

September 22, 2014

REPORT #: 2015-02

Steve Zurn, General Manager of GWP
Glendale Water & Power

Dear Steve,

Enclosed is the final report of the Water Rate Increase Implementation Limited Scope Audit. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the course of the audit.

Should you have any questions, please feel free to contact Jessie Zhang or myself.

Thank you,



Michele Flynn,
City Auditor

Enclosure

cc: Ramon Abueg, Chief Assistant General Manager
Yasmin Beers, Assistant City Manager
Robert Elliot, Director of Finance
April Fitzpatrick, Deputy General Manager
Craig Kuennen, Business Transformation and Marketing Administrator
Michelle Nall, Information Services Project Manager
Scott Ochoa, City Manager
Tami Vallier, Customer Services Administrator
City Council
Audit Committee

Water Rate Increase Implementation Limited Scope Audit

September 22, 2014

Background

According to Internal Audit's fiscal year 2014-15 annual plan, Internal Audit participated in the new water rate implementation quality control processes.

On August 5, 2014, the City Council adopted Resolution No. 14-130 for setting forth rates and charges for Glendale Water and Power water service. The new rates were set to become effective on September 1, 2014.

Objective and Scope

The objective of this project was to participate on the water rate increase implementation team and conduct quality control reviews of the new water rate set up in the NorthStar billing system to ensure that the new water rates were implemented appropriately. The team did not review the drought rate because it was suspended for six months due to City Council resolution. The team did not review the water adjustment rate either because there is no separate water adjustment rate at this point. The following procedures were performed as part of the quality control review process:

- Obtained and reviewed the GWP's City Services Rate Change Policy to ensure that the required procedures for changing water rates were appropriately followed;
- Obtained and reviewed Council approved resolution on the new water rates and used the rate sheets as the basis for validation;

- Participated on the water rate implementation team in conducting quality control reviews on 1) QC report comparing the prior rates to the current rates; 2) QC sample bill prints for each new rate;
- Provided feedback on exceptions noted during the implementation processes.

Summary of Results

It was noted that the GWP staff have made the water rate implementation a high priority to ensure that the required testing and quality control processes were taking place even under a very tight implementation schedule. Minor exceptions noted by the team in the rate set-up and bill print reviews have been corrected and re-tested. The new rates became effective on September 1, 2014 as approved by the City Council with the exception of certain recycled water customers that have separate contracts with the City. These special recycled water rates were also reviewed and tested.

GWP IS has a comprehensive rate change policy in place detailing responsibilities, testing and validating procedures required for all rate changes. As a result of participating in the rate implementation processes and conducting inquiries, it was noted that this rate change policy has been appropriately followed. The audit identified two improvement opportunities related to further improving the policies and procedures and quality control processes. The detailed Observation, Recommendations and Management Responses are summarized on the following pages.

Item	Observation	Recommendation	Management Response
1.	GWP IS documents special handlings or exceptions from implementing rate changes in a post-implementation document. This is a good practice to ensure that the lessons learned were documented and as a reference for future rate implementations. However, creating this post-implementation document is not included in the current rate change policy. In addition, reviewing this document is not included in the action item list.	<p>It was recommended that the post-implementation memo be included in the rate change policy and in the action item listing. One action item would be to create the post-implementation document at the end of each rate implementation, and the other action item would be to review the post-implementation memo from the previous rate change at the beginning of any new rate implementation.</p> <p>It was also recommended that appropriate management approval be obtained for any exceptions or special handlings in the rate change implementation.</p>	GWP Management agrees with the recommendations. The creating and reviewing of post-implementation memo have already been added to the rate change policy. The appropriate approval required for any special handlings has also been addressed in the rate change policy. Internal Audit has reviewed the changes in the revised rate change policy.
2.	Upon reviewing the Project Action Items created for implementing the new water rates, it was noted that the items listed are only the ones applicable to this rate change. However, it is not clear whether the items that are not listed in the action items are the ones not applicable or omitted.	It was recommended that GWP IS create a standard rate change action item list for each service (electric/water/sewer, etc.) that is consistent with the rate change policy, without removing the items that are not applicable. Instead, document the "Not applicable" items along with brief reasons on the action item listing, to demonstrate that all required procedures have been reviewed by the implementation team.	GWP IS agrees with the recommendation and has already created a complete listing of the action items according to the rate change policy for this water rate increase implementation. This template will be used for future rate change implementation to ensure the completeness of the action items.