NR & C SEP 25 2013 12

THE CITY OF SAN DIEGO

MEMORANDUM

DATE: September 19, 2013

TO: Members of the Natural Resources & Culture Committee

FROM: Ann Sasaki, Interim Public Utilities Director

SUBJECT: Performance Audit of the Industrial Wastewater Control Program

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At the September 9, 2013 Audit Committee meeting, the Office of the City Auditor presented the performance audit of the Public Utilities' Industrial Wastewater Control Program (IWCP). We would like to thank the Auditors for their work on this performance audit. They were professional and there was a cooperative working relationship. They invested the time to learn the details of our program including going into the field to conduct field observations with our Inspectors and Lab technicians. While we agree with all recommendations and are working on implementing them, this memo provides clarification of the audit findings and details on the Department's action plan.

Audit Results

Finding 1

The report states that the program fees are outdated and do not achieve adequate cost recovery. We want to clarify the statement made on page 9 of the report: "We estimate that of approximately $9.8 million in billable costs related to IWCP permitting, monitoring, sample analysis, and enforcement activities, $8.3 million (85 percent) went unrecovered from 2010 to FY2012." No revenue went unrecovered; the cost of the program was allocated to all Wastewater ratepayers in accordance with current rates and fees. The issue is the allocation of costs between general wastewater customers and industrial users. The Department believes that there is a benefit to all wastewater ratepayers for this robust program and they should share in a portion of the cost of the program The program ensures that toxins are not deposited into the system and it is a key program in ensuring that the Department maintains its modified discharge permit at the Point Loma Wastewater Treatment Plant.

Finding 2

The report states that the Department has not billed many regulated agencies and businesses for recoverable IWCP costs due to weak internal controls and unnecessarily complex billing practices.

The Department has established additional internal controls including tracking and supervisory review. We will also document the procedures for billing including a process narrative. Before the completion of the audit, we issued the invoices for fiscal years 2008 and 2009 based on the current fee structure. The revenue has been collected for these invoices. For fiscal years 2010 through 2013 we plan to issue invoices by October 31, 2013 and we anticipate timely payments.

Action Plan

The Department has engaged Black and Veatch, to review the current fees including the rate structure. The goal is a fair and equitable allocation of these costs to all industries and ratepayers that receive a service or benefit from this program. We delayed the release of the final Wastewater Cost of Service Study so that we can incorporate any approved changes or recommendations. The plan includes providing an update on the IWCP fee recommendations and any modifications to the current wastewater rates to the Natural Resources and Culture (NR&C) Committee by the end of the first quarter of 2014.

Should you have any questions or concerns about the information presented in this memo I would be pleased to answer them.

Ann Sasaki
Interim Public Utilities Director

Performance Audit of the Industrial Wastewater Control Program

OUTDATED FEES, BILLING LAPSES, AND INADEQUATE CONTROLS LIMIT PROGRAM COST RECOVERY

AUGUST 2013

Audit Report

Office of the City Auditor

City of San Diego

OCA

Independent • Objective • Accurate

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THE CITY OF SAN DIEGO

August 5, 2013

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on the Public Utilities Department's Industrial Wastewater Control Program. This report is in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 34 of the report.

During audit field work, we identified a legal issue concerning the IWCP that required the immediate attention of the City Administration and Office of the City Attorney. Due to the confidential nature of our communication with the Office of the City Attorney concerning this matter and to comply with Government Auditing Standards, we excluded this information from our final report.

We would like to thank Public Utilities staff, as well as representatives from other City departments for their assistance and cooperation during this audit. All of their valuable time and effort spent providing us information is greatly appreciated. The audit staff responsible for this audit report is Andy Hanau, Sunny McLernon, Matt Helm, and Kyle Elser.

Respectfully submitted,

Eduardo Luna
City Auditor

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Results in Brief

The City of San Diego (City) is committed to protecting public health and the environment through a program of environmental management which includes pollution prevention, industrial pretreatment, chemically enhanced waste treatment, and extensive monitoring. A key element of this effort is the City Public Utilities Department's (PUD) Industrial Wastewater Control Program (IWCP). Since its inception in 1982, IWCP has been an effective means of controlling industrial waste discharge into the City's sewerage system.

Although IWCP has been operationally effective, there are several areas related to IWCP fees and billing that should be addressed to ensure that the program can continue to achieve intended outcomes. Specifically, we found that:

1) Fees charged for permitting and monitoring conducted by the Industrial Wastewater Control Program (IWCP) are not routinely reviewed and updated, and in some cases may be based on a flawed methodology that does not capture all costs. IWCP fees vary by jurisdiction, but no current fee structure achieves intended cost recovery. We estimate that of approximately $9.8 million in billable costs related to IWCP permitting, monitoring, sample analysis, and enforcement activities, $8.3 million (85 percent) went unrecovered between Fiscal Years 2010 and 2012. This significant under-recovery of IWCP costs is not in compliance with the City's Council Policies and Administrative Regulations, and results in regulated industries paying a minimal share of the cost of permitting, inspecting, and monitoring them. In addition, because fees are not regularly reviewed and brought before the City Council for approval, policymakers are likely unaware that this substantial under-recovery of costs is occurring.

2) PUD has not billed numerous regulated entities for IWCP services. PUD is required to collect fees in accordance with rate schedules that have been established by City Council Resolutions as well as agreements with other jurisdictions that IWCP is responsible for regulating. Unbilled amounts totaled more than $850,000 between Fiscal Years 2008 and 2012.

PUD management and IWCP program managers are aware of the issues outlined above, and are in the beginning stages of taking corrective action. To assist in this effort, we made eight recommendations to PUD related to reviewing and updating IWCP fees, establishing billing policies and processes, and working with the City Attorney to recoup unbilled costs. The department agreed to implement all of these recommendations. Audit objectives, scope, and methodology are found in Appendix A. We would like to thank PUD staff, as well as representatives from other City departments for their assistance and cooperation during this audit.

Background

The City of San Diego (City) is committed to protecting public health and the environment through a program of environmental management which includes pollution prevention, industrial pretreatment, chemically enhanced primary waste treatment, an improved ocean outfall, and extensive monitoring. A key element of this effort is the City Public Utilities Department's (PUD) Industrial Wastewater Control Program (IWCP). Implemented in 1982, IWCP operates an industrial wastewater discharge permit, monitoring, and enforcement system for the City and 15 other jurisdictions in the County of San Diego whose sewage is treated by the City's Point Loma and South Bay Wastewater Treatment Plants. IWCP is part of PUD's Environmental Monitoring and Technical Services Division. PUD's Industrial Waste Lab (IWL) directly supports IWCP by providing sampling, monitoring, testing, and analysis services. A summary of program budget and staffing information for IWCP and IWL is shown in **Exhibit 1**.

Exhibit 1

Industrial Wastewater Control Program (IWCP) and Industrial Wastewater Lab (IWL) Expenses and Staffing, Fiscal Years 2010-2013

	2010	2011	2012	2013
IWCP	$1.74	$1.78	$2.01	$2.0
(positions)	(19)	(19)	(19)	(19)
IWL	$2.72	$2.76	$2.94	$2.86
(positions)	(25)	(25)	(25)	(25)
	$4.46	**$4.54**	**$4.94**	**$4.86**
Total	**(44)**	**(44)**	**(44)**	**(44)**

Note: Dollars in millions. FY 2010 - FY 2012 figures are based on actual total program expenses. FY 2013 figures are budgeted amounts.

Source: OCA analysis of PUD financial information and IWCP annual reports.

IWCP Operational Focus

In general, IWCP's primary focus is to minimize toxic discharges to the sewerage system. The program consists of: 1) an industrial wastewater discharge permit system to establish industrial discharge limits and requirements; 2) periodic facility inspections and unannounced sampling; 3) enforcement procedures to deter violations and bring noncompliant dischargers back into compliance with discharge standards and requirements; and 4) industrial user guidance and permit conditions designed to encourage pollution prevention and waste minimization.

IWCP Industrial Wastewater Discharge Permits

The types of industries that are regulated by IWCP include aerospace manufacturing; metal forming, casting and finishing; pharmaceutical manufacturing; hospitals and medical centers; film processors; laundries and dry cleaners; and a variety of laboratories. A primary component of IWCP's regulation of these types of industries is the administration and oversight of an industrial wastewater discharge permit system. IWCP issues a variety of permits based on an industry's type and amount of wastewater discharge (see **Exhibit 2**). According to the program's annual report, IWCP had an inventory of over 1,300 active permits, as of December 31, 2012.

Exhibit 2

Industrial Wastewater Control Program (IWCP) Permit Classifications

Permit Classification	Description
Class 1	Issued to certain industries whose composition and amounts of discharge are subject to federal standards
Class 2	Issued to targeted industrial sectors that have some toxic discharge, but not subject to federal standards
Class 3	Issued to targeted industrial sectors to regulate conventional pollutants
Class 4 and 5 (no permit required)	Issued to industries with sanitary flow only or Class 2 and 3 industries with discharge flows below a specified threshold
Trucked Waste Hauler	Issued to domestic and industrial haulers authorizing the disposal of wastes at designated dump sites
Temporary Groundwater Discharge	Issued for flows resulting from construction dewatering and groundwater remediation projects, where no alternative disposal method is reasonably available
Best Management Practice (BMP) Authorization	Authorizations consist of a statement of BMP requirements followed by a certification of compliance for management and discharge of silver-rich solutions or dry cleaning solvents
Batch Discharge Authorization	Issued for one-time, or short-term non-routine discharges not otherwise covered by a current permit

Source: OCA summary based on IWCP information.

Within these classifications, a particular area of focus of IWCP is Significant Industrial Users (SIUs). SIUs are subject to stringent federal standards because of the potential risks these types of industries pose to the sewerage system and the environment. Accordingly, SIUs require additional monitoring and routine sample testing.

IWCP Jurisdictions

IWCP administers the pretreatment program in the City and surrounding metro area. Specifically, IWCP regulatory efforts encompass the City, unincorporated areas of San Diego County, and incorporated municipalities within San Diego County that utilize the City's wastewater treatment system. In order to regulate industries outside of the City limits, IWCP operates under the auspices of interjurisdictional pretreatment agreements (IJAs) signed by the City and each of the participating agencies in the County (County PAs) and in the incorporated municipalities (Municipal PAs). Generally, the IJAs require PAs to promulgate ordinances that comport with federal standards and parallel City ordinances regarding pretreatment standards for waste discharge. The IJAs further authorize the City, through IWCP, to permit, inspect, and

monitor facilities in each of the participating jurisdictions. The IJAs also establish permit and monitoring fees with the PAs in order to recover applicable IWCP costs associated with these activities.

For operational purposes, IWCP defines the jurisdictions it serves as shown in **Exhibit 3**.

Exhibit 3

Industrial Wastewater Control Program (IWCP) Discharge Areas and Participating Agencies (PAs)

Area No.	Description	Jurisdiction	Area No.	Description	Jurisdiction
1	Rancho Bernardo	City	13	City of Chula Vista	Municipal PA
2	Sorrento Valley, Torrey Pines	City	14	City of Coronado	Municipal PA
3	Miramar, Mira Mesa, Scripps Ranch	City	15	City of Del Mar	Municipal PA
4	Mission Bay, Pacific Beach, La Jolla	City	16	City of El Cajon	Municipal PA
5	Clairemont Mesa	City	17	City of Imperial Beach	Municipal PA
6	Kearny Mesa	City	18	City of La Mesa	Municipal PA
7	Mission Gorge	City	19	City of National City	Municipal PA
8	Point Loma, Lindberg Field	City	20	City of Poway	Municipal PA
9	North Downtown	City	21	Santee/Padre Dam Municipal Water Dist.	Municipal PA
10	East San Diego	City	22	City of Lemon Grove	Municipal PA
11	South Downtown	City	32	Alpine Service Area	County PA
12	San Ysidro, Otay Mesa	City	33	Lakeside Service Area	County PA
			34	Spring Valley Service Area	County PA
			35	Winter Gardens Service Area	County PA
			36	East Otay Mesa Service Area	County PA

Source: Source: San Diego Metropolitan Wastewater Pretreatment Program Annual Report, CY 2012.

IWCP Fees, Cost Recovery, and Enforcement

San Diego Municipal Code Section 64.0508 states that Industrial Wastewater Discharge Permit Fees should be established periodically by resolution of the City Council. Accordingly, IWCP charges annual permit fees to regulated industries within the City. The IJAs establish the permit and monitoring fees within the Participating Agencies. Permit fees range from $25 to $3,180 per year and are based on the permit classification, amount of wastewater discharged, and various business characteristics. Additionally, Council Resolution No. 260133, adopted March 1, 1984, states that the fees should recover PUD's costs for inspecting, monitoring, and sampling permitted facilities.

IWCP also has a variety of enforcement mechanisms available. When a permittee violates discharge limits, an enforcement action is initiated through a Notice of Violation and additional sampling. IWCP bills violating industries directly to recover violation sampling and administrative fees. IWCP is also authorized to seek administrative civil penalties.

Billing arrangements for permit and monitoring fees vary by jurisdiction, as shown below in **Exhibit 4.**

Exhibit 4

Industrial Wastewater Control Program (IWCP) Permit and Monitoring Billing Arrangement by Jurisdiction

Jurisdiction	Billing Arrangement
City	IWCP bills industrial users directly for permits and monitoring
County PAs	IWCP bills industrial users directly for permits and monitoring, per the terms of the interjurisdictional pretreatment agreements (IJAs)
Municipal PAs	IWCP bills each jurisdiction an aggregate amount for permit and monitoring fees accumulated by regulated industries in the respective jurisdictions[1]

Note 1: An exception is the City of Coronado, where industries are billed directly.

Source: OCA based on IWCP information.

IWCP utilizes the Pretreatment Information Management System (PIMS) to administer information related to the inventory of permitted facilities. Specifically, IWCP uses PIMS to track Industrial User permit information; inspection, monitoring, and violation data; and charge most IWCP fees. Fees charged in PIMS are automatically transferred to the Citywide financial system, referred to as SAP.

Fees, cost recovery, and billing issues are discussed in detail in the body of this report.

Audit Results

Finding 1: Industrial Wastewater Control Program Fees are Outdated and Do Not Achieve Adequate Cost Recovery

Fees charged for permitting and monitoring conducted by the Industrial Wastewater Control Program (IWCP) [1] are not routinely reviewed and updated, and in some cases may be based on a flawed methodology that does not capture all costs. IWCP fees vary by jurisdiction, but no current fee structure achieves intended cost recovery. We estimate that of approximately $9.8 million[2] in billable costs related to IWCP permitting, monitoring, sample analysis, and enforcement activities,[3] $8.3 million (85 percent) went unrecovered from FY 2010 to FY 2012.[4]

PUD is not able to precisely determine recoverable costs because a formal workload study to identify program costs has not been conducted. Further, PUD does not maintain sufficient data to conduct such an analysis efficiently. While a formal study is needed to generate a more precise estimate of billable program costs, it is clear that unrecovered, billable costs are substantial. This significant under-recovery of IWCP costs is not in compliance with the City's Council Policies and

[1] Unless otherwise specified, IWCP refers to both the Industrial Wastewater Control program and the associated Industrial Waste Lab.

[2] Total costs for IWCP and the associated Industrial Waste Lab (IWL) totaled $13.9 million from FY 2010 to FY 2012. The Department estimates that approximately 60 percent of IWCP costs and 77 percent of IWL expenses are for cost-recoverable permitting, monitoring, sample analysis, and enforcement activities. These estimates are subject to revision as the Department conducts additional analysis.

[3] Costs for most program functions, including permitting, monitoring, sample analysis, and enforcement, are intended to be recovered by fees charged to regulated industries. However, costs for some IWCP activities, such as system-wide pollutant studies used to monitor overall composition of waste discharged, are not billable to IWCP-regulated industries.

[4] This assumes the recovery of all unbilled County and Participating Agency permitting and monitoring costs for FY 2010 to FY 2012, estimated at approximately $555,000. IWCP did not send out invoices for some permitting and monitoring costs for Industrial Users in other jurisdictions between FY 2008 to FY 2012, and efforts are being undertaken to collect these unbilled costs. If these costs are not recouped, unrecovered costs for FY 2010 - FY 2012 would be approximately $8.9 million. This issue is discussed in greater detail in Finding 2.

Administrative Regulations, and results in regulated industries paying a minimal share of the cost of permitting, inspecting, and monitoring them. In addition, because fees are not regularly reviewed and brought before City Council for approval, policymakers are likely unaware that this substantial under-recovery of costs is occurring, and have not been given an opportunity to determine appropriate cost recovery rates for the IWCP program.

City Policies Require Fees to Be Reviewed and Updated on a Regular Basis to Ensure Cost Recovery, But Some IWCP Fees Have Not Been Updated Since 1984

Contrary to existing City policies, IWCP has not made it a practice to review and update fees on a regular basis. Many IWCP fees have not been updated since 1984, and others have not been updated since 1999. Municipal Code Section 64.0508 states that Industrial Wastewater Discharge Permit Fees should be established periodically by resolution of the City Council. In addition, the City has several policies and procedures in place requiring periodic review and updating of fees to ensure adequate cost recovery. Administrative Regulation 95.25 states that departments should review all fees on an annual basis and ensure that all reasonable costs of providing services are being recovered. Council Policy 100-05 also states that fees should achieve full cost recovery, except in certain cases where the intent is to provide a specific benefit to recipients (such as recreation center or library fees). In addition, the policy requires in-depth fee studies every three years, with interim adjustments to fees taking place on an annual basis, and requires City Council approval for changes to fees in Enterprise Fund departments (including PUD).

Current IWCP Fees Only Achieve Approximately 15 Percent Cost Recovery

Because IWCP fees have not been routinely updated and do not achieve the intended levels of cost recovery, IWCP expenses have greatly exceeded revenues in recent years. During the three-year period we reviewed from FY 2010 – FY 2012, IWCP collected an average of $497,000 in fees per year, while average billable costs were approximately $3.3 million. Overall, IWCP only recovered 15 percent of estimated billable costs during this period. Exhibit 5 summarizes IWCP expenses and revenues for FY 2010 - FY 2012.

As noted above, PUD does not track billable costs and does not maintain data to conduct such an analysis efficiently. For the purposes of the audit, the department provided estimates based on work order information and staff expertise, which are utilized to generate estimated billable expenses and cost recovery rates. We recommend that PUD conduct a detailed workload study and develop procedures to effectively track and calculate billable costs.

Exhibit 5

Industrial Wastewater Control Program (IWCP) Revenues and Estimated Unrecovered Billable Costs, Fiscal Years 2010-2012

	2010	2011	2012	Total
Permitting Fees	$198,672	$211,067	$204,992	**$614,730**
Monitoring Fees	$267,639	$280,046	$260,357	**$808,043**
Violation Fees	$21,250	$23,483	$20,153	**$64,886**
Misc. Revenues	None	None	$3,003	**$3,003**
Total Revenues	**$487,561**	**$514,596**	**$488,505**	**$1,490,662**
Total Billable Expenses	**$3,137,974**	**$3,190,876**	**$3,465,149**	**$9,793,999**
Unrecovered Costs	*$2,650,414*	*$2,676,280*	*$2,976,644*	*$8,303,337*
Percent Cost Recovery	*16%*	*16%*	*14%*	*15%*

Source: OCA based on SAP data and PUD estimates of IWCP billable expenses.

IWCP Fees Vary by Jurisdiction, but No Current Fee Structure Achieves Intended Cost Recovery

Industrial Users located within the City of San Diego are charged permit fees established in a 1984 Council Resolution, which states that the fees are intended to cover the annual cost of inspecting and sampling Industrial Waste Discharge Permittees.[5] Industrial Users within the jurisdiction of the County sewer utilities, referred to in this report as the County

[5] According to PUD, the fees adopted in 1984 were intended to recover 75 percent of costs. However, the department was unable to provide supporting documentation.

Participating Agencies (County PAs) are charged fees based on 1999 Interjurisdictional Agreements (IJAs) between the City and these agencies,[6] which state that the County PAs will be assessed the cost of IWCP's permitting and monitoring of Industrial Users. Similarly, the City's IJAs with other cities in San Diego County – referred to in this report as the Municipal Participating Agencies (Municipal PAs) also state that all costs incurred by the City for IWCP activities in Municipal PA jurisdictions will be billed.

IWCP Fee Structure within the City

Permit fees for Industrial Users in the City of San Diego range from $25 per year to $2,000 per year, depending on permit category and the quantity of wastewater discharged. As of June 30, 2012, annual permit fees charged to Significant Industrial Users (SIUs) – generally the users requiring the most oversight and monitoring – averaged $593, while we estimate that the actual cost to permit and monitor these users is approximately $4,944 – more than eight times the amount currently charged. Permit fees for non-SIU permittees averaged $243, with estimated costs of $820 – more than three times the amount charged.[7]

IWCP Fee Structure within County Participating Agencies

Unlike Industrial Users in the City, Industrial Users located in the County PA jurisdictions are charged separate permit and monitoring fees. In addition, the IJAs establish separate permit fee structures for SIU and non-SIU users. The permit fee is billed annually, while the monitoring fees are charged periodically whenever a sample is collected and analyzed.

As of June 30, 2012, permit fees for County PA SIUs averaged $1,420 per year, and monitoring fees averaged $2,105[8] per user, a total of $3,525 per year – nearly six times the amount charged to comparable users located in the City of San Diego. Permit

[6] According to PUD, some monitoring fees were updated in 2003, but this was not reflected in updated Interjurisdictional Agreements with the County Participating Agencies.

[7] Figures are based on line-item fees charged to comparable County PA users and updated with current labor rates to estimate actual costs. As discussed later in this section, the department believes that these fees may have been developed using an estimate of non-productive expenses that is too low. This would result in actual costs being higher than our estimate.

[8] Due to system setting errors, these fees were not invoiced. PUD is working to correct this error. This issue is discussed in greater detail in Finding 2.

fees for non-SIUs averaged $222 per user, with an additional $228[9] for monitoring, for a total of $450 per year – nearly twice the amount charged to City users.

While these fees are significantly higher than those charged to users within the City, they still do not recover all costs because they are based on outdated labor rates. Updating these fees with current labor costs shows that permitting fees – which have not been updated since 1999 – would be 57 percent higher if current labor costs were used. Monitoring fees – which have not been updated since 2003 – would be 27 percent higher.

Furthermore, according to PUD, the methodologies used to develop the County PA fees may have used an estimate of staff time spent on in-house training, research, and other non-productive activities that is too low – a flaw in methodology that would further reduce permit fees below the level required to achieve cost recovery.

IWCP Fee Structure within Municipal Participating Agencies

Industrial Users located in the Municipal PA jurisdictions are not billed directly; invoices are typically sent to the agency itself.[10] These users are billed hourly – meaning that IWCP staff should charge time spent permitting, inspecting, and monitoring these Industrial Users to a specific account set up for each agency. Overhead and other non-personnel costs are added to the hourly labor charges, with the intent of achieving full cost recovery.

However, a PUD preliminary estimate indicates that some hourly charges for industries in Municipal PA areas were less than the charges for comparable users in the County PA's.[11] Because fees for users in the County PA's are outdated – as discussed above – the fact that users in the Municipal PA's are

9 See footnote 8.

10 An exception is the City of Coronado. Industrial Users in the City of Coronado are billed directly, using the fees developed for County PA users.

11 PUD did not collect accurate labor data from FY 2010 through FY 2012, as discussed in Finding 2. The department is currently in the process of calculating cost amounts for those years using work order data and line-item charges for County PA Industrial Users. A preliminary estimate for FY 2010 monitoring fees is $111,897, significantly greater than the $68,628 calculated using labor charges in FY 2009. These figures are subject to revision as PUD completes further analysis.

charged even less indicates that these hourly fees are not achieving their desired intent of full cost recovery. According to PUD, one reason for this is that PUD ceased tracking staff time spent on laboratory analysis several years ago because it was too time-consuming and inefficient for staff, who may analyze many samples in one day, to track time spent for each sampling activity. In addition, PUD's documented methodologies for permit fees identify many activities that only take a few minutes – such as data entry of permit information - making it likely that these activities are difficult to track using timecards as well. We recommend that PUD replace this timecard-based billing system with line-item charges based on a formal workload study.

Average permit and monitoring fees for the City and other participating jurisdictions are shown in Exhibit 6 and Exhibit 7 below.

Exhibit 6

Significant Industrial Users (SIUs)—Active Users and Average Fees

Fee Structure	Flat Rate - Established by 1984 Council Resolution establishing IWCP permit fees	Line Item (Individual Charge for Each Activity) - Established in 1999 Agreements with County Agencies	Hourly - IWCP/IWL staff should track labor hours for each projects, and PUD staff add overhead rates to generate invoice amounts
# of Significant Industrial Users	52	4	23
Permit Fees	$25 to $2,000 per year, based on Class and Flow	$830 to $3,180 per year, based on Class and Complexity	Varies based on labor hours charged
Average Permit Fee per User	$593.27	$1,420.00	Cannot calculate because PUD does not track individual user costs
Average Monitoring Fees per User	$0.00-Included in Permit Fee	$2,105.00	Cannot calculate because PUD does not track individual user costs
Total Average Fees per User	$593.27	$3,525.00	Cannot calculate

Source: OCA summary based on Interjurisdictional Pretreatment Agreements and IWCP information, as of June 30, 2012.

Exhibit 7

Class II / III Non-Significant Industrial Users (Non-SIUs) – Active Users and Average Fees

	City of San Diego	County PAs	Municipal PAs
Fee Structure	Flat Rate - Established by 1984 Council Resolution establishing IWCP permit fees	Line Item (Individual Charge for Each Activity) - Established in 1999 Agreements with County Agencies	Hourly - IWCP/IWL staff should track labor hours for each projects, and PUD staff add overhead rates to generate invoice amounts
# of Class II/III Non-SIU's	126	5	54
Permit Fees	$25.00 to $1,200.00 per year, based on Class and Flow	$135.00/yr if self-monitoring is not required; $235.00/yr if self-monitoring is required	Varies based on labor hours charged
Average Permit Fee per User	$243.25	$222.00	Cannot calculate because PUD does not track individual user costs
Monitoring Fees	Included in annual permit fee, above	Varies depending on type / quantity of samples	Varies based on labor hours charged
Average Monitoring Fees per User	$0.00- Included in Permit Fee	$228.00	Cannot calculate
Total Average Fees per User	$243.25	$450.00	Cannot calculate

Source: OCA summary based on Interjurisdictional Pretreatment Agreements and IWCP information, as of June 30, 2012.

Policymakers Should Be Informed of Cost Recovery Issues and Determine Appropriate Cost Recovery for IWCP

Other jurisdictions with similar industrial wastewater source control programs may not recover all permitting costs, choosing to provide these services at a reduced rate. For example, the City and County of San Francisco does not charge any permitting and monitoring fees at all.[12] However, this is ultimately a decision that should be made by policymakers, in accordance with the Municipal Code, Council Policy 100-05, and Administrative Regulation 95.25. Because PUD has not made a practice of regularly reviewing fees and preparing proposals for updating fees, as required by Council Policies and Administrative Regulations, policymakers may not be aware that IWCP is incurring substantial costs that are not being recovered by permit fees. In recent years, these unrecovered costs total several million dollars per year.

In order to ensure that PUD is able to recover costs in accordance with all applicable policy directives, we recommend that:

Recommendation #1 **The Public Utilities Department establish policies and procedures to track all billable IWCP related costs so that fee levels and appropriate cost recovery rates can be determined effectively. (Priority 2)**

Recommendation #2 **The Public Utilities Department establish policies and procedures to periodically review fee levels and present fee proposals to the City Council. These reviews and fee studies should include calculation of the rate of cost recovery achieved by current fees. Reviews should be conducted on an annual basis, and detailed fee studies should be conducted not less than every three years, in accordance with Council Policy 100-05 and Administrative Regulation 95.25. (Priority 2)**

Recommendation #3 **The Public Utilities Department perform a fee study to determine fee levels that achieve full cost recovery for all**

[12] PUD noted that the City's IWCP is difficult to compare to programs in other jurisdictions, because the City is subject to stricter regulations in order to maintain an Environmental Protection Agency waiver to operate the Point Loma Wastewater Treatment Plant without secondary treatment capabilities.

IWCP activities, including all labor and materials required for application review and permitting, inspections, monitoring, and sample analysis, as well as overhead and non-personnel expenses. The Public Utilities Department should work with the Office of the City Attorney to ensure that methodologies used to calculate fees are adequately documented and meet all applicable legal requirements, including those established by Proposition 26. (Priority 2)

Recommendation #4 Upon completion of the fee study, the Public Utilities Department should work with the Office of the City Attorney and the Participating Agencies to review and revise, as appropriate, Interjurisdictional Agreements to include fees for service that achieve appropriate cost recovery under the guidelines of Council Policy 100-05 and Administrative Regulation 95.25. The revised agreements should include mechanisms to adjust fees in response to changes in the cost of service. (Priority 2)

Recommendation #5 Upon completion of the fee study, we recommend the Public Utilities Department, in consultation with the City Attorney's Office, should develop a proposal for consideration by the City Council to update fees for Industrial Users within the City of San Diego. This proposal should include fees that achieve appropriate cost recovery under the guidelines of Council Policy 100-05 and Administrative Regulation 95.25. The revised fee schedules should include mechanisms to adjust fees in response to changes in the cost of service. (Priority 2)

Finding 2: The Public Utilities Department Has not Billed Many Regulated Agencies and Businesses for Recoverable Industrial Wastewater Control Program Costs Due to Weak Internal Controls and Unnecessarily Complex Billing Practices

PUD is required to collect fees in accordance with rate schedules that have been established by City Council Resolutions as well as agreements with other jurisdictions that IWCP is responsible for regulating. We found that the Public Utilities Department (PUD) did not bill numerous regulated entities for Industrial Wastewater Control Program (IWCP) services for a five-year period between FY 2008 and FY 2012. Unbilled amounts totaled more than $850,000[13] during this period, as shown in **Exhibit 8.**

Exhibit 8

Unbilled Industrial Wastewater Control Program (IWCP) Permitting and Monitoring Fees, Fiscal Years 2008-2012

Fiscal Year	Permitting	Monitoring	TOTAL
FY '08	$82,628	$67,023	**$149,651**
FY '09	$106,806	$68,628	**$175,434**
FY '10	$106,806	$68,628	**$175,434**
FY '11	$106,806	$68,628	**$175,434**
FY '12	$106,806	$68,628	**$175,434**
Total Unbilled	$509,852	$341,535	$851,387

Note 1: Prior to the completion of this audit, PUD sent invoices for unbilled charges accrued during FY 2008 and FY 2009.

Note 2: In addition to the monitoring totals shown, which are based on hourly labor charges, PUD did not charge some applicable line-item monitoring fees from FY 2008 through FY 2012. A preliminary estimate provided by PUD indicates that the unbilled line-item charges total approximately $9,000 per year.

Note 3: As discussed later in this section, PUD did not accurately track IWCP labor charges from FY 2010 through FY 2012. Therefore, the amounts shown for those years are based on FY 2009 charges, the most recent year that accurate charges are available. PUD is currently working to re-create labor charges using work order information.

Source: OCA analysis based on PUD data.

[13] Prior to the completion of this audit, PUD sent invoices for unbilled charges accrued during FY 2008 and FY 2009.

According to PUD, the failure to bill for services was caused by turnover in staff, as well as initial confusion resulting from the implementation of the SAP financial system in FY 2010. While these factors may have contributed to billing problems, we found that the failure to invoice for all fees was primarily caused by unnecessarily complex billing processes, system programming errors, and a lack of established accountability for billing and review of financial information.

Multiple Billing Procedures Create Unnecessary Complexity

Although the Government Finance Officers Association recommends standardization of billing procedures, we found that PUD uses three different billing processes, depending upon the jurisdiction in which the Industrial User is located. This creates unnecessary complexity which makes it difficult for staff to ensure that billing and reconciliation of accounts is complete and accurate.

Billing activities for Industrial Users in the City of San Diego are conducted entirely by IWCP staff, and invoice data is stored in PIMS and automatically transferred to SAP. City Industrial User permit fees are based on a 1984 Council Resolution, which establishes flat permit fees that are intended to recover both permitting and monitoring costs.

Industrial Users located in the County PAs are charged both an annual permit fee as well as monitoring fees, which are assessed periodically when monitoring activities occur. These fees are based on Interjurisdictional Agreements between the City and the County PAs enacted in 1999. Billing for Industrial Users in the County PAs are primarily conducted by IWCP staff, but monitoring charges are dependent on IWL entry of monitoring data. As with City Industrial User invoice data, billing information for the County PAs is stored in PIMS and automatically transferred to SAP.

Finally, a third billing process is used for Industrial Users located in the Municipal PA jurisdictions. These Industrial Users are billed hourly, in accordance with Interjurisdictional Agreements between the City and the Municipal PAs that have been entered into at various times since IWCP was established in 1982. IWCP and IWL staff should charge all time spent

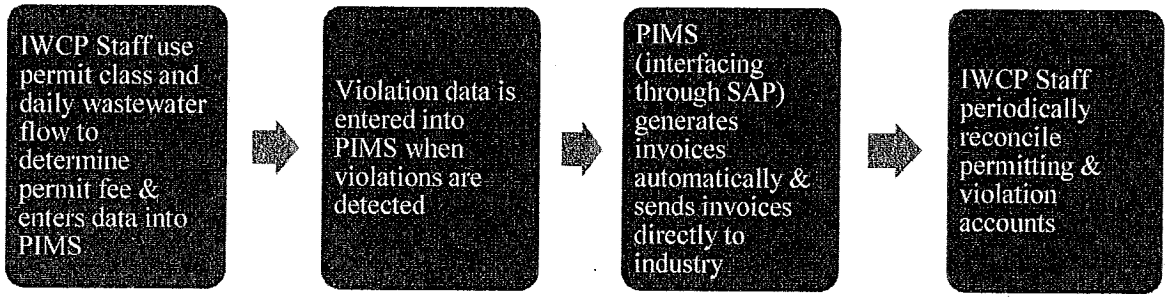
performing permitting and monitoring activities in the Municipal PA jurisdictions to accounts set up for each Municipal PA. On a quarterly basis, PUD's Financial and Information Technology (FIT) division should use these labor charges to calculate and send invoices directly through SAP – this invoice data is not captured in PIMS.

Diagrams of each of these billing procedures are summarized in **Exhibit 9.**

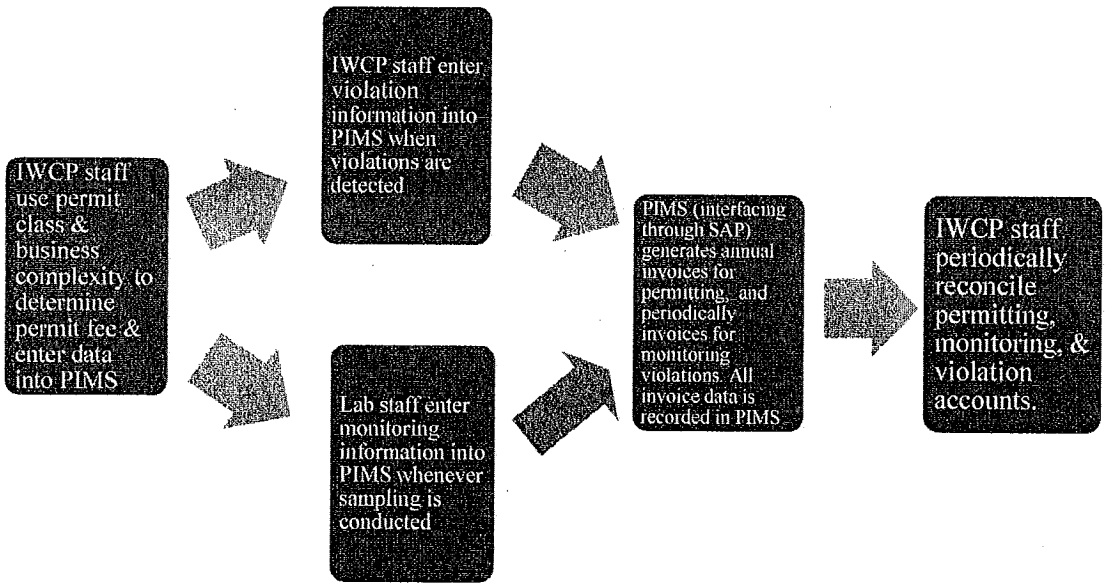
Exhibit 9

Summary of Industrial Wastewater Control Program (IWCP) Billing Processes

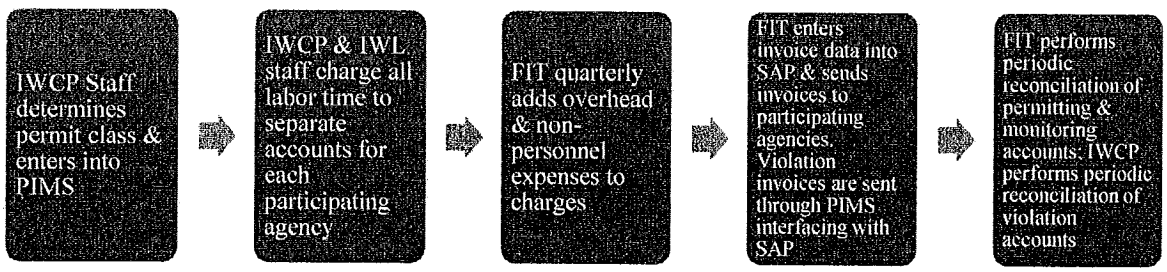
City of San Diego Billing Process



County PA Billing Process



Municipal PA Billing Process



Source: OCA summary of PUD information.

The use of multiple billing procedures can make it difficult for staff to ensure that billing and invoicing is complete and accurate. In addition, because invoice information for Industrial Users in Municipal PA jurisdictions is not captured in PIMS, staff must look in multiple locations to verify and reconcile IWCP accounts. In order to simplify IWCP billing and reduce the risk of inaccurate and incomplete billing, we recommend that PUD develop a single standardized billing process for IWCP fees and charges.

PUD Has Not Established Accountability for IWCP Billing or Review of IWCP Financial Information

We found that the unnecessary complexity created by the use of multiple billing procedures is exacerbated by the fact that PUD has not developed any policies and procedures for IWCP billing, including establishing accountability for billing activities or performing periodic reconciliation of accounts to ensure that billing has occurred. Establishing a framework that provides clear guidelines and assigns specific responsibilities to employees involved in accounting operations is essential to ensure the proper handling of transactions. The fact that the failure to bill some regulated entities persisted for five years indicates both a lack of understanding of billing practices on the part of PUD staff, as well as a significant breakdown in oversight of IWCP billing processes. This was especially the case with the hourly billings handled by the FIT group, where approximately $850,000 went unbilled between FY 2008 and FY 2012.

PUD Has Not Established Policies and Procedures to Record Labor Charges Used for Billing, Resulting in Incomplete Billing Records

As discussed above, IWCP charges for work performed in Municipal PA jurisdictions according to hourly labor rates. When staff members perform IWCP permitting, monitoring, or sample analysis activities in a jurisdiction, they should record their time using an internal order number specific to that jurisdiction. On a quarterly basis, PUD's FIT division should compile all labor hours recorded for each jurisdiction, add overhead and other non-personnel expenses, and send invoices.

We found that since the implementation of the City's new financial system, SAP, at the beginning of FY 2010, IWCP staff have not made a practice of recording time spent for each jurisdiction, and as a result, PUD lacks accurate labor data for FY

2010 onwards – making it impossible to generate accurate labor-based invoices.[14] PUD noted that jurisdiction-specific account numbers were not immediately available when SAP was implemented, preventing staff from recording time spent on permitting, monitoring, and sample analysis in each jurisdiction. Although account numbers for each jurisdiction were not immediately provided, information in SAP indicates that most of the accounts became available within six months of SAP's implementation, while staff have not consistently charged labor time correctly to the jurisdiction accounts for several years subsequent to the establishment of the new accounts. We found that this resulted from a lack of direction given to staff; PUD does not maintain any policies and procedures for correctly charging labor time for billing PAs using hourly rates, and interviews with IWCP and IWL staff indicated that they had not been directed on how to charge labor time for work that is billed at hourly rates.

System Setting Errors Prevented Some Invoices From Being Generated and Programming Problems Could Potentially Cause Inaccurate Billing

The PIMS system used by IWCP automatically calculates and sends invoice information to SAP for billing. We found that a setting in PIMS was incorrect, preventing monitoring invoices from being sent to Industrial Users in the County PA areas for at least the last five years, dating to FY 2008.[15] In addition, PUD was initially unable to provide totals for the unbilled monitoring amounts for County PA Industrial Users because the department subsequently determined that PIMS may calculate certain monitoring invoices incorrectly by adding additional monitoring charges that are not intended to be billed. This indicates that, even if PIMS settings had not prevented monitoring invoices from being sent, some Industrial Users could have been overcharged for monitoring costs.

[14] PUD is currently working to calculate costs for FY 2010 onwards based on permitting and sampling activities recorded in PIMS in order to bill each jurisdiction accurately.

[15] We reviewed data from FY 2008 through FY 2012 and found that no monitoring charges for the County PAs were invoiced during this time period.

PUD's Current Practice for Billing Industrial Users for Violations Does Not Achieve Appropriate Separation of Duties

In any billing and accounting system, establishing a Separation of Duties (SoD) – ensuring that the person who reviews and reconciles transactions is not the same person who determines fees and charges - is a key control to prevent fraud and error. We found that, while IWCP billing practices generally achieve an appropriate SoD, this was not the case for billing of Notices of Violation (NOV), where the same staff member who assesses NOV charges is also responsible for periodically reconciling all billings in PIMS, including those for NOV's. We recommend that PUD address this SoD deficiency when developing policies and procedures to standardize billing practices.

In order to recover the costs incurred by the City for permitting and monitoring industries regulated by IWCP, we recommend:

Recommendation #6

The Public Utilities Department work with the Office of the City Attorney to seek recovery, to the greatest extent possible allowed by law, of all unbilled costs related to Industrial Wastewater Control Program application review, permitting, inspection, and monitoring. (Priority 1)

In addition, in order to ensure that all costs of performing IWCP permitting and monitoring activities are accurately tracked, all applicable IWCP fees and charges are assessed accurately and in a timely manner, and effective monitoring and oversight of IWCP billing activities occurs, we recommend:

Recommendation #7

The Public Utilities Department should establish a centralized billing process and standardized billing policies and procedures for all IWCP fees and charges. These policies and procedures should be documented in a process narrative, and should:

a. **Establish responsibilities and timelines for generating and sending invoices for all IWCP fees and charges;**

b. **Establish responsibilities and timelines for performing a periodic reconciliation of all IWCP revenue accounts;**

c. **Establish guidelines and procedures for recording**

labor time, if necessary to determine invoice amounts;

d. Establish guidelines and procedures for calculating invoice amounts; and

e. Ensure that appropriate Separation of Duties controls are enforced. (Priority 2)

Recommendation #8 The Public Utilities Department should perform a comprehensive review of all PIMS settings and invoice-calculating features to ensure that accurate invoices are automatically generated by PIMS and sent in a timely manner. (Priority 2)

Conclusion

The Public Utilities Department's (PUD) Industrial Wastewater Control Program (IWCP) and associated Industrial Waste Lab (IWL) permit and monitor industrial waste dischargers in the City of San Diego, as well as dischargers in 15 other jurisdictions in San Diego County whose sewage is treated by the City's Point Loma and South Bay Wastewater Treatment Plants. It is clear that the program has been effective in minimizing toxic discharges to the sewerage system, and IWCP is a key element of the City's effort to protect public health and the environment. Addressing the fee structure and billing issues described in this report will help to ensure that the program continues to operate as intended, and ensure proper cost recovery.

IWCP charges fees to cover the cost of permitting and inspecting regulated industrial users, as well as waste sampling and analysis services provided by IWL. Many of these fees have not been updated in decades – some have not been updated since 1984 – and as such, no longer achieve intended cost recovery. As a result, only 15 percent of estimated billable costs have been recovered in recent years, and estimated billable costs exceeded revenues by approximately $8.3 million between FY 2010 and FY 2012. Furthermore, because PUD does not track billable IWCP and IWL costs, and does not maintain data to conduct such an analysis efficiently, PUD cannot effectively determine fee rates that would achieve full cost recovery. In order to ensure that intended cost recovery is achieved, it is important that PUD track all billable costs, routinely review fee levels, and present updated fee proposals to the City Council on a regular basis.

In addition, PUD has not billed approximately $850,000 in accumulated charges between FY 2008 and FY 2012. While PUD stated that this resulted from high turnover and the implementation of a new financial system, we found that the primary causes were the use of non-standardized billing

processes, incorrect billing system settings, and a lack of direction given to staff to appropriately charge labor time used to calculate some charges. These factors were exacerbated by PUD's insufficient accountability and oversight of billing processes, which enabled billing lapses to persist for at least five years. In order to ensure that all applicable charges are billed correctly and in a timely manner, PUD should standardize IWCP billing processes, review billing system settings, and establish policies and procedures for billing that designate responsibilities for billing and periodic reconciliation of accounts.

Recommendations

In order to ensure that PUD is able to recover costs in accordance with all applicable policy directives, we recommend that:

Recommendation #1 **The Public Utilities Department establish policies and procedures to track all billable IWCP related costs so that fee levels and appropriate cost recovery rates can be determined effectively. (Priority 2)**

Recommendation #2 **The Public Utilities Department establish policies and procedures to periodically review fee levels and present fee proposals to the City Council. These reviews and fee studies should include calculation of the rate of cost recovery achieved by current fees. Reviews should be conducted on an annual basis, and detailed fee studies should be conducted not less than every three years, in accordance with Council Policy 100-05 and Administrative Regulation 95.25. (Priority 2)**

Recommendation #3 **The Public Utilities Department perform a fee study to determine fee levels that achieve full cost recovery for all IWCP activities, including all labor and materials required for application review and permitting, inspections, monitoring, and sample analysis, as well as overhead and non-personnel expenses. The Public Utilities Department should work with the Office of the City Attorney to ensure that methodologies used to calculate fees are adequately documented and meet all applicable legal requirements, including those established by Proposition 26. (Priority 2)**

Recommendation #4 Upon completion of the fee study, the Public Utilities Department should work with the Office of the City Attorney and the Participating Agencies to review and revise, as appropriate, Interjurisdictional Agreements to include fees for service that achieve appropriate cost recovery under the guidelines of Council Policy 100-05 and Administrative Regulation 95.25. The revised agreements should include mechanisms to adjust fees in response to changes in the cost of service. (Priority 2)

Recommendation #5 Upon completion of the fee study, we recommend the Public Utilities Department, in consultation with the City Attorney's Office, should develop a proposal for consideration by the City Council to update fees for Industrial Users within the City of San Diego. This proposal should include fees that achieve appropriate cost recovery under the guidelines of Council Policy 100-05 and Administrative Regulation 95.25. The revised fee schedules should include mechanisms to adjust fees in response to changes in the cost of service. (Priority 2)

In order to recover the costs incurred by the City for permitting and monitoring industries regulated by IWCP, we recommend:

Recommendation #6 The Public Utilities Department work with the Office of the City Attorney to seek recovery, to the greatest extent possible allowed by law, of all unbilled costs related to Industrial Wastewater Control Program application review, permitting, inspection, and monitoring. (Priority 1)

Recommendation #7 The Public Utilities Department should establish a centralized billing process and standardized billing policies and procedures for all IWCP fees and charges. These policies and procedures should be documented in a process narrative, and should:

a. Establish responsibilities and timelines for generating and sending invoices for all IWCP fees and charge;

b. Establish responsibilities and timelines for performing a periodic reconciliation of all IWCP

revenue accounts;

c. Establish guidelines and procedures for recording labor time, if necessary to determine invoice amounts;

d. Establish guidelines and procedures for calculating invoice amounts; and

e. Ensure that appropriate Separation of Duties controls are enforced. (Priority 2)

Recommendation #8 The Public Utilities Department should perform a comprehensive review of all PIMS settings and invoice-calculating features to ensure that accurate invoices are automatically generated by PIMS and sent in a timely manner. (Priority 2)

Appendix A: OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with the City Auditor's Fiscal 2013 Work Plan, we conducted a performance audit of the Public Utilities Department's (PUD's) Industrial Wastewater Control Program (IWCP). Specifically, our objective was to:

- Assess the extent to which IWCP's permit and inspection fees and billing processes meet legal requirements, achieve appropriate cost recovery, and ensure timely collection.

To address issues pertaining to IWCP fees, we reviewed applicable federal, state, and local laws relevant to the program. Our examination of source criteria pertaining to IWCP fees included a review of applicable sections of the City of San Diego's (City's) Municipal Code, City Council Resolutions, Ordinances, and Policies, Administrative Regulations, and the City's Interjurisdictional Pretreatment Agreements with metropolitan area participating agencies. We consulted with the City Attorney's Office to clarify our understanding of the applicable legal issues.

In addition to reviewing legal and policy information related to IWCP fees, we analyzed a variety of IWCP data, which generally spanned FY 2008 to FY 2012. Specifically, we examined 1) SAP financial data for FY 2010- FY 2012; 2) invoice and permitting information extracted from IWCP's Pretreatment Information Management System; and 3) labor charges used to calculate hourly fees. We conducted various data reliability tests on information we received from PUD to ensure sufficient accuracy and completeness, and determined that the information provided was sufficiently reliable for the purposes of this audit. We also examined pretreatment program fee structures in other municipalities to enhance our contextual understanding of IWCP.

To address issues pertaining to IWCP billing, we interviewed cognizant PUD staff regarding billing practices and procedures. To the extent that information was available, we reviewed applicable Citywide and PUD-specific billing policies and guidance.

Finally, to gain a better understanding of program operations, we conducted numerous interviews with IWCP staff and conducted field observations of IWCP inspectors and Industrial Waste Lab technicians. To gain outside perspectives on IWCP, we also interviewed officials from the federal Environmental Protection Agency and the California Regional Water Quality Control Board.

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.

Appendix B: DEFINITION OF AUDIT RECOMMENDATION PRIORITIES

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class[16]	Description[17]	Implementation Action[18]
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

[16] The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher priority.

[17] For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

[18] The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

Appendix C: MANAGEMENT'S RESPONSE

THE CITY OF SAN DIEGO

MEMORANDUM

Date: August 2, 2013

To: Eduardo Luna, City Auditor

From: Roger Bailey, Director of Public Utilities

Subject: Management Response to Public Utilities Industrial Wastewater Control Program Audit

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Attached is Management's response to the Performance Audit of the Public Utilities Department's Industrial Wastewater Control Program which has been reviewed and approved by the Mayor's Office. Department Management agrees with the audit recommendations and has established action plans and timeframes for completion as specified in our response.

Roger S. Bailey

Attachment: Management Response

Cc: Walt Ekard, Interim Chief Operating Officer
Nelson Hernandez, Director of Policy

Management's Response to Report Recommendations

The department acknowledges the Office of the City Auditor Performance Audit of the Public Utilities Department's Industrial Wastewater Control Program. The following summarizes the audit findings and recommendations contained in this report and the department's responses to these recommendations.

Recommendation 1: The Public Utilities Department should establish policies and procedures to track all billable IWCP related costs so that fee levels and appropriate cost recovery rates can be determined effectively. (Priority 2)

Management Response: Agree with recommendation.

Public Utilities hired a consultant to assist Public Utilities with a **comprehensive** review of the cost of services of the Industrial Wastewater Control Program, benchmarking cost recovery policies, procedures to track billable costs, Interjurisdictional Agreements, and other aspects of the cost recovery and fee practices and policies within the IWCP. The department will develop and implement complete invoicing, payment tracking, reconciliation, and internal control practices for charges and revenues within the IWCP. (Also see Recommendation 7)

Date to be completed: January 31, 2014

Recommendation 2: The Public Utilities Department should establish policies and procedures to periodically review fee levels and present fee proposals to City Council. These reviews and fee studies should include calculation of the rate of cost recovery achieved by current fees. Reviews should be conducted on an annual basis, and detailed fee studies should be conducted not less than every three years, in accordance with Council Policy 100-05 and Administrative Regulation 95.25. (Priority 2)

Management Response: Agree with recommendation.

The Public Utilities Department hired a consultant to help conduct a study to review cost of services of the Industrial Wastewater Control Program. This study will include a review of fees and charges; an industry survey to gain knowledge of comparable agencies' cost recovery policies and practices; a review of City policies pertaining to cost recovery of the Industrial Wastewater Pretreatment Program; and a rate model that will allow calculation of current and proposed future fees.

This study will provide the department the foundation upon which Pubic Utilities management will develop policy recommendations for the Mayor's and Council's consideration. Further, we will develop and memorialize a standard of practice for the review of fees and charges consistent with Council Policy.

Date to be completed: January 31, 2014

Recommendation 3: The Public Utilities Department should perform a fee study to determine fee levels that achieve full cost recovery for all IWCP activities, including all labor and materials required for application review and permitting, inspections, monitoring, and sample analysis, as well as overhead and non-personnel expenses. The Public Utilities Department should work with the Office of the City Attorney to ensure that methodologies used to calculate fees are adequately documented and meet all applicable legal requirements, including those established by Proposition 26. (Priority 2)

Management Response: Agree with recommendation.

See response to Recommendations 1 and 2. During the study, we will seek input from the City Attorney's Office in formulating recommendations for policy and implementation. We expect that any policy recommendations will be in compliance with the Attorney's legal guidance. We will also work with the Participating Agencies on amendments to the Interjurisdictional Agreements.

Date to be completed: January 31, 2014

Recommendation 4: Upon completion of the fee study, the Public Utilities Department should work with the City Attorney's Office and the Participating Agencies to review and revise, as appropriate, Interjurisdictional Agreements to include fees for services that achieve appropriate cost recovery under the guidelines of Council Policy 100-05 and Administrative Regulation 95.25. The revised agreements should include mechanisms to adjust fees in response to changes in the cost of service. (Priority 2)

Management Response: Agree with recommendation.

See response to Recommendations above.

Date to be completed: Public Utilities expects to have policy recommendations proposed by January 31, 2014. Model Interjurisdictional Amendments will be developed in parallel so that new Amendments with each of the agencies can follow quickly.

Recommendation 5: Upon completion of the fee study, it is recommended that PUD, in consultation with the City Attorney's Office, develop a proposal for consideration by the City Council to update fees for Industrial Users within the City of San Diego. This proposal should include fees that achieve appropriate cost recovery under the guidelines of Council Policy 100-05 and Administrative Regulation 95.25. The revised fee schedules should include mechanisms to adjust fees in response to changes in the cost of service. (Priority 2)

Management Response: Agree with recommendation.

See response to Recommendations above; proposals for revised fee structures for Industrial Users within the City of San Diego will be included in the policy recommendations.

Date to be completed: January 31, 2014

Recommendation 6: The Public Utilities Department should work with the Office of the City Attorney to seek recovery, to the greatest extent possible allowed by law, of all unbilled costs related to Industrial Wastewater Control Program application review, permitting, inspection, and monitoring. (Priority 1)

Management Response: Agree with recommendation.

Public Utilities Department began this process prior to this audit engagement. On March 5, 2013, the Department invoiced the Participating Agencies for Fiscal Years 2008 and 2009. The Department is in the process of calculating the unbilled portion of permitting and monitoring costs related to the Industrial Wastewater Control Program for Fiscal Years 2010 through 2013. Once this has been determined, the department will work with the City Attorney's Office to seek recovery.

Date to be completed: October 31, 2013

Recommendation 7: The Public Utilities Department should establish a centralized billing process and standardized billing policies and procedures for all IWCP fees and charges. These policies and procedures should be documented in a process narrative, and should:

a. Establish responsibilities and timelines for generating and sending invoices for all IWCP fees and charges
b. Establish responsibilities and timelines for performing a periodic reconciliation of all IWCP revenue accounts
c. Establish guidelines and procedures for recording labor time, if necessary to determine invoice amounts
d. Establish guidelines and procedures for calculating invoice amounts
e. Ensure that appropriate Segregation of Duties controls are enforced. (Priority 2)

Management Response: Agree with recommendation.

The Public Utilities Department intends to fully develop the process narrative that will document the billing process procedures associated with the Industrial Wastewater Control Program. The department held preliminary discussions on this topic and sees no issues in implementing items a through e.

Date to be completed: January 31, 2014

Recommendation 8: The Public Utilities Department should perform a comprehensive review of all PIMS setting and invoice-calculating features to ensure that accurate invoices are automatically generated by PIMS and sent in a timely manner. (Priority 2)

Management Response: Agree with recommendation.

The Public Utilities Department will perform a comprehensive review of pertinent PIMS setting and invoice-calculating features to ensure that accurate invoices are generated and sent in a timely manner. This review will be a part of our response to Recommendation 7.

Date to be completed: January 31, 2014