

**AUDIT OF THE
ORANGE COUNTY UTILITIES
DEPARTMENT'S
ENVIRONMENTAL
SURCHARGE PROGRAM**

**Report by the
Office of County Comptroller**

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**Report No. 444
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January 8, 2015

Teresa Jacobs, County Mayor
And
Board of County Commissioners

We have conducted an audit of the Orange County Utilities Department's Environmental Surcharge Program. The audit was limited to verifying that Department personnel were performing wastewater sampling at customer sites and accurately billing Program surcharges. The period audited was October 1, 2011 through December 31, 2012.

We conducted this 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.

A response to our Recommendation for Improvement was received from the Utilities Department Director and is incorporated herein.

We appreciate the cooperation of the personnel of the Utilities Department during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Ajit Lalchandani, County Administrator
Chris Testerman, Assistant County Administrator, Infrastructure Services and
Government Relations
Raymond Hanson, P.E., Director, Utilities Department

EXECUTIVE SUMMARY

Executive Summary

The Orange County Utilities Department's Environmental Compliance Section implemented an environmental surcharge program (Program) to monitor the sewage discharge of commercial and industrial facilities to help recover the costs of treating high strength wastes and large volume wastewater emissions. This Program places the added cost to treat these chemicals on the customers that introduce them into the wastewater treatment system; thereby, reducing the overall costs for other wastewater customers. The Utilities Department collects over \$2 million a year from these surcharges.

Participants are added to the Program based on the business type and pollutants found during routine inspections. Once customers are placed into the Program, quarterly samples of wastewater discharge are collected and tested by the Utilities Department. Customers' wastewater samples that contain elevated concentrations of the specific pollutants are assessed a monthly surcharge on their wastewater billing based on Program parameters.

The audit was limited to verifying that Department personnel were performing wastewater sampling at customer sites and accurately billing Program surcharges. The period reviewed was October 1, 2011 through December 31, 2012. The audit objectives were to determine whether:

- Wastewater sampling and facility inspections were performed in accordance with the County's Sewer Use Ordinance (County Code Chapter 37-755); and,
- Applicable surcharges were correctly calculated and included in customers' bills.

Based on the results of our testing, wastewater sampling and facility inspections were performed in accordance with the Program regulations. In addition, applicable surcharges were correctly calculated and included in customer bills. An opportunity for improvement is discussed herein. Specifically, we noted that 20 percent (6 of 30) of the participants reviewed during our testing were consistently billed surcharges that were less than the cost to analyze their samples. In the aggregate, these customers were billed surcharges that were \$5,700 less than the cost to analyze their wastewater samples during the calendar year. Wastewater discharge was sampled and tested for each of these customers four times per year. Surcharge Program customers that consistently show a low level of pollutants in discharge samples could be sampled and tested less often. For instance, if customers with low levels of pollutants were sampled twice per year, it is possible the Department could eliminate approximately 70 inspections per year and potentially reduce department costs by \$24,000.

A Recommendation for Improvement was developed and discussed with Management. Management concurred and steps to implement the recommendation are underway. A Response to the Recommendation for Improvement is included herein.

ACTION PLAN

**AUDIT OF THE ORANGE COUNTY UTILITIES DEPARTMENT'S
ENVIRONMENTAL SURCHARGE PROGRAM
ACTION PLAN**

NO.	RECOMMENDATION	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We recommend the Department consider reducing the frequency of sampling and testing Program participants with annual surcharges less than the sampling cost.	✓				✓

INTRODUCTION

INTRODUCTION



Background

The Orange County Utilities Department (Department) is responsible for providing water, wastewater, reclaimed water, and solid waste disposal to Orange County residents. Servicing over 312,000 commercial and residential water and wastewater accounts, the Department has 901 authorized positions for the 2013-14 fiscal year with a budget of approximately \$460 million. Water and wastewater service revenue for the 2011-12 and 2012-13 fiscal years averaged \$156 million annually.

The Department's Environmental Compliance Section, through the Environmental Surcharge Program (Program), monitors the discharge of commercial and industrial facilities to help recover the costs of treating high strength wastes and large volume wastewater emissions. Customers such as large hotels, restaurants and laundries that emit elevated concentrations of nitrogen, phosphorous, suspended solids or exhibit a high biological oxygen demand are included in the Program. Samples of customers' wastewater emissions are taken quarterly and if elevated concentrations of the aforementioned pollutants are found, a surcharge is added to the customer's bill to offset the additional treatment expense. Surcharge revenue for the 2011-12 and 2012-13 fiscal years was \$2.1 million and almost \$2.0 million respectively.

Scope, Objectives, and Methodology

The audit scope was limited to verifying whether the Environmental Compliance Section were performing wastewater sampling at customer sites and accurately billing Program surcharges. The period reviewed was October 1, 2011 through December 31, 2012. In addition, certain matters occurring outside the audit period were also reviewed. The audit objectives were to determine whether:

- Wastewater sampling and facility inspections were performed in accordance with the County's Sewer Use Ordinance (County Code Chapter 37-755); and,
- Applicable surcharges were correctly calculated and included in customer bills.

INTRODUCTION



To achieve our objectives, we performed the following:

- Researched Central Lab Summary Reports (Reports) and customer billing records, both of which include pollutant test results, to determine if a wastewater sample was drawn at each Program participant's business location during the period October 1, 2011 through December 31, 2011.
- Tested 30 sample customers using the Reports and billing records to verify that wastewater samples were taken each quarter during calendar year 2012. Where test results showed that contaminant benchmarks were exceeded, we determined that surcharges were included in customer bills. Based on test results, we computed the surcharges to verify their accuracy.
- Surveyed local government entities in Florida and nationally to compare attributes of their surcharge programs to Orange County's. Data on wastewater usage thresholds, types of pollutants monitored, pollutant thresholds triggering surcharges and surcharge rates were collected to evaluate the Department's methodology for admitting customers to the Program.

Overall Evaluation

Based on the results of our testing, wastewater sampling and facility inspections were performed in accordance with the County's Sewer Use Ordinance (County Code Chapter 37-755). In addition, applicable surcharges were correctly calculated and included in customer bills. An opportunity for improvement is described herein.

RECOMMENDATION FOR IMPROVEMENT

**RECOMMENDATION
FOR IMPROVEMENT**



1. The Department Should Consider Adjusting the Frequency of Testing Wastewater for Customers That Pay Surcharges Less Than Costs

During calendar year 2013, the Department had approximately 200 customers that participated in the Surcharge Program. Each participant's wastewater discharge is sampled and tested by the Department quarterly. If a participant's discharge has consistently tested below the Program's parameters in previous samples, the customer is tested annually. As of February 2013, 18 participants were tested annually.

As part of our quarterly testing, we selected a sample of 30 participants to verify that wastewater discharge samples were drawn, tested, and, where appropriate, surcharges were assessed. During this testing, we noted that 20 percent (6 of 30) of the participants were consistently billed surcharges that were less than the cost to analyze their samples.

Average monthly surcharges ranged from \$0.98 to \$100.52 for these participants. In the aggregate, these customers were billed surcharges that in total were \$5,705 less than the cost to analyze their wastewater samples during the calendar year. Differences for each customer are shown in the table below.

Customer No.	Surcharge Billings	Sampling Cost	Difference
50017****	\$187.01	\$1,378.44	(\$1,191.43)
66417****	\$604.25	\$1,378.44	(\$774.19)
58559****	\$1,206.26	\$1,378.44	(\$172.18)
83407****	\$236.18	\$1,378.44	(\$1,142.26)
03307****	\$320.42	\$1,378.44	(\$1,058.02)
93589****	\$11.75	\$1,378.44	(\$1,366.69)
Totals	\$2,565.87	\$8,270.64	(\$5,704.77)

* – Department calculated monthly sampling cost of \$114.87 x 12 months

Wastewater discharge was sampled and tested for each of the above customers quarterly (four times per year). Surcharge Program customers that consistently show a low level of pollutants in discharge samples could be sampled

RECOMMENDATION FOR IMPROVEMENT



and tested less often. For instance, if customers with low levels of pollutants were sampled twice per year, it is possible the Department could eliminate approximately 70 inspections per year and potentially reduce department costs by \$24,000.

We Recommend the Department consider reducing the frequency of sampling and testing Program participants with annual surcharges less than the sampling cost.

Management's Response:

We concur. Based on our analysis, 73 of the 150 customers (48.7%) that are sampled quarterly do not generate sufficient Surcharge Program revenues to adequately compensate OCUD for continued quarterly sampling. OCUD proposes to address this concern by applying Surcharge Program fees to our users as follows:

- Sample the 19 current accounts that generate sufficient revenue to cover only between 50% and 100% of the annual sampling costs on a semiannual basis;
- Sample the 54 current accounts that generate sufficient revenue to cover less than 50% of the annual sampling costs on an annual basis; and,
- Sample all other current accounts and new accounts on a quarterly basis.

Additionally, all Surcharge Program customer accounts will be evaluated annually to determine the appropriate sampling frequency (quarterly, semiannually, or annually) using the sampling cost recovery criteria.