 as required by the Agreement.

During FY2022 and 2023, WSD treated 2.6M gallons of water for Tolleson for \$5.6M. Procedures were in place to ensure WSD provided meter reads to the Finance Department to generate the invoice. Most invoices were paid on time; however, late fees were not assessed for late payments as required by the Agreement.

Effective December 2020 through June 2022, the Agreement for wholesale water costs treatment and transport was \$2.16 per 1,000 gallons of water treated. The Agreement requires the rate to be updated in April every two years; however, WSD staff did not update the model in 2022 and WSD continues to charge the rate of \$2.16 per 1,000 gallons as of January 2024. By not updating the model, WSD may not have billed

Tolleson based on the forecasted capital, operating, and maintenance costs of diverting, treating, and transporting the water.

Tolleson provided required reports summarizing the daily consumption; however, annual limit and estimate reports were not initially provided.

WSD had procedures to ensure monthly reports of the daily consumption reports were received from Tolleson; however, procedures were not initially in place to ensure annual reports were provided. WSD has implemented procedures to obtain these reports to determine if the amount of water treated and transported exceeds the annual delivery limits, which will ensure accurate billing.

Overall, records show maintenance and testing were performed as required by the Agreement.

Tolleson provided maintenance records for calendar years 2021 and 2022, showing maintenance was performed. We noted maintenance testing failed in April 2022 at the 67th Avenue station; however, WSD could not provide evidence of a follow-up maintenance report to show the meter was re-tested and passed.

Department Responses to Recommendations

Rec. 1.1: Establish and document procedures to update the wholesale water cost model every two years as the Agreement requires.	
Response: WSD will establish and document procedures to update the wholesale water cost model every two years as the Agreement requires.	<u>Target Date:</u> 6/14/2024
Rec. 1.2: Amend the Agreement to address procedures related to updating the cost model, including procedures for when the model is not updated.	
Response: WSD will suggest an amendment to the Agreement to Tolleson to address procedures related to updating the cost model, including procedures for when the model is not updated. WSD will execute the amendment if the parties agree. If the parties don't agree, WSD will establish procedures to work with the Law Department to determine if billing adjustments are warranted.	<u>Target Date:</u> 10/25/2024
Explanation, Target Date > 90 Days: WSD is requesting additional time to allow for discussions regarding the amendment as well as, if an amendment is agreed upon, it may require council approval.	

1 – Rates and Billing

Background

In December 2020, the City of Phoenix (City) entered into a 10-year Intergovernmental Agreement (Agreement) with the City of Tolleson (Tolleson) for the Water Service Department (WSD) to divert, treat, and transport all or part of Tolleson’s entitled Water per the Salt River Valley Water Users’ Association. Tolleson agreed to pay the City its wholesale water costs for these services. The costs are based on the actual capital, operating, and maintenance costs of diverting, treating, and transporting the water.

The initial wholesale water costs were \$2.16 per 1,000 gallons, effective through June 2022. The Agreement allows the City to recalculate the wholesale water costs every two years, with the first review occurring in April 2022.

We interviewed key staff and reviewed agreement documentation, the wholesale water cost model, and the invoice document to determine if procedures were in place to calculate the rates and billings and if Tolleson paid timely payments.

Results

The rate model used to calculate the revenue owed was not updated in 2022 as required by the Agreement.

The Agreement between the City of Phoenix and the City of Tolleson for wholesale water costs was a fee of \$2.16 per 1,000 gallons of water treated, effective December 2020 through June 2022. The Agreement requires the rate to be updated every two years in April by WSD and to notify Tolleson of any rate changes. However, WSD staff did not update the model in 2022 and continues to charge the rate of \$2.16 per 1,000 gallons as of January 2024. Staff indicated the model was not updated due to a lapse in procedures.

The current contract does not address procedures for when the model is not updated to identify if WSD can backbill or credit Tolleson based on the correct rate. WSD will need to amend the contract to address this process gap. Additionally, WSD should establish procedures to update the model and implement the new rates as the Agreement requires.

The amounts invoiced to Tolleson were accurate based on the usage and rate used for the period reviewed.

During FY2022 and 2023, WSD treated 2.6M gallons of water for Tolleson for \$5.6M. Each month, WSD staff performed meter readings of the water usage and took photos showing the meter reading. This information was provided to the Finance Department, which is responsible for generating monthly invoices to Tolleson. We noted the invoice amounts tied to the meter reads taken by WSD staff. Two invoices in the 24-month period were processed more than 30 days after the meter read date. Per Finance, this

was due to a staff change in WSD, and the meter readings for those months were not provided. The meters capture the ongoing usage, so the usage for those delayed months was captured and billed in the third month. All invoices reviewed were paid by the invoice due date.

Recommendations

- 1.1 Establish and document procedures to update the wholesale water cost model every two years as the Agreement requires.
- 1.2 Amend the Agreement to address procedures related to updating the cost model, including procedures for when the model is not updated.

2 – Usage and Maintenance

Background

The Agreement between the City and Tolleson limits the quantity of Entitlement Water that the City will treat and transport to Tolleson to the amount of annual water determined by the Association. Should Tolleson exceed the annual limit, the City can invoice Tolleson for the excess. To ensure annual delivery limits are not exceeded, Tolleson must provide written confirmation of the annual limits and provide monthly estimates. Additionally, Tolleson is to provide summarized daily consumption reports each month.

The Agreement identifies Tolleson as fully responsible for the operation and maintenance costs at the point of delivery from Phoenix to its customers within Tolleson's service territory, including the calibration and maintenance of all instrumentation and telemetry equipment. To ensure that calibration and maintenance are performed, Tolleson is required to submit reports to the WSD within 30 days.

We interviewed key staff and reviewed annual limit and consumption reports and maintenance records to verify if procedures were in place to ensure water consumption was monitored and if maintenance was performed.

Results

Tolleson provided required reports summarizing the daily consumption; however, annual limit and estimate reports were not initially provided.

For tracking purposes, the Agreement requires Tolleson to report annual delivery limits and estimates of Entitlement Water, and it requires the City to treat and transport. Additionally, Tolleson is to provide monthly reports summarizing the daily consumption for billing purposes. WSD had procedures to ensure the daily consumption reports were received; however, Tolleson did not provide the required annual reports. WSD has since implemented procedures to obtain these reports, to determine if the amount of water treated and transported by the City exceeds the annual delivery limits.

Overall, records show maintenance and testing were performed as required by the Agreement.

According to the Agreement, equipment maintenance and testing will be performed every 12 months. The maintenance and testing are done at both points of delivery (67th Avenue and 83rd Avenue), where the City treats and transports the water for Tolleson. We requested the maintenance reports for calendar years 2021 and 2022 and found the records showed maintenance was performed. We noted the maintenance testing failed in April 2022 at the 67th Avenue station. WSD could not provide evidence of a follow-up maintenance report to show the meter was re-tested and passed.

Recommendation

None

Scope, Methods, and Standards

Scope

City of Tolleson water treatment billings for FY 2022 through 2024, and reporting for CY 2021 and 2022.

The internal control components and underlying principles that are significant to the audit objectives are:

- Control Activities
 - Management should implement control activities through policies.
- Control Environment
 - The oversight body should oversee the entity's internal control system.
 - Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
 - Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Methods

We used the following methods to complete this audit:

- Reviewed Agreement and invoice documentation.
- Interviewed key staff.
- Performed invoice recalculations, and reviewed maintenance documentation.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

The reliability of the SAP ZEXPRPT report data was previously determined to be reliable through an independent audit review.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.