

The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. Special requests are designed to answer specific questions to assist Council in decision-making. We do not draw conclusions or make recommendations in these reports.

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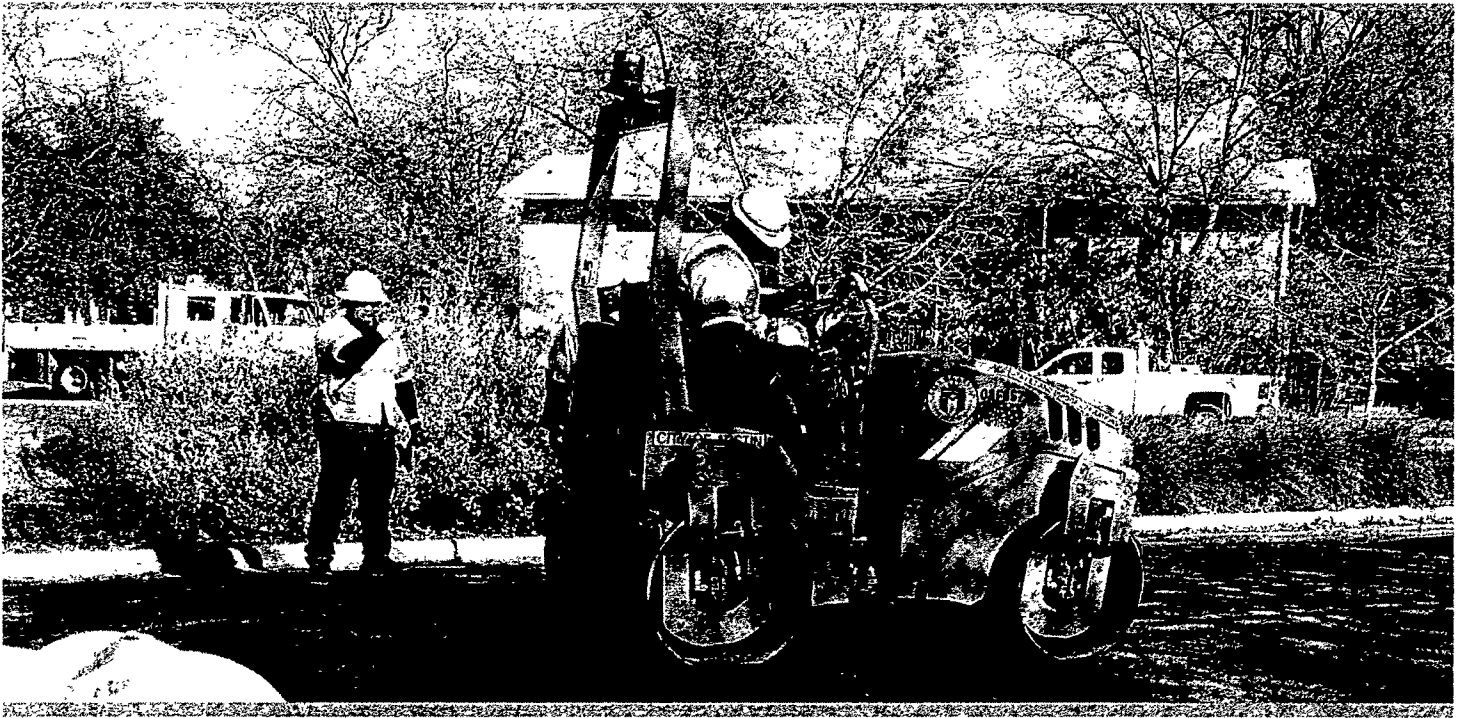
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Audit Report

City Utility Street Cut Repairs

March 2017



As of March 2016, there was a backlog of 3,864 utility cut patches awaiting a permanent utility cut repair by the Public Works Department. Some of these street cut patches are unreliable and possibly unsafe due to issues with age or height. Also, Public Works does not maintain complete and consistent data to determine the backlog's true size or whether their work is cost-effective as compared to the work of their contractor. As a result, Public Works management cannot be sure the information they report or use for planning or resource allocation is accurate.

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Cover: Photo of a Public Works Department crew on 51st Street, City of Austin.

Objective

The objective of the audit was to determine whether:

- street cut repairs were completed in an effective and timely manner to minimize safety impacts to the public, and
- the current model is cost-effective.

Background

In the City of Austin, the Public Works Department completes permanent repairs on utility cuts by Austin Water. The purpose of this activity is to repair utility cut locations and pavement damaged by cuts in a timely manner. The Department's Utility Excavation Repair activity, which performs the utility cut repair work, has 53 employees and a budget of \$7.6 million. In fiscal year 2016, Austin Water paid Public Works almost \$8.5 million to complete repair activities. In June 2016, Public Works entered into a \$1 million contract with a vendor who performs some repairs on streets with an asphalt surface.

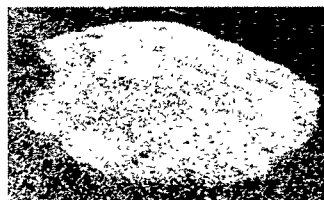
Cold mix asphalt is a material used in temporary patches and is not allowed to be in place longer than 90 days. Hot mix asphalt is a material used in permanent repairs on streets with an asphalt surface.

Many street cuts made by Austin Water are due to water leaks or breaks in infrastructure. When Austin Water needs to repair a utility component under a street, they cut into streets to make repairs and then patch the street with a temporary repair made of cold mix asphalt. Austin Water is responsible for maintaining the patch for 30 days. After 30 days have passed, Public Works is responsible for maintaining the patch.

In an average month, Austin Water makes 185 utility cuts and patches, and Public Works makes 89 repairs.

Based on data from Public Works, Austin Water makes an average of 185 utility cuts and patches per month and tracks these in its work order management system. After Austin Water patches a street cut, they send a work order to Public Works who then inspects Austin Water's temporary patch to plan the dimensions of the final repair according to the City Code Standards Manual. Public Works then completes the repair using hot mix asphalt or concrete. Public Works makes an average of 89 repairs per month. Exhibit 1 below shows a summary of the street cut repair process.

Exhibit 1: Street Cut Repair Process



Temporary Patch

The Austin Water Utility cuts into a street to repair infrastructure and then patches the street cut.



Street Cut Repair

The Public Works Department makes the street cut repair.

SOURCE: Office of the City Auditor analysis of street cut repair process, December 2016

What We Found

Summary

As of March 2016, there was a significant backlog of utility cut patches awaiting a permanent repair that could take several years for the Public Works Department to address. Some of these utility cut patches are unreliable and may pose a safety hazard due to issues with age or height. Public Works does not maintain complete and consistent data to determine the backlog's true size or whether their work is cost-effective in comparison with the work of their contractor. As a result, Public Works management cannot be sure the information they report or use for planning or resource allocation is accurate.

Finding 1


There is a large and growing backlog of temporary utility cut repairs on Austin roads that may be unreliable and possibly pose a safety hazard while awaiting a permanent resurfacing.

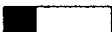
According to data provided by the Public Works Department, there was a backlog of 3,864 patches awaiting a repair as of March 2016.¹ Patches are the temporary repairs put in place to cover a cut into a street prior to completion of the final repair. The data showed a growing backlog since the beginning of the audit scope period, October 1, 2013, and a backlog was also noted in a November 1998 audit report from the City Auditor. The average completion time for a repair was 357 days, or about a year, and completion times ranged from one month to over a year and a half. If Austin Water made no additional cuts, it would take Public Works 3.6 years to bring the backlog down to zero.

If Austin Water did not make any more cuts, it would take Public Works 3.6 years to bring the backlog of utility cut repairs to zero.

Some temporary street cut patches are unreliable and possibly unsafe. Auditors reviewed ten randomly sampled street patches from the March 2016 backlog. As seen in the exhibit below, all ten were in place longer than 90 days, which violates the City Code Standards Manual.² In addition, three patches were more than 1/4" higher than the surrounding street surface, a result of problems in the initial temporary repair by Austin Water. Two patches also had loose gravel on the street surface, which appeared to be due to the delayed repairs.

Exhibit 2: Temporary Street Cut Patches are Not in Compliance

In place for more than 90 days  100%

Not level with the street surface  30%

Loose gravel on the street surface  20%

Ten randomly sampled street cut patches were all in place longer than 90 days, violating City Code.

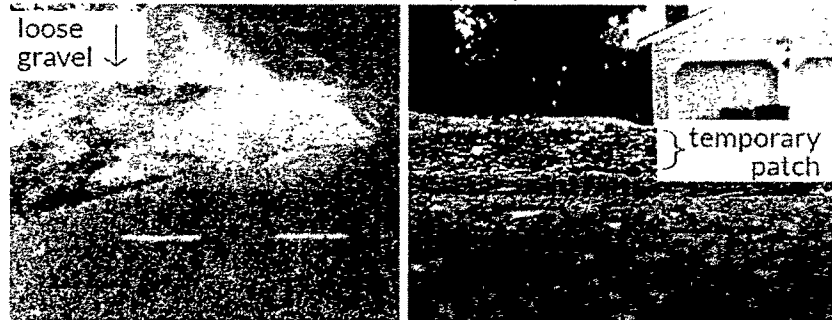
SOURCE: Office of the City Auditor analysis of sampled temporary street cut patches, November 2016

¹ This figure includes repairs on streets as well as driveways, sidewalks, curbs, and gutters.

² Series 1100 – Trench and Street Repair, 1100-S4 Temporary Trench Repair-Asphalt Surface.

The photos below show examples of patches with loose gravel on the surface (picture on left) and a surface that is not level with the road (picture on right).

Exhibit 3: Non-Compliant Temporary Street Cut Patches



SOURCE: Office of the City Auditor photos, October 2016

Public Works staff confirmed three of the sampled patches were unreliable and possibly unsafe. The Standards Manual requires the repaired surface to be level with the normal surface of the road (within 1/4") and free of loose gravel. According to Public Works, surfaces that are not level and have loose gravel may pose safety risks. In addition, patches may deteriorate after 90 days, which is the maximum length of time the City Code allows patches to be in place before being permanently repaired.

Both Austin Water and Public Works rely on residents to report issues with patches, so the City is not aware of which or how many patches currently in place may be unsafe. Austin 311 data showed most service requests related to patches were reported as a result of a quality issue such as a failing patch or a rough or bumpy ride. Examples of service requests included reports of an exposed hole, a pipe sticking out of the road, and a patch that had fallen by 10 inches.

Public Works has fewer resources for street cut repairs than Austin Water.

Public Works has fewer crews working street cut repairs than Austin Water. Because of resource differences, Austin Water has made street cuts and patches at a faster rate than Public Works has been able to complete the final repairs, resulting in the large backlog.

As of January 2017, Austin Water reported they had 107 available employees across 22 crews to repair utilities under streets and place temporary patches. Public Works reported they had 53 employees across 4 crews completing the permanent repairs (see Exhibit 4). As a result, Austin Water creates more cuts per month (185 on average)³ than Public Works is able to repair per month (89 on average).⁴ Public Works requested and obtained 12 new Full-time Equivalents (FTE) in fiscal year 2015 and 8 new

³ The 185 figure represents the average number of utility cuts between October 2014 and March 2016.

⁴ The 89 figure represents the average number of completed repairs between April 2015 and March 2016.

FTEs in fiscal year 2017, but the department did not request any additional FTEs in fiscal year 2016. In January 2017 Public Works reported 11 vacant positions.

Exhibit 4: Analysis of Resources and Average Monthly Repairs

	Austin Water Utility	Public Works
Resources	22 crews 107 employees	4 crews 53 employees
Average repairs per month	185 requested	89 completed

SOURCE: Office of the City Auditor analysis, January 2017

Public Works' lack of documented policies and procedures may prevent the department from performing street cut repairs efficiently and effectively.

Public Works may not be addressing the backlog in an efficient manner. The Department does not have documented policies or procedures for deciding the order in which they complete repairs. In addition, Public Works management and crew supervisors described different processes for deciding which repairs are completed first. A Public Works manager explained all repairs occur in order from oldest to newest, while crew supervisors explained that a newer repair might be completed before an older one if a customer makes a request.

Public Works also does not have documented policies or procedures for inspecting patches to determine the final repair's dimensions or for performing quality assurance and control activities. As a result, the Department may not be able to verify that inspections are done according to standards, or that completed work orders undergo the same quality assurance process. Without documented procedures, some processes may be performed inconsistently and organizational knowledge may be limited to only a few personnel. Best practices recommend organizations create policies that establish what is expected and procedures that put policies into action.⁵

⁵ Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control - Integrated Framework*.

Finding 2

Public Works does not maintain sufficient data to verify the backlog's true size or determine the cost-effectiveness of street cut repairs.

The City cannot be sure a work order marked as complete is actually complete.

The backlog derived from Public Works' data does not match the backlog reported in the Department's performance measure.

Inconsistent and incomplete data on street cut work orders prevents the City from determining the accurate size of the backlog of temporary utility cut patches and prevents Public Works from determining the cost-effectiveness of repairs.

Public Works' data is inconsistent with Austin Water's data.

Inconsistencies between Austin Water and Public Works data indicate that the City cannot determine when a work order was started or completed, or whether a work order marked as completed is actually complete. Such inconsistencies may cause management to have an inaccurate count of the backlog's size. As a result, Public Works management cannot be sure they report accurate information or effectively use this information for planning or resource allocation purposes.

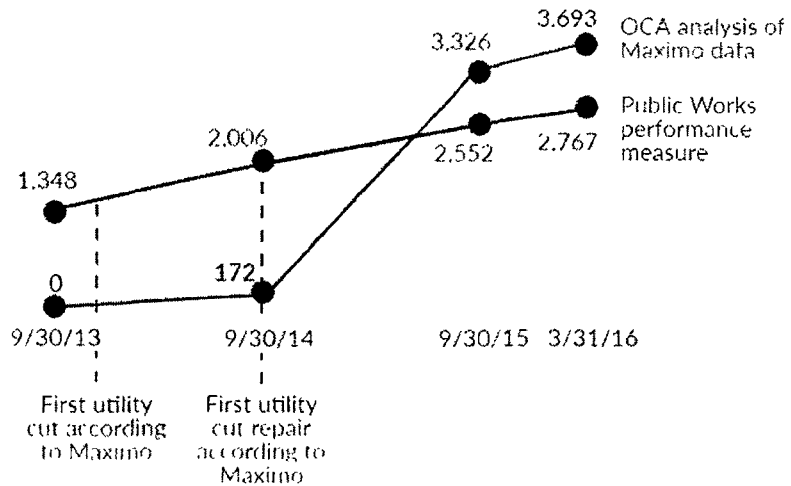
Based on a review of data provided by Public Works, 11% of repairs displayed a status (either complete or incomplete) different from Austin Water's repair status. In addition, 6 of 30 (20%) street cut repairs randomly sampled from Public Works data showed a repair start or completion date different than Austin Water data.

Public Works' data is incomplete or incorrect.

In October 2014, Public Works adopted a new work order information system called Maximo and manually entered all incomplete utility cut repair work orders at that time. However, the first utility cut location recorded in the new system was made in November 2013, and the first utility cut repair was recorded as completed in October 2014 (see Exhibit 5 below), leaving a gap during which no repairs were recorded. This gap indicates the data is either incomplete or incorrect. Public Works' data also indicates that the backlog began at zero on October 1, 2013, although performance measures show a backlog before this date. As seen in the shaded areas of the graph, the Maximo data provided indicate the backlog did not match the reported performance measure from the end of fiscal year 2013 to the middle of fiscal year 2016. On March 31, 2016, the two backlog figures differed by 926 work orders. Best practices recommend that organizations develop control activities over technology to support the achievement of its goals.⁶

⁶ Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control - Integrated Framework*.

Exhibit 5: Discrepancies in the Backlog Size for Repair Locations Older than 4 Weeks As Documented in Maximo and Reported by Public Works



SOURCE: Office of the City Auditor analysis of Public Works data and performance measures, January 2017

Due to issues with cost data, Public Works cannot determine if it makes sense to contract with a vendor for asphalt repairs.

Cost-effectiveness of asphalt repairs cannot be determined.

In June 2016, Public Works contracted a vendor to perform repairs on roads with an asphalt surface. This is Public Works' first contract for utility cut repair work and the department entered into the contract to reduce the backlog. The contract is for \$1 million and has a three-year term, renewable every year. Public Works obtained this contract at the lowest possible bid price.

However, Public Works cannot determine if the contract is cost-effective as compared to their repair costs. Data that Public Works collects on the costs of its in-house repairs is incomplete and may not reflect actual labor and equipment expenses. For instance, Public Works' staff stated that repair crews have not been consistent about recording information about repair sizes. Knowing the size of the repair is key in determining whether repairs were cost-effective. Another issue with the data noted by Public Works' staff includes potentially inaccurate hourly rates for repair crew members due to Public Works recording the average labor rate for a job classification, rather than the rate for a specific employee. Also, Public Works records the rental rate for tools the City already owns, which may overstate costs.

Additional Observation

The City may not have the information it needs from Public Works to coordinate work performed on Austin streets.

Public Works may be making it more difficult for the Austin Transportation Department to coordinate street repair work. Per Administrative Bulletin 99-01, when a City department makes a street cut it is required to get an excavation permit from Austin Transportation. Austin Transportation uses the excavation permit information to coordinate planned work on streets. For example, if a street cut is located on a road scheduled to be repaved in the near future, Austin Transportation may recommend that Public Works forego repairing the street cut.

However, while Public Works performs work under the required permit, it does not notify Austin Transportation when street cut repairs are completed. As a result, Austin Transportation may not be able to effectively coordinate street repair work between departments.

Recommendations and Management Response

To address Finding 1, which noted that the large and growing backlog of temporary utility cut repairs on Austin roads may pose a safety hazard while awaiting a permanent resurfacing, we make the following recommendations.

- 1** | The Public Works Department Director should evaluate options for eliminating the backlog of utility cut repairs, such as expanding the use of contracted services and reallocating resources internally.

Management Response: Agree

Proposed Implementation Plan: Staff from Street & Bridge Operations (SBO) will:

- a) Ensure the current indefinite delivery/indefinite quantity contract for Asphalt Repairs is renewed and evaluated for potentially increasing it to help eliminate the backlog of utility cut repairs.
- b) Work with staff from Austin Water to brainstorm and implement ideas that help eliminate the backlog, including Developing an IDIQ Contract for Rehabilitation projects which will allow SBO staff to dedicate 4 to 8 additional weeks to backlog repairs. SBO staff will work with Project Management to establish 2 IDIQ contracts. An IDIQ contract to handle concrete repairs and another IDIQ contract to handle asphalt repairs will be prepared to help eliminate the backlog within 18 months after contracts are established.
- c) Document Street & Bridge's Service Plan to reflect the reallocating of internal resources from other SBO for utility cut repairs.
- d) Eliminate the current 3,864 backlog of utility cut repairs in 18 months from the date new IDIQ contracts are in place, including requesting for additional funds to make this happen. Please note, as of March 17, 2017, data analysis and cleanup of the work order system has resulted in a more accurate backlog number of 2,204. This includes all locations (excluding the 2017 Contract) that have not been field completed both pre and post interface.

Proposed Implementation Date: April 2019

- 2** | The Austin Water Director should ensure temporary patches meet the requirements of the City Code Standards Manual.

Management Response: Agree

Proposed Implementation Plan:

1. Training (Initiate in 30-90 days) - Provide new and refresher training to field and supervisor water and wastewater maintenance staff on City Code Standard and Installation Practices by Quarter 4 of FY2017.
2. Re-inspection at 30 days - Re-inspect patches at 30 days from installation against standard by end of FY2017.
3. Develop a Service Level Agreement with Public Works to outline roles and responsibilities for temporary patch work and other administrative requirements.
4. Dedicated resources to QA/QC work performed - monitor temporary repair standard, training, 30-day condition, and records management by FY2018.

Proposed Implementation Date:

1. Quarter 4 of FY2017
2. End of FY 2017
3. End of FY 2017
4. FY 2018

3

The Public Works Director should develop, implement, and monitor written policies and procedures to ensure:

- a) utility cut repair work order data is complete and accurate;
- b) repairs are prioritized efficiently;
- c) inspections are performed in compliance with the City Code Standards Manual;
- d) temporary patches are not in place longer than 90 days; and
- e) quality control and assurance steps are completed consistently.

Management Response: Agree

Proposed Implementation Plan: Staff from Street & Bridge Operations (SBO) will:

- Update existing procedures and work flows for performing utility cut repairs and formalize and train staff to ensure work orders are complete, accurate and consistent. Please note, PWD and A WU found errors in data related to the interface. The errors resulted in inaccurate reporting of performance measures particularly Locations Completed and Square Yards of repairs completed. Data cleanup has begun to correct the existing errors. Additional protections are being put into place within the MAXIMO and HANSEN systems to not allow the current issues to continue.
- Develop a documented process to plan work more efficiently using the MAPSCO page and grid numbers through MAXIMO and PWD GIS, allowing for more coordination, and utilization of other workgroups efficiently.
- Develop procedure for inspections of utility cut repairs to ensure they are compliant to city code, including uploading photos into the Work Order System.
- Work with Austin Water to develop new processes for temporary repairs that meet the current city standards.
- Evaluate existing processes to ensure steps associated with quality control are adhered to, including input from Superintendents, Supervisors, inspectors and crew members to ensure an understanding of expectations and employee involvement.

Proposed Implementation Date: September 2017

To address Finding 2, which noted that Public Works does not maintain sufficient data to determine the cost-effectiveness of street cut repairs or verify the backlog's true size, we make the following recommendation.

4

The Public Works Director should assess the cost-effectiveness of the Utility Excavation Repair activity using the complete data obtained through implementation of Recommendation #3.

Management Response: Agree

Proposed Implementation Plan: Staff from Street & Bridge Operations will work with Public Works Financial staff to calculate and demonstrate how in house repairs are more cost effective, as well as defining the current business process and billing procedure for Utility Cut Repairs through an inter department agreement, and SBO procedure.

Procedures will outline how cost effectiveness will be measured and calculated and will help reach consistency when reporting cost effectiveness.

Proposed Implementation Date: September 2017

Management Response - Public Works Department



MEMORANDUM

TO: Corrie Stokes, City Auditor, Office of the City Auditor
FROM: Richard Mendoza, P.E., Director, Public Works Department
DATE: March 24, 2017
SUBJECT: Action Plan – City Street Cut Utility Repairs Audit

In accordance with the City Utility Street Cut Repairs Audit, attached is the action plan with three recommendations. The following two pages outline management's response to recommendations, proposed strategy for implementation, the status of strategies and proposed implementation dates.

Should you have additional questions, please feel free to contact Molly Ritter, Street & Bridge Operations Division Manager, at (512) 974-8771.

Thank you.

cc: Robert Hinojosa, P.E., Assistant Director, Public Works Department
James Snow, PMP, CCC, Assistant Director, Public Works Department
David V. Magaña, P.E., City Engineer, Public Works Department
Molly Ritter, Division Manager, Public Works Department
Karen Maggio, Division Manager, Public Works Department

Action Plan

1. The Public Works Department Director should evaluate options for eliminating the backlog of utility cut repairs, such as expanding the use of contracted services and reallocating resources internally.

Management Response: Agree.

Proposed Implementation Plan: Staff from Street & Bridge Operations (SBO) will:

- a) Ensure the current indefinite delivery/indefinite quantity contract for Asphalt Repairs is renewed and evaluated for potentially increasing it to help eliminate the backlog of utility cut repairs.
- b) Work with staff from Austin Water to brainstorm and implement ideas that help eliminate the backlog, including Developing an IDIQ Contract for Rehabilitation projects which will allow SBO staff to dedicate 4 to 8 additional weeks to backlog repairs. SBO staff will work with Project Management to establish 2 IDIQ contracts. An IDIQ contract to handle concrete repairs and another IDIQ contract to handle asphalt repairs will be prepared to help eliminate the backlog within 18 months after contracts are established.
- c) Document Street & Bridge's Service Plan to reflect the reallocating of internal resources from other SBO for utility cut repairs.
- d) Eliminate the current 3,864 backlog of utility cut repairs in 18 months from the date new IDIQ contracts are in place, including requesting for additional funds to make this happen. Please note, as of March 17, 2017, data analysis and cleanup of the work order system has resulted in a more accurate backlog number of 2,204. This includes all locations (*excluding the 2017 Contract*) that have not been field completed both pre and post interface.

Proposed Implementation Date: April 2019.

3. The Public Works Director should develop, implement, and monitor written policies and procedures to ensure:
 - a) utility cut repair work order data is complete and accurate;
 - b) repairs are prioritized efficiently;
 - c) inspections are performed in compliance with the City Code Standards Manual;
 - d) temporary patches are not in place longer than 90 days; and
 - e) quality control and assurance steps are completed consistently.

Management Response: Agree.

Proposed Implementation Plan: Staff from Street & Bridge Operations (SBO) will:

- Update existing procedures and work flows for performing utility cut repairs and formalize and train staff to ensure work orders are complete, accurate and consistent. Please note, PWD and AWU found errors in data related to the interface. The errors resulted in inaccurate reporting of performance measures particularly Locations Completed and Square Yards of repairs completed. Data cleanup has begun to correct the existing errors. Additional protections are being put into place within the MAXIMO and HANSEN systems to not allow the current issues to continue.

- Develop a documented process to plan work more efficiently using the MAPSCO page and grid numbers through MAXIMO and PWD GIS, allowing for more coordination, and utilization of other workgroups efficiently.
- Develop procedure for inspections of utility cut repairs to ensure they are compliant to city code, including uploading photos into the Work Order System.
- Work with Austin Water to develop new processes for temporary repairs that meet the current city standards.
- Evaluate existing processes to ensure steps associated with quality control are adhered to, including input from Superintendents, Supervisors, inspectors and crew members to ensure an understanding of expectations and employee involvement.

Proposed Implementation Date: September 2017.

- 4 The Public Works Director should assess the cost-effectiveness of the Utility Excavation Repair activity using the complete data obtained through implementation of Recommendation #3.

Management Response: Agree.

Proposed Implementation Plan: Staff from Street & Bridge Operations will work with Public Works Financial staff to calculate and demonstrate how in house repairs are more cost effective, as well as defining the current business process and billing procedure for Utility Cut Repairs through an inter department agreement, and SBO procedure.


Procedures will outline how cost effectiveness will be measured and calculated and will help reach consistency when reporting cost effectiveness.

Proposed Implementation Date: September 2017.

Management Response - Austin Water



MEMORANDUM

To: Corrie Stokes, City Auditor
From: Greg Meszaros, Director, Austin Water 
Date: March 2, 2017
Subject: Response to Audit Findings – Austin Water Recommendations and Management Response to Item 2, City Utility Street Cut Repairs

Recommendations and Management Response to Item 2.

The Austin Water Utility Director should ensure temporary patches meet the requirements of the City Code Standards Manual.

Management Response: Concur

Proposed Implementation Plan:

1. Training (Initiate in 30-90 days) – Provide new and refresher training to field and supervisor water and wastewater maintenance staff on City Code Standard and Installation Practices by Quarter 4 of FY2017.
2. Re-inspection at 30 days – Re-inspect patches at 30 days from installation against standard by end of FY2017.
3. Develop a Service Level Agreement with Public Works to outline roles and responsibilities for temporary patch work and other administrative requirements.
4. Dedicated resources to QA/QC work performed – monitor temporary repair standard, training, 30-day condition, and records management by FY2018.

Proposed Implementation Date:

1. Quarter 4 of FY2017
2. End of FY 2017
3. End of FY 2017
4. FY 2018

cc: Robert Goode P.E., Assistant City Manager

Scope

The audit scope included street cut repair activities from October 1, 2013 through March 31, 2016. The scope also included costs related to the contract the Public Works Department executed with a private company on June 23, 2016 for street cut repairs. Some information in this report relates to utility cuts on streets, driveways, sidewalks, curbs, and gutters; the audit focused on repairs made in streets

Methodology

To accomplish our audit objectives, we performed the following steps:

- interviewed Austin Water and Public Works Department employees;
- reviewed repair standards used by Austin Water and Public Works;
- analyzed Public Works' information system data to assess the backlog of repairs;
- reviewed Public Works' information system user access controls;
- analyzed Austin Water's information system data to compare with Public Works' data;
- visited a random sample of temporary repair locations and assessed their safety with the help of Public Works staff;
- reviewed right-of-way permits for a random sample of completed permanent repairs;
- evaluated the cost-effectiveness of the City of Austin's utility cut repair process;
- reviewed service request data related to street cut repairs provided by Austin 311; and
- evaluated internal controls related to street cut repairs.

Audit 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.

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The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. We conduct performance audits to review aspects of a City service or program and provide recommendations for improvement.

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AUDIT REPORT

Internal Audit Division

Fiscal Year 2018 Follow-up on Open Audit Recommendations

201806

September 4, 2018

1





City of Austin | Austin Water
P.O. Box 1088 Austin, TX 78767
AustinWater.org

September 4, 2018

Utility Audit Committee Members:

Greg Meszaros, Director
David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Operations
Kevin Critendon, P.E., Assistant Director, Water Resources Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation

Austin Water
625 E. 10th St., Suite 800
Austin, TX 78701

Dear Utility Audit Committee Members:

Internal Audit is pleased to report the results of the Fiscal Year (FY) 2018 Follow-up on Open Audit Recommendations (#201806). This follow-up audit was included in the Approved Audit Plan for FY 2018.

The audits included in this follow-up were completed between FY 2011 and FY 2018 and included eight recommendations from Human Resource Services, Operations, Business Services, and Financial Services. A complete listing of all recommendations included in this report can be found in the Attachment.

The objectives of this follow-up audit were to obtain a status report on the implementation of recommendations in the original audit report and verify the reported status of corrective action. The scope of this audit was from the date of each prior audit report to current.

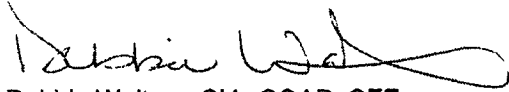
In summary, we concluded that four recommendations were implemented by management, two recommendations were partially implemented, one recommendation was not implemented and closed, and one recommendation is no longer applicable. Internal Audit will review the status of the two recommendations that remain open as new implementation dates become due.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Michael Yamma, Internal Auditor I, led this project with the assistance of Leslie Jansen, IAP, Internal Auditor II, and Sean Morris, CIA, Internal Auditor II.

Utility Audit Committee
September 4, 2018
Page 2

We appreciate the assistance of staff in Human Resource Services, Operations, Business Services, and Financial Services. If we can provide further assistance, please call me at 512-972-0438.

Sincerely,



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

Attachment

cc: Anna Bryan-Borja, CIA, CFE, Utility Chief Support Services Officer
Sherri Hampton, Division Manager, Human Resource Services
Danielle Lord, Division Manager, Supply Chain Management
Frankie Casarez, Fleet Program Manager
Terry Delaney, Acting Division Manager, Facility Management
Leslie Jansen, IAP, Internal Auditor II
Sean Morris, CIA, Internal Auditor II
Michael Yamma, Internal Auditor I

ATTACHMENT
Status of Audit Recommendations, as of 9/4/2018

Recommendation No. & Text	Responsible Party	Current Condition	Current Status	Expected Implementation Date
Fuel Audit #201010, 1/21/2011				
Finding 3: Accounting for Fuel Costs: Recommendation 3.1 The Assistant Director of Finance and Business Services should work with the City's Fleet Services Program Manager to obtain access to Fleet Services' Database, M5, and ensure that the Utility's Fleet Coordinator provides miscellaneous fuel card usage reports to Utility management on a periodic basis. The Coordinator may be able to program these reports so they are emailed directly to management.	Frankie Casarez, Supply Chain Management, Fleet Program Manager	The Fleet Program Manager has access to M5 and miscellaneous fuel card usage reports are periodically provided to fuel card custodians. Management has an opportunity to strengthen the process by providing the reports monthly as specified in the Fuel Card Policy put in place after the original audit.	Implemented	N/A
Internal Controls Review of Cash Handling in HRSD #201411, 2/24/2014				
Recommendation 1 The Division Manager of Human Resource Services should explore opportunities for utilizing the Utility's Cashier's Office to receive collections currently received by HRSD staff.	Sherri Hampton, Human Resource Services, Division Manager	All Public Information Request payments reviewed were received by the Cashier's Office and overpayments are no longer received by Human Resource Services.	Implemented	N/A
Recommendation 3 The Division Manager of Human Resource Services should ensure that the two payroll overpayments not received by Corporate Payroll are investigated and resolved	Sherri Hampton, Human Resource Services, Division Manager	According to the Division Manager of Human Resource Services, these overpayments could not be located and they do not plan to pursue them. The current process for receiving overpayments utilizes Human Resource Services as a facilitator only, and overpayments are handled through payroll deduction or the employee is asked to deliver their overpayment directly to Corporate Payroll.		N/A
Recommendation 4 The Division Manager of Human Resource Services should ensure that staff members are familiar with records retention requirements for cash handling records, and that these requirements are met by HRSD staff.	Sherri Hampton, Human Resource Services, Division Manager	Since Human Resource Services staff no longer handle cash, this recommendation is no longer applicable.	N/A	N/A
Follow-up on Cash Receiving Areas in Austin Water #201411, 4/3/2015				
Recommendation 1 The Division Manager of Facility Management should determine if the Division will continue providing Feminine Products. If so, the Division Manager should establish a collection process in accordance with the City's Cash Handling Policy. If not, the Division Manager should ensure all machines are taken out of service and clearly marked as such.	Augie Cancino, Facility Management, Division Manager	Prior follow-up confirmed that women's restrooms that contained coin-operated machines at Waller Creek Center were removed. Since the previous follow-up, machines at Glen Bell Service Center were removed in two restrooms and a third was covered by lockers and is inaccessible.	Implemented	N/A

ATTACHMENT
Status of Audit Recommendations, as of 9/4/2018

Recommendation No. & Text	Responsible Party	Current Condition	Current Status	Expected Implementation Date
Contract Compliance Audit #201414, 1/2/2015				
Recommendation 1.1				
The Division Manager of Budget and Accounting should ensure that when contracts are awarded or renewed, staff members provide contract managers with: (a) Austin Water's Contract Compliance Roles & Responsibilities handout; and (b) guidance concerning the Supplemental Purchase Provisions for their contract.	Andy Ramirez, Supply Chain Management, Contract Management Supervisor II	The Purchase Request Form Questionnaire was updated to include Austin Water's Contract Compliance Roles & Responsibilities, and related guidance was provided to Utility management. Supply Chain Management staff plan to include the handout and Supplemental Purchase Provisions in eCapris. At the time of the audit, only one contract in eCapris contained the Roles & Responsibilities handout and guidance for Supplemental Purchase Provisions	Partially Implemented	9/30/2018
Contract Compliance Audit II #201415, 1/2/2015				
Recommendation 1.2				
The Division Manager of Budget and Accounting should ensure that when contracts are awarded or renewed, staff members provide contract managers with: (a) Austin Water's Contract Compliance Roles & Responsibilities handout; and (b) guidance concerning the Supplemental Purchase Provisions for their contract.	Andy Ramirez, Supply Chain Management, Contract Management Supervisor II	The Purchase Request Form Questionnaire was updated to include Austin Water's Contract Compliance Roles & Responsibilities, and related guidance was provided to Utility management. Supply Chain Management staff plan to include the handout and Supplemental Purchase Provisions in eCapris. At the time of the audit, only one contract in eCapris contained the Roles & Responsibilities handout and guidance for Supplemental Purchase Provisions.	Partially Implemented	9/30/2018
Allegation of Gift Policy Violation #201709, 11/2/2017				
Recommendation 1				
The Assistant Director of Operations should consult with Human Resource Services to determine appropriate corrective action regarding the potential violation of City Code, Personnel Policies on Solicitation and Acceptance of Gifts, Administrative Bulletin 14-03, Gifts or Favors: Acceptance and Solicitation; Games of Chance, and Administrative Bulletin 06-03, Fraud, Waste, and Abuse Reporting, Investigation and Prevention.	Rick Coronado, Assistant Director, Operations	Management in Operations was educated on the City's gift policy during a Supervisor Roundtable in January 2018.	Implemented	N/A



AUDIT REPORT
Internal Audit Division

Fiscal Year 2017 Follow-Up on Open Audit Recommendations

201708

March 12, 2018





City of Austin | Austin Water
P.O. Box 1088 Austin, TX 78767
AustinWater.org

March 12, 2018

Utility Audit Committee Members:

Greg Meszaros, Director
David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Operations
Kevin Critendon, P.E., Assistant Director, Water Resources Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation

Austin Water
625 E. 10th St., Suite 800
Austin, TX 78701

Dear Utility Audit Committee Members:

Internal Audit is pleased to report the results of the Fiscal Year (FY) 2017 Follow-up on Open Audit Recommendations (#201708). This follow-up audit was included in the Approved Audit Plan for FY 2017.

The audits included in this follow-up were completed between FY 2009 and FY 2015 and included 22 recommendations from Business Services, Financial Services, Operations, the Director's Office, and the Capital Contracting Office. A complete listing of all recommendations included in this report can be found in the Attachment.

The objectives of this follow-up audit were to obtain a status report on the implementation of recommendations in the original audit report and verify the reported status of corrective action. The scope of this audit was from the date of each prior audit report to current.

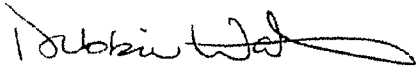
In summary, we concluded that fourteen recommendations were implemented by management, seven recommendations were partially implemented, and one recommendation was not implemented. Internal Audit will review the status of the eight recommendations that remain open as new implementation dates become due.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Debbie Walters, CIA, CGAP, CFE, Division Manager of Internal Audit led this project with the assistance of Leslie Jansen, IAP, Internal Auditor II, Sean Morris, Internal Auditor II, and Mike Yamma, Internal Auditor I.

Utility Audit Committee
March 12, 2018
Page 2

We appreciate the assistance of staff in Business Services, Financial Services, Operations, the Director's Office, and the Capital Contracting Office. If we can provide further assistance, please call me at 512-972-0438.

Sincerely,



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

Attachment

cc: Anna Bryan-Borja, CIA, CFE, Utility Chief Support Services Officer
Denise Avery, Chief Administrative Officer
Mercedes Garcia-Lopez, P.E., Wastewater Operations Manager
Augie Cancino, Division Manager, Facility Management
Songli Floyd, CPA, Division Manager, Budget and Accounting
Eric Garcia, Division Manager, Construction Rehabilitation Services
Joseph Gonzales, CPA, Division Manager, Financial Management
Rick Harland, Division Manager, Supply Chain Management
Rick Verardi, Division Manager, Security Management
Frankie Casarez, Fleet Program Manager
Leslie Jansen, IAP, Internal Auditor II
Sean Morris, Internal Auditor II
Mike Yamma, Internal Auditor I

ATTACHMENT
Status of Audit Recommendations, as of 3/12/2018

Recommendation No. & Text	Responsible Party	Current Condition	Current Status	Expected Implementation Date
Brass and Copper Materials Audit #200807, 12/9/2008				
Finding 2: Security of Facilities and Scrap Bins				
Recommendation 2.1: The Division Manager of Financial Management should ensure that the security upgrades and enhancements are fully implemented for the East Service Center, Glen Bell and Webberville Service Center locations for the plans that were approved by City Council on October 16, 2008.	Rick Verardi, Security Management, Division Manager	Implementation of the Enterprise Security Access System was completed at the Timothy Louviere, Glen Bell, and Webberville Service Centers.	Implemented	NA
Procurement Audit #200905, 11/6/2009				
Finding 1: Compliance with Procurement Policy				
Recommendation 1.4: The Division Manager of Budget and Accounting should implement the procurement policy on non-compliance, which calls for written warnings or cancelling cardholder accounts, for cardholders who are not in compliance with the procurement policy.	Songli Floyd, Budget and Accounting, Division Manager	Central Purchasing is now responsible for enforcing non-compliance of the Procurement Policy. Austin Water may recommend suspension of cards if there are ongoing, unaddressed concerns; however, to date there has not been a need to do so.	Implemented	NA
Fuel Audit #201010, 1/21/2011				
Finding 1: Policies and Procedures				
Recommendation 1.1: The Utility Director should ensure that policies and procedures are developed to address controls over miscellaneous fuel cards, fuel cans, and fuel truck deliveries, such as securing cards and cans and monitoring and controlling fuel and fuel can usage. These policies and procedures should clearly define rules, roles, and responsibilities over these processes within the Utility.	Frankie Casarez, Supply Chain Management, Fleet Program Manager	The Utility's Fuel Card Policy was approved in 2017. While controls over fuel cans are not specifically addressed, management concluded that other controls implemented in accordance with the policy are adequate to address the underlying concern and satisfy the intent of the recommendation.	Implemented	NA
Recommendation 1.2: The Utility Director should assign responsibility for (1) ensuring that these policies and procedures are implemented; (2) ensuring that all relevant employees receive copies of these policies and procedures, and (3) ensuring that all relevant employees receive formal training over the usage of miscellaneous fuel cards, to the Assistant Director of Finance and Business Services.	Frankie Casarez, Supply Chain Management, Fleet Program Manager	The Utility's Fuel Card Policy was approved and distributed in 2017. Per the Division Manager of Supply Chain Management, all employees received a copy of the policy, which is the guidance and training for relevant employees. As signed fuel card agreements were not available for review, this recommendation remains open.	Partially Implemented	3/31/2018

ATTACHMENT
Status of Audit Recommendations, as of 3/12/2018

Recommendation No. & Text	Responsible Party	Current Condition	Current Status	Expected Implementation Date
Finding 2: Monitoring Fuel Purchases				
Recommendation 2.2: In conjunction with Recommendation 1.1, the Assistant Director of Finance and Business Services should ensure that managers promptly review fuel usage reports for discrepancies in expected use, and work with the Utility's Fleet Coordinator to make corrections as needed.	Frankie Casarez, Supply Chain Management, Fleet Program Manager	In January 2018, all 2017 transactions were emailed to miscellaneous fuel card holders with a deadline for explaining usage over a given threshold (200 gallons). In addition, a process was established for ongoing, monthly distribution of miscellaneous fuel usage reports.	Partially Implemented	3/31/2018
Finding 3: Accounting for Fuel Costs				
Recommendation 3.1: The Assistant Director of Finance and Business Services should work with the City's Fleet Services Program Manager to obtain access to Fleet Services' Database, M5, and ensure that the Utility's Fleet Coordinator provides miscellaneous fuel card usage reports to Utility management on a periodic basis. The Coordinator may be able to program these reports so they are emailed directly to management.	Frankie Casarez, Supply Chain Management, Fleet Program Manager	The Fleet Program Manager has read-only access to M5. In January 2018, a process was established for ongoing, monthly distribution of miscellaneous fuel usage reports.	Partially Implemented	3/31/2018
Recommendation 3.3: The Assistant Director of Finance and Business Services should ensure that miscellaneous fuel card usage is periodically reviewed for inactivity and that inactive cards in each program area are deactivated if they are no longer needed.	Frankie Casarez, Supply Chain Management, Fleet Program Manager	A periodic review was conducted in 2017 resulting in the deactivation of additional cards.	Implemented	NA
Finding 4: Fuel Truck Delivery Process				
Recommendation 4.2: The Assistant Director of Pipeline Operations should ensure that the amount of fuel obtained and distributed by the fuel truck is periodically reconciled. Fleet Services may be able to take on this responsibility.	Rick Coronado, Operations, Assistant Director	Reconciliation of fuel obtained and distributed by the fuel truck has continued during the time period under review.	Implemented	NA
Premium Time Audit #201209, 12/6/2012				
Finding 1: Time and Attendance Records Retention Recommendation 1.1: The Administrative Manager for the Director's Office should develop a Utility policy on record retention guidance and communicate it to all program areas.	Denise Avery, Office of the Director, Chief Administrative Officer	Two SOPs for records retention were created and communicated as recommended.	Implemented	NA
Contract Compliance Audit of Water Meters Contract #201312, 7/31/2013				
Finding 1: Ensuring Timely Testing of Meters				
Recommendation 1.1: The Division Manager of Budget and Accounting should coordinate with the Division Manager of Meter Maintenance to establish timelines and a tracking mechanism for new meter accuracy testing.	Jerry Perez, Supply Chain Management, Inventory Control Supervisor II	While the Warehouse and Meter Shop each have their own internal processes and timelines, the Division Manager of Supply Chain Management will coordinate with the Division Manager of Water Meter Operations to establish a systemic and sustainable solution to join and document their processes and timelines. This will include looking at reporting options available in IPS.	Partially Implemented	4/30/2018

ATTACHMENT
Status of Audit Recommendations, as of 3/12/2018

Recommendation No. & Text	Responsible Party	Current Condition	Current Status	Expected Implementation Date
Finding 2: Returning Meters that Fail Accuracy Testing Recommendation 2.1: The Division Manager of Budget and Accounting should provide oversight to ensure that new meters that fail the accuracy test are returned to the vendor promptly.	Jerry Perez, Supply Chain Management, Inventory Control Supervisor II	All meters that failed testing during FY 2017 were promptly returned to the vendor.	Implemented	NA
Recommendation 2.2: The Division Manager of Budget and Accounting should ensure that the current inventory of failed meters are either appropriately scrapped or returned to the respective vendor.	Jerry Perez, Supply Chain Management, Inventory Control Supervisor II	A sample of approximately 25% of failed meters from the original audit were reviewed in Hansen and/or CC&B. According to Hansen, the meters were scrapped in 2013.	Implemented	NA
Finding 3: Returning Meters with Inaccurate Serial Numbers Recommendation 3.1: The Division Manager of Budget and Accounting should provide oversight to ensure that meters that do not meet the contract's specifications are not accepted.	Jerry Perez, Supply Chain Management, Inventory Control Supervisor II	The Division Manager of Supply Chain Management has provided oversight to Austin Water staff, as well as the vendor, reiterating the Utility's position on returning meters that do not meet contractual specifications.	Implemented	NA
Facilities Security Audit #201406, 7/9/2014				
Finding 1: Contractors Provide Identification Badges to Subcontractors and Employees Recommendation 1.1: The Division Manager of the Security Management Division should work with the Treatment Water Operations Manager and the Treatment Wastewater Operations Manager to ensure that the Facility Security Procedure for Contractors, SP-1070, is implemented and enforced at the Treatment Plants.	Rick Verardi, Security Management, Division Manager	SP-1070 is not implemented and enforced at the treatment plants. Seven (6%) of 109 contractor employees were in compliance with the policy.		3/5/2018
Allegation Involving North Service Center Building Repairs #201409, 1/22/2014				
Recommendation 1 The Assistant Director of Finance and Business Services should ensure that the planned guidance on facilities projects is issued promptly.	Augie Cancino, Facility Management, Division Manager	The Director's memo, Clarification of Facility Maintenance Duties, was distributed to all Austin Water employees in February of 2014.	Implemented	NA
Recommendation 3 The Assistant Director of Finance and Business Services should ensure that the electrical outlets at the North Service Center are tested by a licensed electrician to ensure they are safe to use.	Augie Cancino, Facility Management, Division Manager	Per the Division Manager of Facility Management, an in-house, licensed electrician inspected the outlets. However, documentation of the inspection could not be provided as the electronic work order system currently used to track facilities work orders was not consistently used during that time. Management has accepted the risk associated with no documentation showing the inspection took place.	Implemented	NA

ATTACHMENT
Status of Audit Recommendations, as of 3/12/2018

Recommendation No. & Text	Responsible Party	Current Condition	Current Status	Expected Implementation Date
Follow-up on Cash-Receiving Areas in Austin Water #201411, 4/3/2015				
Recommendation 1: The Division Manager of Facility Management should determine if the Division will continue providing Feminine Products. If so, the Division Manager should establish a collection process in accordance with the City's Cash Handling Policy. If not, the Division Manager should ensure all machines are taken out of service and clearly marked as such.	Augie Cancino, Facility Management, Division Manager	All coin-operated machines in Women's restrooms at Waller Creek Center were removed. Three coin-operated machines at Glen Bell Service Center remain in place with no signage indicating that they should not be used.	Partially Implemented	1/31/2018
Contract Compliance Audit #201414, 1/2/2015				
Finding 1: Living Wage Certifications Recommendation 1.1: The Division Manager of Budget and Accounting should ensure that when contracts are awarded or renewed, staff members provide contract managers with: (a) Austin Water's Contract Compliance Roles & Responsibilities handout; and (b) guidance concerning the Supplemental Purchase Provisions for their contract.	Andy Ramirez, Supply Chain Management, Contract Management Supervisor II	Sufficient documentation could not be provided to verify that this recommendation has been fully implemented.	Partially Implemented	3/31/2018
Contract Compliance Audit II #201415, 1/2/2015				
Finding 1: Location of Contract Documentation Recommendation 1.1: The Division Manager of Budget and Accounting should ensure that staff obtain each of the documents that the contract is composed of, as stated in the contract, and retain them in the departmental contract administration file.	Andy Ramirez, Supply Chain Management, Contract Management Supervisor II	Per the Division Manager of Supply Chain Management, all master agreements are stored electronically in EDIMS (Enterprise Document Imaging and Management System). Required documents for the current Pure Technologies contract were located in EDIMS.	Implemented	NA
Recommendation 1.2: The Division Manager of Budget and Accounting should ensure that when contracts are awarded or renewed, staff members provide contract managers with: (a) Austin Water's Contract Compliance Roles & Responsibilities handout; and (b) guidance concerning the Supplemental Purchase Provisions for their contract.	Andy Ramirez, Supply Chain Management, Contract Management Supervisor II	Sufficient documentation could not be provided to verify that this recommendation has been fully implemented.	Partially Implemented	3/31/2018
Davis-Bacon Compliance Audit #201416, 1/30/2015				
Finding 1: Following TWDB's Specific Davis-Bacon Requirements Recommendation 1.1: The Utility Financial Manager in Austin Water's Financial Management Division should develop a Standard Operating Procedure to ensure that appropriate staff are made aware of all applicable federal and grantor-specific grant reporting requirements.	Kristi Fenton, Financial Management, Utility Financial Manager	The SOP was created and addresses roles and responsibilities for grant project managers and Austin Water staff.	Implemented	NA

ATTACHMENT
Status of Audit Recommendations, as of 3/12/2018

Recommendation No. & Text	Responsible Party	Current Condition	Current Status	Expected Implementation Date
Finding 2: Monitoring Wage Compliance Recommendation 2.1: The Division Manager of CMD's Contract Development and Administration Division should review the Division's established procedures for monitoring compliance with Davis-Bacon requirements, update the procedures if needed, and remind CMD staff of established procedures.	Cynthia Gonzales, Capital Contracting Office, Contract Development and Administration Division Manager	The Capital Contracting Office updated its SOP for wage monitoring and holds weekly staff meetings where processes are included in the agenda.	Implemented	NA



AUDIT REPORT

Internal Audit Division

Annual Ethics Report Fiscal Year 2017

201805

February 20, 2018





City of Austin | Austin Water
P.O. Box 1088 Austin, TX 78767
AustinWater.org

February 20, 2018

Utility Audit Committee Members:

Greg Meszaros, Director
David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Operations
Kevin Critendon, P.E., Assistant Director, Water Resources Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation

Austin Water
625 E. 10th St., Suite 800
Austin, TX 78701

Dear Utility Audit Committee Members:

Internal Audit is pleased to present the Austin Water Annual Ethics Report (#201805). This report records Austin Water's integrity-related activities in Fiscal Year (FY) 2017, compares results to FY 2012 through FY 2016 where possible, and draws conclusions about Austin Water's ethical environment. FY 2017 ethics strategies for Austin Water's Ethics Initiative focused on communication, training, and monitoring.

Communication

The importance of ethics was communicated in a variety of ways to Austin Water employees in FY 2017. A link to the Annual Ethics Report for Fiscal Year 2016 was included in Austin Water E-News; and throughout the year, there were 45 ethics-related articles related to training opportunities and ethics policy in Austin Water E-News, CitySource, and HR Update publications. Additionally, the Division Manager of Internal Audit and the Ethics Single Point of Contact (SPOC) periodically emailed ethics-related information to Austin Water Executives, Division Managers, and Supervisors. The Director of Austin Water (Director) and the Interim City Manager also emailed Austin Water employees reminding them of required annual ethics training.

During Austin Water New Employee Orientation, Internal Audit staff discussed ethics-related topics and provided employees with resources including the City's Administrative Bulletin on Fraud, Waste, and Abuse Reporting, Investigation, and Prevention.

Austin Water management continued to support the importance of ethics by including ethics in the Effective Utility Management (EUM) Framework under Employee and Leadership Development, and including ethics in both supervisor and employee Success Strategy Performance Review (SSPR) templates in FY 2017.

Additionally, with the assistance of staff in the Public Information Division and the Executive Team, the Ethics SPOC initiated an ethics campaign to roll out Ethics flyers, posters, and comment cards at all Austin Water locations.

Training

During FY 2017, Austin Water employees participated in training events that conveyed integrity-related expectations and were presented by City of Austin and/or Austin Water staff.

1. **Annual CityEthics Training** - Austin Water achieved 100% participation in Annual CityEthics training which included 1,122 regular and temporary employees. Austin Water has achieved 100% participation in Annual CityEthics training since FY 2011.
2. **City Ethics for New Employees** – Employees are required to take CityEthics for New Employees training within the first six months of employment. There were 116 employees who participated in CityEthics for New Employees training.
3. **City Ethics for Supervisors** – New supervisors attend CityEthics training as part of Supervisor Academy. This training is different than the annual required CityEthics training and participants are required to complete this training to graduate from Supervisor Academy. There were 9 employees who attended this training.
4. **Supervisor Boot Camp** – Austin Water Supervisor Boot Camp was coordinated by the Austin Water Human Resource Services Division (HRSD). There were 14 employees who attended Supervisor Boot Camp in FY 2017. Although the agendas did not include specific ethics training, participants received ethics-related information on a flash drive.
5. **Leadership Summit** - During the April 2017 Leadership Summit, the Director and a keynote speaker shared ethics and integrity messages with Austin Water Managers and Supervisors.

Additionally, Austin Water adopted an Outside Employment Standard Operating Procedure (SOP), and notified all employees of the SOP in June 2017.

Monitoring

Monitoring included the following activities:

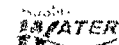
1. **Listening to the Workforce** - Annually, the City of Austin's Human Resources Department conducts a survey of all regular City employees entitled Listening to the Workforce. The FY 2017 survey included eight ethics-related questions and multiple choice answer options allowing employees to provide favorability ratings. The results for each question were categorized into: Good Results (80% or higher); Fair Results (60%-79%); and Poor Results (59% or lower). These categories were developed by Austin Water Internal Audit.

In FY 2017, 411 (38%) of 1,086 Austin Water employees provided responses to the Listening to the Workforce survey. This was equal to the overall Citywide response rate. On average, Austin Water survey results for ethics-related questions indicated an overall increase of 3% favorability from 2016 to 2017. All but one ethics-related question received an increase in favorability. The one question that remained the same was #15, *Management in my department sets a good example by following the laws and policies that apply to their jobs*. The rating for this question remained at 59% favorability. One question was elevated into the Good Results category. That question was #16, *If I become aware of unethical behavior, I know how I can report it*. Overall, Austin Water favorability rating was 5% less than the Citywide Average of 69%. Exhibit A details Austin Water employees' favorable (agreed or strongly agreed) responses to the ethics-related questions.



EXHIBIT A
Survey Results for Austin Water, FY 2012 - FY 2017

Survey Question	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Change FY 2016 to FY 2017	Citywide FY 2017
Good Results (80% or higher)								
If I become aware of unethical behavior, I know how I can report it.	88%	83%	81%	79%	78%	82%	4%	86%
Fair Results (60% - 79%)								
I am familiar with where to look for city ethics guidance (such as the CityEthics website, City Code, Personnel Policies, and Administrative Bulletins).	-	-	76%	77%	78%	79%	1%	83%
I am familiar with the Administrative Bulletin on "Fraud, Waste, and Abuse Prevention."	89%	89%	71%	70%	71%	76%	5%	73%
Employees in my work group behave ethically in the workplace.	69%	71%	66%	69%	67%	69%	2%	74%
Fair Results (60% - 79%)								
Management in my department sets a good example by following the laws and policies that apply to their jobs.	-	-	60%	60%	59%	59%	0%	69%
Employees in my work group can report any unethical behavior they see without fear of retaliation.	53%	56%	52%	48%	48%	53%	5%	59%
I am confident that quick and decisive action will be taken by my department if wrongdoing is discovered in my work group.	46%	48%	50%	50%	47%	50%	3%	56%
If I have a complaint in my department, it will be handled fairly.	45%	46%	43%	45%	43%	44%	1%	52%
AVERAGES	65%	66%	62%	62%	61%	64%	3%	69%



2. **Investigations** - Fraud, waste, abuse, ethical, or integrity-related concerns were investigated by Austin Water Internal Audit, Austin Water Human Resource Services Division, or the Office of the City Auditor Integrity Unit (CAIU). Internal Audit reviewed cases from each of these three sources and concluded that in FY 2017 there were nine separate ethics-related cases involving Austin Water employees. Six cases were substantiated (proven), two were unsubstantiated (disproven), and one was unknown (referred to other, outcome not documented) as of 02/20/2018. Exhibit B includes case results from FY 2012 through FY 2017. Exhibit C further describes substantiated case violations and resulting actions taken.

EXHIBIT B
Case Results by Fiscal Year

Case Result	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Substantiated (<i>proven</i>)	4	0	5	3	5*	6
Unsubstantiated (<i>disproven</i>)	14	3	8	3	5*	2
Inconclusive (<i>unable to prove or disprove</i>)	0	0	0	0	0	0
No Action (<i>did not receive sufficient information to pursue</i>)	2	0	0	0	0	0
Unknown (<i>referred to other, outcome not documented</i>)	0	0	0	1	0	1
Ongoing Investigation	0	0	0	0	0*	0
Closed Investigation – Employee Resigned	-	-	-	-	1	0
Total Number of Cases	20	3	13	7	11	9

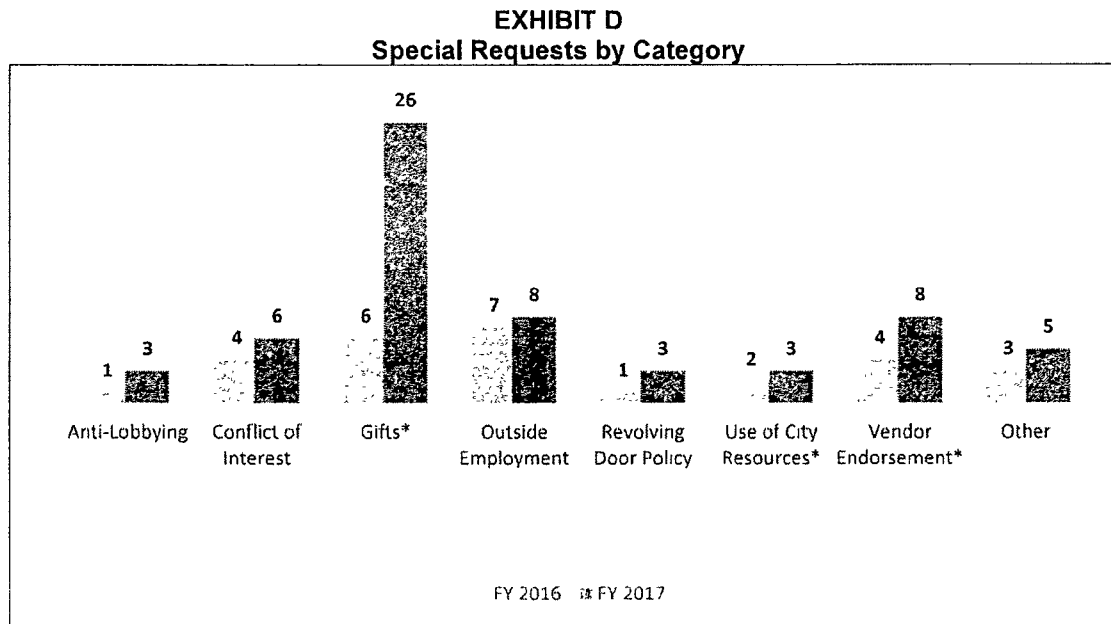
*The FY 2016 report listed two Ongoing Investigations. The FY 2016 numbers were updated based on the outcomes of these investigations. One allegation was substantiated and the other was unsubstantiated.

EXHIBIT C
Substantiated Violations and Resulting Actions, FY 2017

Case	Violation	Action
1*	Waste	No action – de minimis
2	Misuse of City Resources	Written Warning
3	Misuse of City Resources	Discharged
4	Acceptance of Door Prizes	Education
5	Misuse of City Resources	Employee Resigned in Lieu of Discharge
6	Misuse of City Resources	Suspension and Probation
7	Misuse of City Resources Theft – Timesheet Secondary Employment	Demotion and Probation

* Case that was reported as ongoing in FY 2016 and has since closed as substantiated.

3. **Special Requests** - In FY 2017, employees continued to seek work-related ethical advice from the Austin Water Ethics SPOC. Sixty special requests related to fraud, waste, abuse, or ethical concern were received in FY 2017 and addressed. Exhibit D shows the number of special requests by category including the comparison between FY 2016 and FY 2017 requests.



* Two requests were related to three different categories.

When employees proactively seek ethics-related guidance, they are provided the ability to make appropriate ethical decisions, which in turn benefits the overall organizational culture. In FY 2017, four employees were formally recognized by the Director for doing the right thing and following guidance provided regarding gifts.

In addition to the above monitoring activities, an Austin Water Ethics Pledge is currently under development, and will be rolled out to Austin Water staff during FY 2018.

Conclusion

In FY 2017 Austin Water continued to focus on improving its ethical environment. This is evident through management's monitoring of required employee ethics training attendance, providing ethics-related training in Austin Water New Employee Orientation, distributing ethics-related articles and resources, including ethics as a priority in SSPRs, having a departmental Ethics SPOC where employees can seek ethics-related advice, and including ethics in the EUM Framework. While, on average, Listening to the Workforce results for ethics-related questions remained fair, opportunities remain for improvement in this area.

AUSTIN
WATER

Going Forward

Internal Audit will collaborate with other divisions in Austin Water to focus on the following ethics strategies in FY 2018, and work with the Executive Team to refine these strategies.

1. Communication

- Publish the FY 2017 Ethics Report,
- Share ethics-related communications with management and staff,
- Continue Utility-wide ethics campaign,
- Continue development and roll-out of the Austin Water Ethics Pledge, and
- Continue to promote ethics through the EUM Initiative.

2. Training

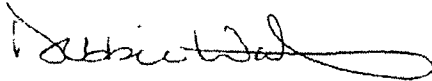
- Track and report required ethics training compliance,
- Provide ethics-related training as part of the agenda for Austin Water Supervisor Boot Camp, and
- Propose additional Utility-wide training in coordination with the Executive Team.

3. Monitoring

- Report results of ethics-related questions in the Listening to the Workforce Survey,
- Continue to respond to and track Austin Water ethics-related special requests and questions,
- Track and report Austin Water related substantiated violations, and
- Coordinate with the Executive Team to determine if additional monitoring activities are needed.

We welcome your feedback on this Annual Ethics Report and look forward to working with you as we continue our efforts to support Austin Water's ethics initiatives.

Sincerely,



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

cc: Anna Bryan-Borja, CIA, CFE, Utility Chief Support Services Officer
Sherri Hampton, SPHR & SCP, Division Manager, Human Resource Services
Teri Pennington, CISSP, Chief Information Officer
Leslie Jansen, IAP, Internal Auditor II
Sean Morris, Internal Auditor II



AUDIT REPORT

Internal Audit Division

INTERNAL AUDIT QUALITY ASSURANCE REVIEW

M105

January 12, 2018





City of Austin | Austin Water
P.O. Box 1088 Austin, TX 78767
AustinWater.org

January 12, 2018

Utility Audit Committee Members:

Greg Meszaros, Director
David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Operations
Kevin Critendon, P.E., Assistant Director, Water Resources Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation

Austin Water
625 E. 10th St., Suite 800
Austin, TX 78701

Dear Utility Audit Committee Members:

We are pleased to present the results of the Austin Water Internal Audit Division's Quality Assurance Review (#M105). Internal Audit's Fiscal Year 2017 Approved Audit Plan authorized a Quality Assurance Review of the Internal Audit Division, including a self-assessment and review by an external consultant to determine whether the Division is in compliance with the *International Standards for the Professional Practice of Internal Auditing*.

Background

The Internal Audit Division is located within the Business Services Area of Austin Water. The team is led by a Division Manager (Chief Audit Executive) who reports to the Utility Chief Support Services Officer, and has a staff of three full-time auditors.

As early as 1989, employees within the Financial Management Division of Austin Water performed some internal audit-related duties such as auditing revenues on a part-time basis. Internal Audit consisted of two employees from 1997-1998 and one employee from 1998-2004. In 2004, Austin Water established Internal Audit as a separate work unit consisting of three employees, assigned it a discrete budget, and hired an Internal Audit Manager who reported directly to the Assistant Director of Finance and Business Services. In 2005, the Internal Audit Charter was approved. In 2007, Internal Audit was elevated to Division status in Austin Water, and two additional auditor positions were added. In 2010, Internal Audit began reporting to the Director of Austin Water. This change was made to strengthen Internal Audit's organizational independence based on a recommendation from the 2007 Quality Assurance Review. Following a reorganization

in 2015, Internal Audit began reporting to the Utility Chief Support Services Officer and continues to do so today.

The Internal Audit Charter (Charter) establishes Internal Audit's utility-wide authority, and defines the scope of work to include risk management, control, and governance processes. It also establishes that the Utility Audit Committee (Committee) consists of the Utility Director and Assistant Directors, requires that the Committee review and approve the Annual Audit Plan, and states that all audit results will be communicated directly to the Committee. According to the Charter, Internal Audit's work shall remain free from interference, and Internal Audit is authorized to have unrestricted access to all Austin Water functions, activities, locations, property, and personnel, including the Utility Audit Committee, Utility Director, Assistant Directors, and other management personnel.

The Charter also requires that Internal Audit's work be conducted in accordance with the Institute of Internal Audit's (the IIA) Mandatory Guidance, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing* (the *Standards*), and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance.

The *Standards* require the Chief Audit Executive to develop and maintain a quality assurance and improvement program and to undergo an external assessment by a qualified, independent assessor from outside the organization at least once every five years. The Chief Audit Executive is defined as a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. Internal Audit underwent its first Quality Assurance Review in 2007, and a second review was completed in 2012. Each review concluded that Internal Audit generally conformed to the *Standards*.

Objective & Scope

The objective of this project was to complete a self-assessment and review by external consultant to determine whether the Utility's Internal Audit Division is in compliance with the *International Standards for the Professional Practice of Internal Auditing*.

The scope of this project included all Internal Audit policies, procedures, activity reports, and other records. Fieldwork testing focused on projects completed during the period of October 1, 2015 through September 30, 2017.



Methodology

To complete this project, we performed a Self-Assessment with Independent Validation. The assessment team completed a self-assessment in accordance with the Institute of Internal Audit's *Quality Assessment Manual for the Internal Audit Activity*, and obtained the services of a qualified external party to review and validate the self-assessment results. We performed the following steps to complete the self-assessment:

- Reviewed the *Standards* and the *Quality Assessment Manual*;
- Reviewed and assessed documents related to internal audit governance, staff, management, and processes;
- Selected and reviewed a sample of completed audit engagements to determine the internal audit activity's level of conformance with the *Standards* and the efficiency and effectiveness of the activity; and
- Prepared an overall self-assessment and concluded on Internal Audit's conformance with the *Standards* based on the following scale:
 - **Generally Conforms** – This is the top rating, which means that an internal audit activity has a charter, policies, and processes, and the execution and results of these are judged to be in conformance with the *Standards*.
 - **Partially Conforms** – Deficiencies in practice are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities.
 - **Does Not Conform** – Deficiencies in practice are judged to be so significant that they seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The independent validation was conducted by Richard H. Tarr, CIA, CISA. Mr. Tarr is an internal audit and information systems (IT) consultant who specializes in quality assurance reviews of internal audit departments in both the public and private sectors.

Overall Opinion

Based on the work performed, we concluded that the Austin Water Internal Audit Division **generally conforms** to the *International Standards for the Professional Practice of Internal Auditing*. For a detailed list of conformance with individual *Standards*, please see Appendix A.

Austin
Water

Independent Validation

The Independent Validator concurred that Austin Water Internal Audit generally conforms to the *Standards*. In addition, the Independent Validator made four recommendations to further improve the value, efficiency, and effectiveness of the audit work being performed:

1. Increase the frequency of, and the opportunities for the Internal Audit Division Manager to communicate with the Austin Water Director and senior staff;
2. Continue to incorporate consideration of risk factors into the annual audit planning process;
3. Continue to develop the use of automated data analysis tools and continuous auditing techniques; and
4. Identify how Austin Water and the City of Austin can improve upon the communication and coordination of IT projects.

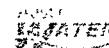
The Independent Validator's Report is located at Appendix B, and it includes additional information about these recommendations.

Through the self-assessment, the team identified several best practices and noted one observation that resulted in a recommendation to strengthen organizational independence. Details are included in the following sections.

Best Practices

The following best practices are employed by the internal audit activity.

- **Promotion of Appropriate Ethics and Values within the Organization** - Austin Water's Ethics Initiative focuses on communication, training, and monitoring activities. The Chief Audit Executive is Austin Water's Ethics Single Point of Contact (SPOC) for employees' ethical concerns, and each Internal Audit team member is involved in the Ethics Initiative. Additionally, the Chief Audit Executive participates in the Utility's Effective Utility Management Initiative as a member of the Employee and Leadership Development Team, which includes a focus on employee safety, integrity, and social equity.
- **Monitoring Progress** – The Internal Audit Division continues to utilize SharePoint to monitor the disposition of open audit recommendations. In Fiscal Year 2017, the Division completed a Follow-up Audit Process Improvement project to address the backlog of open audit recommendations and ensure timely implementation and closing of future audit recommendations.
- **Proficiency** – The Chief Audit Executive is a Certified Internal Auditor, Certified Government Auditing Professional, and a Certified Fraud Examiner, and all three team members are currently pursuing the Certified Internal Auditor credential.



Each staff member is required to review the IIA's International Professional Practices Framework, including the Definition of Internal Auditing, the Code of Ethics, and the *Standards* annually.

- **Quality Assurance and Improvement Program** – Each engagement is supervised by the Chief Audit Executive. Standardized work processes, templates, and quality expectations are clearly defined in the Internal Audit Policies and Procedures Manual. The team utilizes a Customer Satisfaction Survey at the end of each engagement. Audit team members are held accountable for specific quality metrics. The activity's current Quality Assurance Review was conducted within the prescribed five-year timeframe.

Observation and Recommendation

1. Organizational Independence

According to the IIA's Mandatory Guidance (Standard 1110), the Chief Audit Executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. Additionally, to enhance stature and credibility, the IIA recommends that the Chief Audit Executive report administratively to the Chief Executive Officer (CEO) so that the Chief Audit Executive is clearly in a senior position, with the authority to perform duties unimpeded.

The Chief Audit Executive reports functionally to the Utility Audit Committee, and all audit results are communicated directly to the Committee and the Committee approves the Internal Audit Charter and the Annual Audit Plan. Organizational independence can be strengthened by having the Chief Audit Executive report to the Utility Director.

Recommendation

1. The Division Manager of Internal Audit should consult with all Utility Audit Committee members to determine if the current administrative line of reporting should be updated to align with the *Standards*.

Action Plan

1. Concur. The Division Manager of Internal Audit will discuss organizational independence and the appropriate administrative reporting line with Utility Audit Committee members by March 31, 2018.

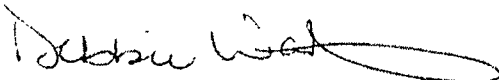
Progress on 2012 Recommendations

Internal Audit completed a Self-Assessment with Independent Validation in 2012, and the Independent Validator identified two opportunities for improvement. Following are each of the recommendations, along with action taken to address each recommendation.

- **Consider implementing an audit management software tool to manage and document audit results.** The Internal Audit Division requested and received funding in the Fiscal Year 2018 budget to purchase TeamMate software. Procurement and implementation planning is currently underway.
- **Consider increasing the use of automated data analysis tools in conducting audit work.** All team members have an Audit Command Language (ACL) software license, and are encouraged to utilize the software during engagements. One team member utilizes ACL for continuous Procard monitoring. The Chief Audit Executive and staff will continue to look for opportunities to utilize automated data analysis tools in conducting audit work.

We appreciate the assistance provided by staff in the Director's Office and the input provided by Utility executives during this review. Please call me at 512-972-0438 if the Internal Audit team can provide further assistance.

Sincerely,



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

cc: Anna Bryan-Borja, CIA, CFE, Utility Chief Support Services Officer
Leslie Jansen, IAP, Internal Auditor II
Sean Morris, Internal Auditor II
Mike Yamma, Internal Auditor I

APPENDIX A: QUALITY ASSESSMENT EVALUATION SUMMARY

(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

Quality Assessment Evaluation Summary—Overall Evaluation	GC	PC	DNC	N/A
OVERALL EVALUATION	✓			

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC	N/A
1000	Purpose, Authority, and Responsibility	✓			
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	✓			
1100	Independence and Objectivity	✓			
1110	Organizational Independence	✓			
1111	Direct Interaction with the Board	✓			
1120	Individual Objectivity	✓			
1130	Impairment to Independence or Objectivity	✓			
1200	Proficiency and Due Professional Care	✓			
1210	Proficiency	✓			
1220	Due Professional Care	✓			
1230	Continuing Professional Development	✓			
1300	Quality Assurance and Improvement Program	✓			
1310	Requirements of the Quality Assurance and Improvement Program	✓			
1311	Internal Assessments	✓			
1312	External Assessments	✓			

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC	N/A
1320	Reporting on the Quality Assurance and Improvement Program		✓		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	✓			
1322	Disclosure of Nonconformance				✓
2000	Managing the Internal Audit Activity	✓			
2010	Planning	✓			
2020	Communication and Approval	✓			
2030	Resource Management	✓			
2040	Policies and Procedures	✓			
2050	Coordination	✓			
2060	Reporting to Senior Management and the Board	✓			
2070	External Service Provider and Organizational Responsibility for Internal Auditing				✓
2100	Nature of Work	✓			
2110	Governance	✓			
2120	Risk Management	✓			
2130	Control	✓			
2200	Engagement Planning	✓			
2201	Planning Considerations	✓			
2210	Engagement Objectives	✓			
2220	Engagement Scope	✓			
2230	Engagement Resource Allocation	✓			

WATER

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC	N/A
2240	Engagement Work Program	✓			
2300	Performing the Engagement	✓			
2310	Identifying Information	✓			
2320	Analysis and Evaluation	✓			
2330	Documenting Information	✓			
2340	Engagement Supervision	✓			
2400	Communicating Results	✓			
2410	Criteria for Communicating	✓			
2420	Quality of Communications	✓			
2421	Errors and Omissions				✓
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	✓			
2431	Engagement Disclosure of Nonconformance				✓
2440	Disseminating Results	✓			
2450	Overall Opinions	✓			
2500	Monitoring Progress	✓			
2600	Communicating the Acceptance of Risks	✓			
	The IIA's Code of Ethics	✓			

SA/AYER
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APPENDIX B: INDEPENDENT VALIDATOR'S REPORT

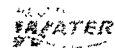
Austin Water

QUALITY ASSURANCE
SELF-ASSESSMENT REVIEW
INDEPENDENT VALIDATION REPORT

December 2017



Prepared by:
Richard Tarr, CIA, CISA
3035 Dawley Avenue
Orlando, FL 32806
Ph: 407.896.2760
E-mail: rtarr@racar.com



Overview

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* require that internal audit activities obtain an assessment through either an external review or a self-assessment quality assurance review, with an independent validation. The Austin Water Internal Audit Division (IAD) chose to conduct a self-assessment quality assurance review with an independent validation.

As an independent reviewer, I was engaged to conduct an independent validation of that self-assessment. The primary objective of the validation was to independently verify the assertions made in the IAD's attached self-assessment report regarding adequate fulfillment of Austin Water's basic expectations of the IAD activity and its conformity to the *IIA Standards*. An additional objective is to provide recommendations that the reviewer deems may be of value to the IAD activity. Matters that might have been reviewed and reported on in a full independent assessment, such as an in-depth analysis of best practices, governance, and use of advanced technology, were excluded from the scope of this review.

In acting as validator, I am fully independent of the City of Austin and Austin Water and have the necessary knowledge and skills to undertake this engagement. The validation was conducted November 6th and 7th, 2017. It consisted primarily of a review and testing of the procedures and documented results of the self-assessment conducted by the IAD staff. It also included a review of a limited sample of the department's workpapers as well as interviews with: the Austin Water Director and Audit Committee Chair, the Assistant Director of Operations, the Assistant Director of Financial Services, the Chief Support Services Officer, the Division Manager of Internal Audit, and the audit staff.

Opinion

Based upon the interviews, workpaper reviews, and a review of the work conducted by the IAD staff, I concur with the conclusions of the IAD Self-assessment Review that the internal audit activity at the Austin Water generally conforms to the applicable *IIA Standards*.

This opinion, representing the best possible evaluation, means that there are in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the *IIA Standards* in all material respects. A review of the workpapers documenting the self-assessment conducted by the IAD team showed that the review was appropriately documented and the opinion appears to have been objectively developed.

The *IIA Standards* are expressed in terms of broad concepts and objectives. Their application requires the exercise of professional judgement. The extent of internal audit policies and procedures and the manner in which they are implemented will depend upon a number of factors such as: staff size and organizational structure, the nature of audit responsibilities, and IAD's philosophy with respect to the degree of operating autonomy.

Variances in individual performance and professional interpretation affect the degree of compliance with internal audit policies and procedures; therefore, adherence to all policies and procedures in every case may not be possible. However, compliance does require adherence to prescribed policies and procedures in the majority of situations.

While I concur with the conclusions and the recommendations in the Self-Assessment Report, the attached recommendations, along with other suggestions that have been discussed with the Division Manager, are intended to build on the foundation that is already in place with the objective of further improving the value, efficiency and efficacy of the audit work being performed by Austin Water's IAD activity.



Richard H. Tarr, CIA, CISA

Observations

The IAD appears to be a very well managed activity that is adding value to the organization. Many of the audit staff have audit related professional certifications and prior audit work experience. Interviews conducted with the Austin Water Director and senior executives indicate that the IAD has strong management support, is meeting expectations, and the scope and type of work performed is addressing what Management believes are the key business risks.

Recommendations

1. Increase the frequency of, and the opportunities for the IAD Manager to communicate with the Austin Water Director and senior staff.

The *IIA Standard*, 1110 - Organizational Independence, requires that the Director of Internal Audit (whoever heads up the internal audit activity) report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The IIA, in its Implementation Guidance 1110: Organizational Independence, recommends that the Internal Audit Director should report functionally to the audit committee and, for administrative purposes, report directly to the chief executive officer of the organization and attend senior staff meetings and other executive meetings where there would be opportunities to discuss governance, risk, and control issues. The current Manager reports to the Chief Support Services Officer. The previous IAD Manager reported to the Austin Water Director, and attended senior staff meetings which allowed her to be more aware of projects and issues and initiate discussions that focused on risks and controls.

If it is intended that the IAD Manager continue to report to the Chief Support Services Officer, then the IAD Manager should have a regularly scheduled monthly meeting with the Austin Water Director and should also meet quarterly, one-on-one with the Assistant Directors. This will help ensure that she is free from interference in determining the scope of internal auditing projects performing work, communicating results and discussing governance, risk, and control issues. It would also further the independence of the internal audit activity if the Audit Committee participated in the annual performance review of the IAD Manager.

2. Continue to Incorporate consideration of risk factors into your annual audit planning process.

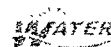
Continuing to incorporate the use of risks factors into the annual audit planning decisions with management enables the audit activity to better identify, along with management, the extent to which the key risks in each area are being addressed. This would also provide the Audit Committee with insight into what risks areas are not being audited and where priorities may need to be adjusted. While the IAD Manager meets with various levels of management each year to identify what will be on the annual audit plan, focusing on where there are agreed upon risks would give them, and the Audit Committee, a starting point and a better overall view as to what risks are, or are not, being addressed by the annual plan.

3. Continue to develop the use of automated data analysis tools and continuous auditing techniques.

The use of data analysis and the automation of audit and control testing procedures through the use of information technology (IT) data analysis tools continue to provide significant returns to the audit profession. Especially when examining transactions in high risk processes like payroll, accounts payable, travel and expense, etc. IAD should continue to train its staff and to identify opportunities to incorporate the use of these technologies into their audit efforts.

4. There is a need to identify how Austin Water and the City of Austin can improve upon the communication and coordination of IT audit projects.

Many of the IT systems that the City of Austin operates and maintains are used by both Austin Water and Austin Energy. Austin Water should be involved in, and when possible, participate in audits of IT systems that support the operational areas within Austin Water. This participation would enable the City Auditor and Austin Water to better define the scope of these audits and at the same time help insure that any issues or weaknesses are appropriately addressed by all those affected.



ALLEGATION OF GIFT POLICY VIOLATION

201709

November 2, 2017





MEMORANDUM

TO: Greg Meszaros, Director

FROM: Debbie Walters, CIA, CGAP, CFE, Division Manager, Internal Audit

DATE: November 2, 2017

RE: Allegation of Gift Policy Violation

Allegation

Internal Audit has completed a review of an allegation concerning a potential violation of the City's gift policy. According to the allegation, an Austin Water Equipment Operator won a 32" television, and an Austin Water Pipeline Technician Worker won a YETI-type cup at a non-City event they attended as City employees on May 11, 2017. This allegation was referred to Austin Water's Internal Audit Division, and with your authorization, Internal Audit began the investigation.

Summary of Findings and Conclusions

Internal Audit concluded that four Austin Water employees won door prizes at a May 11, 2017 Excavation Safety Day event organized by the Damage Prevention Councils of Texas.

Four of five respondents said they won the following door prizes at the event, while one (Respondent D) said he did not win anything.

- Respondent A won a 32" TV
- Respondent B won a YETI-type cup
- Respondents C and E won flashlights

At the time of interviews, each of these respondents said they took their door prize from the event, and indicated that they kept it.

We also learned during the interviews that two witnesses and four respondents accepted a drink and/or food that was offered at the event.

The above occurrences appear to violate the City Code, the City's Personnel Policies on Solicitation and Acceptance of Gifts, and the City's Administrative Bulletin 14-03, Gifts or Favors: Acceptance and Solicitation; Games of Chance. See Attachment A – Applicable Code or Policy for more information.

Event Information

The event was held at the Dove Springs Recreation Center from 9:00 a.m. to Noon on May 11, 2017. It was free of charge and included equipment exhibits, demonstrations, free food, and door prizes.

The event was organized by the Damage Prevention Councils (DPC) of Texas, in coordination with Enertech, Inc. According to the Central Texas Damage Prevention Manager, Texas811 established the DPC of Texas in 2000. During the investigation we learned that the Manager is a staff member of Texas811, and Texas Excavation Safety System, Inc. (DBA Texas811) is an Austin Water and City of Austin vendor.

Three witnesses received information about the event via email forwarded to them by an Austin Water Occupational Health and Safety Coordinator and a Wastewater Operations Manager. The forwarded email contained detailed information about the event, including activities, free food, and door prizes. All respondents indicated that prior to the event they were told by their supervisors that they would be attending the event.

All respondents and witnesses said they thought the event was a City function or event. Their reasoning included one or more of the following: (1) the event was on City property; (2) other City departments were there; and/or (3) the person handing out raffle tickets or door prizes was from Austin Energy. We were unable to confirm the name of this individual.

Internal Audit received a list of attendees from the event organizer. According to the list, 120 (57%) of 211 attendees were City employees, and 16 of those are Austin Water employees. Respondents and witnesses also said employees from other City departments won door prizes.

According to the event organizer, this was not a City of Austin event and the only [City] contribution would have been their input on the event. There was no contribution of money, door prizes, or food. The organizer also provided documentation showing that the organizing entities paid for the facility rental.

Awareness of City Policy/Training

During interviews, each respondent and three witnesses were asked if they are aware of the requirement in the City's Gift Policy that states "an Employee who is representing the City at a conference or event, or is attending the conference or event at City expense, cannot accept a prize or award from a Game of Chance drawing associated with that conference or event". All witnesses and Respondent C said they were aware of the requirement in the policy while Respondents A, B, D, and E said they were not aware of the requirement in the policy. The majority of respondents and all witnesses thought it was acceptable to win a door prize at the event because it was a City function or event. One respondent said his Supervisor or Superintendent did not say they could not participate.

Employees were also asked about their responsibility for reporting wrongdoing or potential wrongdoing, and all provided responses indicating an awareness of the employee's responsibility to do so.

Three of the witnesses that attended the event were in the respondents' chain of command and observed or were told about the four Austin Water employees winning door prizes. Three witnesses said they did not report that the employees won a door prize because they thought it was a City event. The fourth witness said he reported the TV to their Division Manager (DM). When we spoke with the DM, he confirmed that it was reported to him, and he said he did not report it because it appeared to be a City event. He also took responsibility for asking his employees to attend the event without checking into it further.

When respondents were asked why they did not report that they saw someone win a door prize, they stated in part: (Respondent A) my superiors were there and they saw it; (Respondent B) my division was there and my superiors participated; (Respondent C) I thought it was a department event; (Respondent D) it never crossed my mind that it was against City ethics because of the person handing them out being from Austin Energy; and (Respondent E) to my knowledge it was a City event... On top of that

AUSTIN
WATER
UTILITY

I was there with management and nobody hinted anything to us that this isn't a City event.

This may be a violation of the City's Administrative Bulletin 06-03, Fraud, Waste, and Abuse Reporting, Investigation and Prevention. See Attachment A – Applicable Code or Policy for more information.

All respondents and witnesses took CityEthics training as recently as 2017. In the 2011 Austin Water ethics training, employees were told the options for reporting issues and concerns. In the 2015 and 2017 CityEthics training, employees were told that according to City Code they cannot accept or solicit any gift or favor that might reasonably tend to influence them in the discharge of their official duties or that the employee knows or should know has been offered with the intent to influence or reward them or official conduct. Employees were also told that if they are aware of violations of the City's policies or wrongdoing, they must report it, and several reporting options were provided.

Recommendation

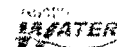
1. The Assistant Director of Operations should consult with Human Resource Services to determine appropriate corrective action regarding the potential violation of City Code, Personnel Policies on Solicitation and Acceptance of Gifts, Administrative Bulletin 14-03, Gifts or Favors; Acceptance and Solicitation; Games of Chance, and Administrative Bulletin 06-03, Fraud, Waste, and Abuse Reporting, Investigation and Prevention.

Management concurred with this recommendation.

Methodology

Internal Audit completed the following steps during the course of the investigation:

1. Partnered with Austin Water Human Resource Services (HRSD) staff.
2. Consulted with the City Auditor's Integrity Unit.
3. Reviewed applicable City Code and City of Austin policies.
4. Reviewed event information and interviewed event organizers.
5. Interviewed the complainant, witnesses, and respondents.

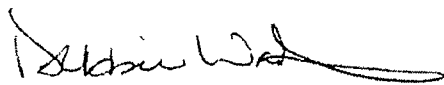


Greg Meszaros, Director
November 2, 2017
Page 5

6. Reviewed City of Austin and Austin Water ethics training videos from 2011, 2015, and 2017, and reviewed ethics training history for witnesses and respondents.

To ensure our report is fair, complete and objective, we requested responses from the respondents and Austin Water management. Please find these responses, along with Internal Audit's statement on responses attached in Appendices A through C. This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

Debbie Walters, Division Manager of Internal Audit, led this review, and Mike Yamma, Internal Auditor I, assisted with this review. We appreciate the assistance provided by staff in Human Resource Services and the Office of the City Auditor. Please call me at (512) 972-0438 if the Internal Audit team can provide further assistance.



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

ATTACHMENT:

A - Applicable Code or Policy

cc: David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Operations
Kevin Critendon, P.E., Assistant Director, Water Resources Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation
Sherri Hampton, SPHR & SCP, Division Manager, Human Resource Services
Nathan Wiebe, Chief of Investigations, Office of the City Auditor
Mike Yamma, Internal Auditor I

ATTACHMENT A – Applicable Code or Policy

City Code, Section 2-7-62, Standards of Conduct, (G)

No City official or employee shall accept or solicit any gift or favor, that might reasonably tend to influence that individual in the discharge of official duties or that the official or employee knows or should know has been offered with the intent to influence or reward official conduct.

City Personnel Policies, Section A.I.I, Solicitation and Acceptance of Gifts

No City employee shall accept or solicit any gift or favor that might reasonably tend to influence that individual in the performance of official duties or that the official or employee knows or should know has been offered with the intent to influence or reward official conduct.

City of Austin Administrative Bulletin 06-03, Fraud, Waste, and Abuse Reporting, Investigation and Prevention, Definitions and Reporting

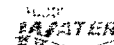
"Abuse" means: (1) the misuse of a City office, employment, contract, or other position with the City to obtain personal gain or favor from another City employee, vendor, or citizen; or (2) the violation of a City policy, procedure, rule, or regulation in a way that impairs the effective and efficient execution of City operations.

An employee who knows of or suspects wrongdoing shall report the wrongdoing immediately to the employee's manager or supervisor, or if that is not feasible, to the next highest person in the employee's chain of command to whom the employee may comfortably report the wrongdoing, including the department director, the assistant city manager, and the city manager.

A supervisor or manager who is contacted by a subordinate or by another City employee who alleges wrongdoing shall immediately report the allegation to the department director, the director of the department in which the wrongdoing is alleged to have occurred, or to the City Manager's office.

City of Austin Administrative Bulletin 14-03, Gifts or Favors: Acceptance and Solicitation; Games of Chance, Section C.1, Games of Chance

An Employee who is representing the City at a conference or event, or is attending the conference or event at City expense, cannot accept a prize or award from a Game of Chance drawing associated with that conference or event.



Greg Meszaros, Director
November 2, 2017
Page 7

Appendix A – Respondent A Response

I, Fermin Rubio, work for Austin water Utility, as a heavy equipment operator. I was told the day before via my supervisor Kevin Guyton that our crew was to attend this Event(Excavation Safety Day), on May 11, 2017.

Where they would be showing a Demo of how to locate utilities, at Dove Spring Recreation Center.

As we got there, they were giving us food and drinks and handing out door tickets for a raffle. All my co-workers including Supervisors, and Superintendent received a raffle ticket.

As they initiated the raffle four guys from my department won prizes.

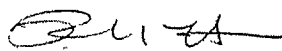
<p s ----- Message truncated -----

Appendix A – Respondent B Response

10/24/17

To whom it may concern,

I, Richard Harris, am writing this letter to inform that I will not have a response the draft report.



Richard Harris

Phone Number

Appendix A – Respondent C Response

... Linda Turner I have no comedi to make on
... stuff I explain. All information was given that I
can remember

11/26/17 *Linda Turner*

NOV 26 2017
FBI/ATLANTA

Greg Meszaros, Director
November 2, 2017
Page 10

Appendix A – Respondent E Response

October 26, 2017

Kenneth Miller does not have any additional information to provide and chose not to respond to the Draft Report.

Kenneth Miller

2061
10/26/17
K. MILLER

Greg Meszaros, Director
November 2, 2017
Page 11

Appendix B – Internal Audit's Statement on Responses

We reviewed the respondents' responses, and we believe the findings stand.

Respondent B's personal phone number was redacted from his response.

2062
11/2/17

Greg Meszaros, Director
November 2, 2017
Page 12

Appendix C – Management Response



City of Austin | Austin Water
P.O. Box 1088 Austin, TX 78767
AustinWater.org

MEMORANDUM

To: Debbie Walters, CIA, CGAP, CFE, Division Manager, Internal Audit
From: Rick Coronado, P.E., Assistant Director, Operations
Date: 10/26/2017
Subject: Response to Audit (#201709) Recommendation

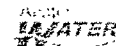
I have reviewed the Draft Audit Report for the Allegation of Gift Policy Violation. Attached is my response to the audit recommendation.

A handwritten signature in black ink, appearing to read "Rick Coronado".

Rick Coronado, P.E.
Assistant Director, Operations



*The City of Austin is committed to compliance with the Americans with Disabilities Act (ADA).
Reasonable modifications and equal access to communications will be provided upon request.*



Greg Meszaros, Director
November 2, 2017
Page 13

**Response to Audit Recommendations
Allegation of Gift Policy Violation**

Recommendation 1

The Assistant Director of Operations should consult with Human Resource Services to determine appropriate corrective action regarding the potential violation of City Code, Personnel Policies on Solicitation and Acceptance of Gifts, Administrative Bulletin 14-03, Gifts or Favors; Acceptance and Solicitation; Games of Chance, and Administrative Bulletin 06-03, Fraud, Waste, and Abuse Reporting, Investigation and Prevention.

Response 1.1

Concurrence: Management concurs with the recommendation and will confirm how this potential violation was handled by other departments.

Action Plan: Corrective action will include communication, training, and written approval to events (travel/training authorization) or restriction to events.

Responsible Party: Assistant Director – Operations

Completion Date: Next Operations Roundtable (January 2018)



April 24, 2017

Utility Audit Committee Members:

Greg Meszaros, Director
David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Operations
Kevin Critendon, P.E., Assistant Director, Water Resources Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation

Austin Water
625 E. 10th St., Suite 800
Austin, TX 78701

Dear Utility Audit Committee Members:

Internal Audit is pleased to present the results of the Variable Production Cost of Water Audit (#201707) for Calendar Year (CY) 2016. This audit was in the approved Audit Plan for Fiscal Year 2017.

Background

The Texas Water Development Board defines the Variable Production Cost of Water (VPCW) as:

Marginal production cost including variable costs, which are typically the costs of raw water, energy, and chemicals. If applicable, the cost of raw water should include the price of take or pay contracts. These costs are applied to determine the cost impact of real losses. In cases of water shortage, real losses might be valued at the retail price of water instead of the variable production cost.

WATER

The VPCW is reported annually to the Texas Water Development Board as a part of Austin Water's Water Loss Audit.

This is the fourth VPCW audit that Internal Audit has conducted. Prior audits were conducted in 2010, 2011, and 2015. The recommendations made in the 2010 report have been addressed by management.

Staff from Budget and Accounting are responsible for gathering and entering data and calculating the VPCW. Included in the calculation are electrical and chemical expenses relating to the production of water, expenses related to the purchase of raw water, and pumpage and usage data. The VPCW is calculated based on these figures, reviewed for accuracy by Financial Management Rates staff, and sent to the Conservation Program Coordinator to include in the Water Loss Audit.

Objective and Scope

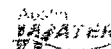
The objective of this audit is to determine whether Austin Water properly reports "Variable Production Cost of Water" in accordance with the Texas Water Development Board's guidelines. The scope of this audit includes "Variable Production Cost of Water" for calendar year 2016 as well as any related documentation.

Methodology

To gain an understanding of the VPCW and its components, the Texas Water Development Board's Water Loss Audit Manual for Texas Utilities was reviewed, as well as prior VPCW audits completed by Austin Water Internal Audit. To understand the process of calculating the VPCW, employees from Budget and Accounting, Financial Management, and Pipeline Management Services were interviewed. The preparation, methodology, and review procedures used by the preparer and reviewer of the VPCW were reviewed in addition to all relevant financial and pumpage and usage data for CY 2016. Using the same methodology as Budget and Accounting, we recalculated the VPCW.

Conclusions

We noted that the initial VPCW figure provided to the Conservation Program Coordinator was inaccurate. Austin Water receives an annual bill from the Lower Colorado River Authority for water that is diverted from Lake

The logo for Austin Water, featuring the word "Austin" in a script font above the word "WATER" in a bold, sans-serif font, with a stylized wave graphic below it.

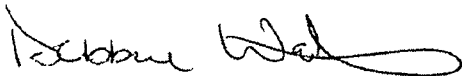
Travis for use in Water Treatment Plant Four (WTP4). The dollar amount used by Budget and Accounting in the original calculation was for CY 2015 rather than 2016. Budget and Accounting's original VPCW figure was \$.447. After the correct raw water cost for WTP4 was included, the revised figure rose to \$.459, which was verified to be correct. As this issue was rectified, and Austin Water's methodology for calculating the VPCW was clarified, there are no further recommendations for corrective action.

We concluded that Austin Water's methodology for calculating the VPCW is in accordance with the guidelines set by the Texas Water Development Board and allows Austin Water to properly report the VPCW.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*. Michael Yamma, Internal Auditor I, led the audit.

We appreciate the assistance provided by staff in the Budget and Accounting, Financial Management, and Pipeline Management Services Divisions. Please call me at (512) 972-0438 if the Internal Audit team can provide further assistance.

Sincerely,



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

cc: Daniel Layton, P.E., Operations Manager, Water
Dan Strub, Conservation Program Coordinator, Pipeline Management
Services
Songli Floyd, CPA, Division Manager, Budget and Accounting
Joseph Gonzales, CPA, Division Manager, Financial Management
Michael Yamma, Internal Auditor I



February 21, 2017

Utility Audit Committee Members:

Greg Meszaros, Director
David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Pipeline Operations &
Acting Assistant Director, Treatment
Kevin Critendon, P.E., Assistant Director, Water Resources
Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation

Austin Water
625 E. 10th St., Suite 800
Austin, TX 78701

Dear Utility Audit Committee Members:

Internal Audit is pleased to present the Annual Ethics Report for Fiscal Year (FY) 2016. This report records Austin Water's integrity-related activities in FY 2016, compares results to FY 2011 through FY 2015 where possible, and draws conclusions about Austin Water's ethical environment. FY 2016 ethics strategies for Austin Water's Ethics Initiative focused on communication, training, and monitoring.

Communication

In FY 2016, there were 23 ethics-related articles published in Austin Water E-News, CitySource, and HR Update publications. Thirteen, or 57% of the articles were related to training including City and Annual Ethics Training sign-up reminders, classes, and other training opportunities. The remaining ten (43%) included information related to ethics policy and education. All 23 articles included where to find additional ethics-related information.

Additionally, Austin Water's Success Strategy Performance Review (SSPR) templates for both employees and supervisors included ethics-related expectations.



Training

During FY 2016, Austin Water employees participated in training events that conveyed integrity-related expectations and were presented by City of Austin and/or Austin Water staff.

1. Austin Water New Employee Orientation (NEO) – Austin Water New Employee Orientation included a presentation by the Internal Audit Division that allowed for an interactive discussion on fraud, waste, abuse, and ethical concerns. As part of the presentation, participants also received guidance on where to go if they have City, Utility, or ethics-related concerns.
2. CityEthics Training - Austin Water achieved 100% participation in Annual CityEthics training which included 1,110 employees, and 67 employees participated in CityEthics for New Employees training. Austin Water has achieved 100% participation in Annual CityEthics training since FY 2011. The Austin Water Ethics Single Point of Contact (SPOC) provided email reminders to management to help employees meet their CityEthics for New Employees training requirements.
3. Supervisor Boot Camp – Austin Water Supervisor Boot Camp was held twice in FY 2016. Although the agendas did not include specific ethics training, participants received ethics-related information on a flash drive.

Monitoring

Monitoring included the following activities:

1. Investigations - Fraud, waste, abuse, ethical, or integrity-related concerns were investigated by Austin Water Internal Audit, Austin Water Human Resource Services Division, or the Office of the City Auditor Integrity Unit (CAIU). Internal Audit reviewed cases from each of these three sources and concluded that in FY 2016 there were 11 separate ethics-related cases involving Austin Water employees. Four cases were substantiated (proven), four were unsubstantiated (disproven), one was closed when the employee resigned, and two were ongoing as of 01/13/2017. Exhibit A includes case results from FY 2011 through FY 2016. Exhibit B further describes substantiated violations received in FY 2016 and resulting actions taken.

EXHIBIT A
Case Results by Fiscal Year

Case Result	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Substantiated (<i>proven</i>)	3	4	0	5	3	4
Unsubstantiated (<i>disproven</i>)	14	14	3	8	3	4
Inconclusive (<i>unable to prove or disprove</i>)	0	0	0	0	0	0
No Action (<i>did not receive sufficient information to pursue</i>)	1	2	0	0	0	0
Unknown (<i>referred to other, outcome not documented</i>)	1	0	0	0	1	0
Ongoing Investigation	0	0	0	0	0	2
*Closed Investigation – Employee Resigned	-	-	-	-	-	1
Total Number of Cases	19	20	3	13	7	11

*Case Result added for Fiscal Year 2016

EXHIBIT B
Substantiated Violations and Resulting Actions, FY 2016

Case	Violation	Action
1	Misuse of City Resources	Employee Resigned In Lieu of Termination
2	Securing Special Privilege & Misuse of City Resources	Pending
3	Theft by Public Servant	Arrested*
4	Solicitation and Acceptance of a Favor from a City Vendor and Waste of City Resources/Misuse of City Resources	Employee Resigned
	Acceptance of a Favor from a Direct Report and Misuse of City Resources	Disciplinary Suspension & Probation

*No longer an Austin Water employee at the time of action



2. Listening to the Workforce - Annually, the City of Austin's Human Resources Department conducts a survey of all regular City employees entitled Listening to the Workforce. The FY 2016 survey included eight ethics-related questions and multiple choice answer options allowing employees to provide favorability ratings. In FY 2016, 426 (40%) of 1,076 Austin Water employees provided responses to the Listening to the Workforce survey. This was equal to the response rate in FY 2015 and higher than the overall Citywide response rate of 36%. Austin Water survey results were less favorable than Citywide results for all eight ethics-related questions averaging 61% and 67% respectively. The results for each question were categorized into: Good Results (80% or higher); Fair Results (60%-79%); and Poor Results (59% or lower). These categories were developed by Austin Water Internal Audit. Following is our analysis of Austin Water results.

- **Good Results (80% or higher)** - None of the eight ethics-related questions received favorable response ratings of 80% or higher.
- **Fair Results (60%-79%)** - Four questions received favorable response ratings of 60%-79%. According to survey results, employees were less knowledgeable than in FY 2015 on how to report unethical behavior, and employees were less confident that their fellow work group employees behaved ethically in the workplace than in the previous year. Employees were more familiar with ethics guidance and where to find that guidance than in FY 2015.
- **Poor Results (59% or lower)** - Four questions received favorable response ratings of 59% or lower. Three of these questions focused on employee opinions that fair and prompt action would be taken to address issues without retaliation. The fourth question asked employees if management sets a good example by following laws and policies that apply to their jobs. The question with the most significant decline in favorability (3%) suggests employees were less confident that quick and decisive action would be taken if wrongdoing was discovered in their work group.

Exhibit C details Austin Water employees' favorable (agreed or strongly agreed) responses to the ethics-related questions.



EXHIBIT C
Survey Results for Austin Water, FY 2011 – FY 2016

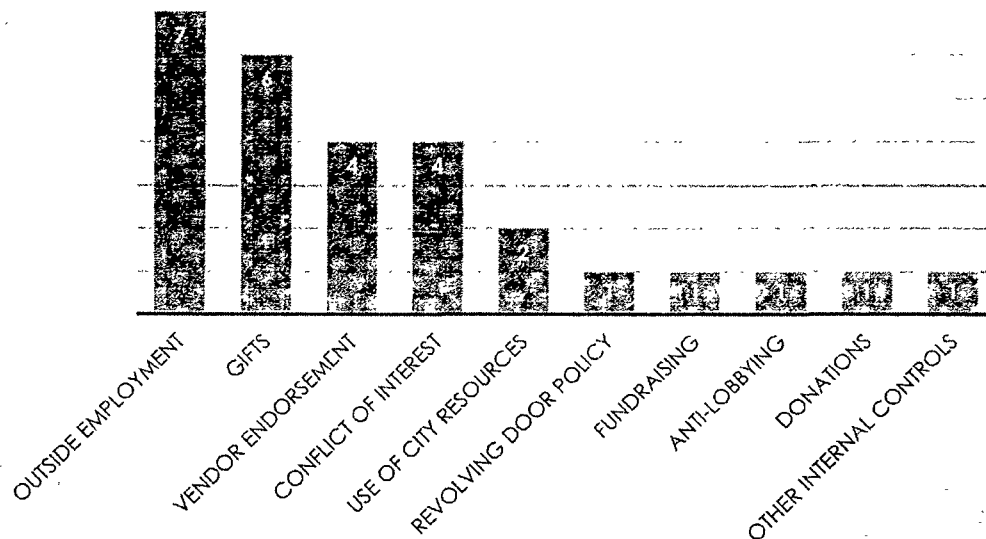
Survey Question	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Change FY 2015 to FY 2016	Citywide FY 2016
Good Results (80% or higher)								
Fair Results (60%-79%)								
If I become aware of unethical behavior, I know how I can report it.	83%	88%	83%	81%	79%	78%	-1%	84%
I am familiar with where to look for city ethics guidance (such as the CityEthics website, City Code, Personnel Policies, and Administrative Bulletins).	-	-	-	76%	77%	78%	1%	82%
I am familiar with the Administrative Bulletin on "Fraud, Waste, and Abuse Prevention."	87%	89%	89%	71%	70%	71%	1%	73%
Employees in my work group behave ethically in the workplace.	68%	69%	71%	66%	69%	67%	-2%	74%
Poor Results (59% or lower)								
Management in my department sets a good example by following the laws and policies that apply to their jobs.				60%	60%	59%	-1%	65%
Employees in my work group can report any unethical behavior they see without fear of retaliation.	51%	53%	56%	52%	48%	48%	0%	56%
I am confident that quick and decisive action will be taken by my department if wrongdoing is discovered in my work group.	46%	46%	48%	50%	50%	47%	-3%	54%
If I have a complaint in my department, it will be handled fairly.	41%	45%	46%	43%	45%	43%	-2%	49%
AVERAGES	63%	65%	66%	62%	62%	61%	-1%	67%

FY 2017 Update

3. Special Requests

In FY 2016, employees continued to seek work-related ethical advice from the Austin Water Ethics SPOC. Twenty-eight special requests related to fraud, waste, abuse, or ethical concerns were addressed as of 01/23/2017. Exhibit D shows the number of special requests by category.

EXHIBIT D
Special Requests by Category



When employees proactively seek ethics-related guidance, they are provided the ability to make appropriate ethical decisions, which in turn benefits the overall organizational culture.

Conclusion

In FY 2016 Austin Water continued to focus on improving its ethical environment. This is evident through management's monitoring of required employee ethics training attendance, providing ethics-related training in Austin Water New Employee Orientation, distributing ethics-related articles and resources, including ethics as a priority in SSPRs, and having a departmental ethics SPOC where employees can seek ethics-related advice. While, on average, Listening to the Workforce results for ethics-

related questions remained fair, opportunities remain for improvement in this area.

Going Forward

Internal Audit will collaborate with other divisions in Austin Water to focus on the following ethics strategies in FY 2017, and work with the Executive Team to refine these strategies.

1. Communication

- Publish the FY 2016 Ethics Report,
- Share ethics-related communications with management and staff, and
- Tie ethics to the EUM Framework under Employee and Leadership Development.

2. Training

- Track and report completion rates on required ethics training,
- Assist with rollout of Austin Water's Outside Employment SOP, and
- Propose an ethics speaker for an upcoming Leadership Summit.

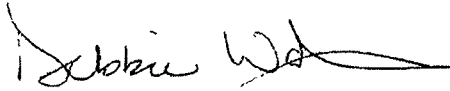
3. Monitoring

- Analyze results of ethics-related questions in the Listening to the Workforce Survey,
- Work with the Executive Team to develop an Austin Water Code of Conduct, and
- Coordinate with the Executive Team to determine if additional monitoring activities are needed.

We welcome your feedback on this Annual Ethics Report and look forward to working with you as we continue our efforts to support Austin Water's ethics initiatives.

Utility Audit Committee Members
Page 8
February 21, 2017

Sincerely,



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

cc: Anna Bryan-Borja, CIA, CFE, Utility Chief Support Service Officer
Sherri Hampton, SPHR & SCP, Division Manager, Human Resource
Services
Teri Pennington, CISSP, Chief Information Officer
Leslie Jansen, IAP, Internal Auditor II
Michael Yamma, Internal Auditor I



December 7, 2016

Utility Audit Committee Members:

Greg Meszaros, Director
David Anders, Assistant Director, Financial Services
Chris Chen, P.E., Assistant Director, Engineering Services
Rick Coronado, P.E., Assistant Director, Pipeline Operations &
Acting Assistant Director, Treatment
Kevin Critendon, P.E., Assistant Director, Water Resources
Management
Daryl Slusher, Assistant Director, Environmental Affairs & Conservation

Austin Water Utility
625 E. 10th St., Suite 800
Austin, TX 78701

Dear Utility Audit Committee Members:

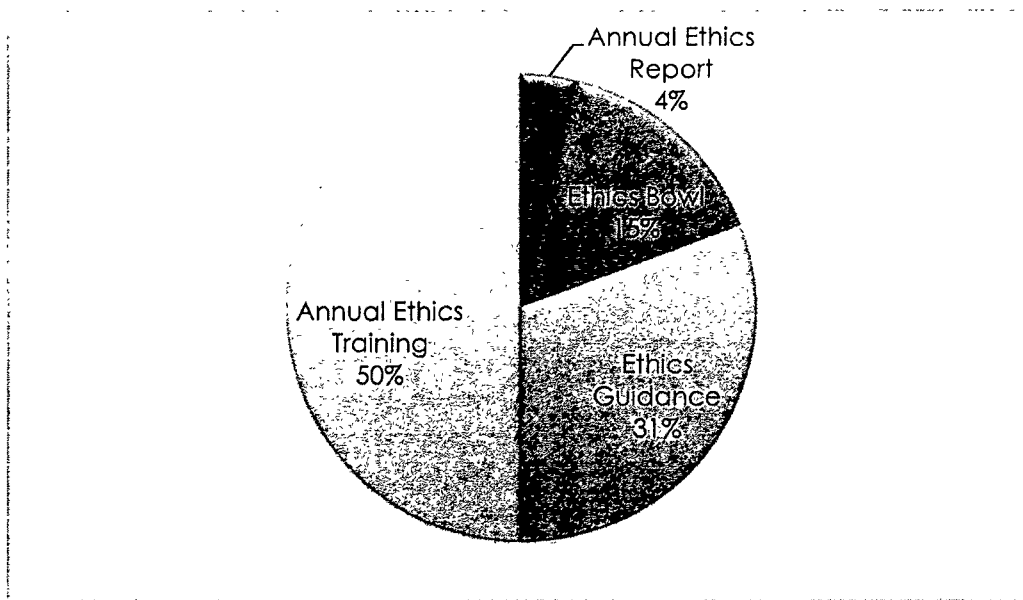
Internal Audit is pleased to present the Annual Ethics Report for Fiscal Year (FY) 2015. This report records Austin Water's integrity-related activities in FY 2015, compares results to FY 2010 through FY 2014 where possible, and draws conclusions about Austin Water's ethical environment. FY 2015 ethics strategies for Austin Water's Ethics Initiative focused on communication, training, and monitoring.

Communication

In FY 2015, 26 ethics-related articles were communicated in Austin Water E-News, CitySource, and HR Update publications. These articles were categorized by Internal Audit. Exhibit A includes the percentage of articles by category.

DEPT. OF WATER
UTILITY

EXHIBIT A
Percentage of Articles by Category



1. Annual Ethics Training (13) – reminded employees of required annual ethics training;
2. Ethics Guidance (8) – provided employees guidance on how to handle certain situations in accordance with City of Austin integrity-related expectations;
3. Ethics Bowl (4) – promoted participation in and winners of the annual Ethics Bowl; and
4. Annual Ethics Report (1) – published Austin Water's Annual Ethics Report for Fiscal Year 2014.

Additionally, Austin Water's Success Strategy Performance Review (SSPR) templates for both employees and supervisors included Austin Water Ethical Expectations as a priority.

Training

During FY 2015, Austin Water employees participated in training events that conveyed integrity-related expectations and were presented by City of Austin and/or Austin Water staff.

1. Austin Water New Employee Orientation (NEO) - Austin Water employees participated in New Employee Orientation hosted by Austin Water. The agenda included a presentation by Austin Water Internal Audit that allowed for an interactive discussion on fraud, waste, abuse, and ethical concerns. As part of the presentation, participants also received guidance on where to go if they have City, Utility, or ethics-related concerns.
2. CityEthics Training - Austin Water achieved 100% participation in Annual CityEthics training which included 1,078 employees, and 170 employees participated in CityEthics for New Employees training. Austin Water has achieved 100% participation in Annual CityEthics training since FY 2011. An ethics course tracking system was developed in Cognos and rolled out to management in April 2015. Using Cognos, the Austin Water Ethics Single Point of Contact (SPOC) began monitoring compliance with CityEthics for New Employees training and providing email reminders to management to help employees meet their CityEthics for New Employees training requirements.
3. City of Austin's 2015 Ethics Bowl - A team of Austin Water employees participated in the 3rd Annual Ethics Bowl on May 20, 2015. The Austin Water team tied for fourth place. The Ethics Bowl is an educational experience, with two fundamental purposes: (1) to engage employees in critical thinking; and (2) the development of ethical understanding and reasoning when faced with complex, ambiguous, and difficult to resolve issues.

Monitoring

Monitoring included the following activities:

1. Investigations - Fraud, waste, abuse, ethical, or integrity-related concerns were investigated by Austin Water Internal Audit, Austin Water Human Resource Services Division, or the Office of the City Auditor Integrity Unit (CAIU). Internal Audit reviewed cases from each of these three sources and concluded that in FY 2015 there were seven independent cases involving Austin Water employees. Three cases were substantiated (proven), three were unsubstantiated (disproven), and one was classified as unknown as it was referred by CAIU to another department, and it was not referred back to Austin Water for further action. Exhibit B includes case results from FY 2010 through FY 2015.

EXHIBIT B
Case Results by Fiscal Year

Case Result	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Substantiated (<i>proven</i>)	9	3	4	0	5	3
Unsubstantiated (<i>disproven</i>)	4	14	14	3	8*	3
Inconclusive (<i>unable to prove or disprove</i>)	2	0	0	0	0	0
No Action (<i>did not receive sufficient information to pursue</i>)	0	1	2	0	0	0
Unknown (<i>referred to other, outcome not documented</i>)	4	1	0	0	0	1
Ongoing Investigation	0	0	0	0	0*	0
Total Number of Cases	19	19	20	3	13	7

*The FY 2014 report listed seven Unsubstantiated and one Ongoing Investigation. The FY 2014 numbers were updated based on the outcome of the ongoing investigation. It was completed in FY 2015 and the allegation was unsubstantiated.

2. Listening to the Workforce - Annually, the City of Austin's Human Resources Department conducts a survey of all regular City employees entitled Listening to the Workforce. The FY 2015 survey included eight ethics-related questions and multiple choice answer options allowing employees to provide favorability ratings. In FY 2015, 421 (40%) of 1,065 Austin Water employees provided responses to the Listening to the Workforce survey. This was an increase in participation from FY 2014 (39%) and higher than the overall Citywide response rate of 33%. Austin Water survey results were less favorable than Citywide results for all eight ethics-related questions averaging 62% and 67% respectively. Exhibit C details Austin Water employees' favorable (agreed or strongly agreed) responses to the ethics-related questions. The results for each question were categorized into: Good Results (80% or higher); Fair Results (60%-79%); and Poor Results (59% or lower). These categories were developed by Austin Water Internal Audit. Following is our analysis of Austin Water results.

- **Good Results (80% or higher)** - None of the eight ethics-related questions received favorable response ratings of 80% or higher.
- **Fair Results (60%-79%)** - Five questions received favorable response ratings of 60%-79%. These questions can be divided into three major categories:
 - How to report unethical behavior (1 question);



- o Familiarity with and where to find ethics related guidance (2 questions); and
- o Employee and manager ethical behavior (2 questions).

FY 2015 Austin Water employee responses indicated employees were less knowledgeable than in FY 2014 on how to report unethical behavior. Employee responses indicated, on average, no change in their familiarity with and where to find ethics guidance. According to survey results, employees felt their fellow work group employees behaved more ethically in the workplace (69%) than the previous year (66%). And, employees reported 60% favorability that management in their department set a good example by following laws and policies that applied to their jobs. This rating remained the same as the previous year and is the lowest rating of the Fair Results category.

- **Poor Results (59% or lower)** - Three questions received favorable response ratings of 59% or lower. These questions focused on employee opinions that fair and prompt action would be taken to address issues without retaliation. The question with the most significant decline in favorability (4%) suggests employees were more fearful of retaliation than in the previous year.

EXHIBIT C
Survey Results for Austin Water, FY 2010 – FY 2015

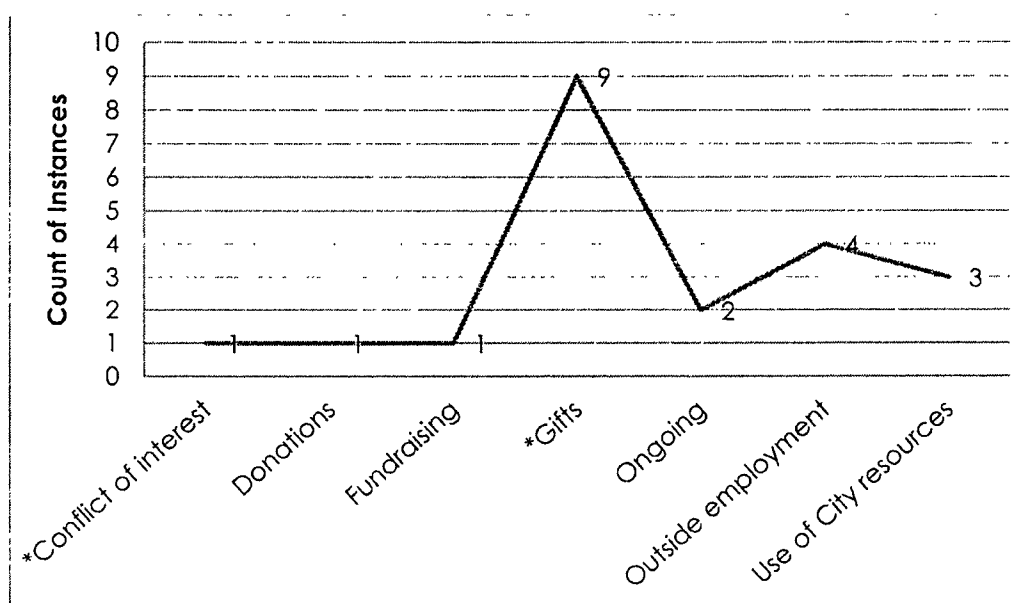
Survey Question	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Change from FY 2014 to FY 2015	Citywide FY 2015
Good Results (80% or higher)								
Fair Results (60%-79%)								
If I become aware of unethical behavior, I know how I can report it.	85%	83%	88%	83%	81%	79%	-2%	84%
I am familiar with where to look for city ethics guidance (such as the City Ethics website, City Code, Personnel Policies, and Administrative Bulletins).	-	-	-	-	76%	77%	1%	83%
I am familiar with the Administrative Bulletin on "Fraud, Waste, and Abuse Prevention."	80%	87%	89%	89%	71%	70%	-1%	75%
Employees in my work group behave ethically in the workplace.	69%	68%	69%	71%	66%	69%	3%	73%
Management in my department sets a good example by following the laws and policies that apply to their jobs.	-	-	-	-	60%	60%	0%	65%
Poor Results (59% or lower)								
I am confident that quick and decisive action will be taken by my department if wrongdoing is discovered in my work group.	47%	46%	46%	48%	50%	50%	0%	53%
Employees in my work group can report any unethical behavior they see without fear of retaliation.	51%	51%	53%	56%	52%	48%	-4%	57%
If I have a complaint in my department, it will be handled fairly.	43%	41%	45%	46%	43%	45%	2%	48%

AUSTIN WATER

3. Special Requests

In FY 2015, employees continued to seek work-related ethical advice from the Austin Water Ethics SPOC. Eighteen of 20 special requests related to fraud, waste, abuse, or ethical concern were addressed and two special requests were ongoing as of 10/07/2016. Exhibit D shows the number of special requests by category.

EXHIBIT D
Special Requests by Category



**One special request fell into two separate categories.*

When employees proactively seek ethics-related guidance, they are provided the ability to make appropriate ethical decisions, which in turn benefits the overall organizational culture.

Austin Water held the last focus group that inquired about ethics and integrity issues in November 2012. The Annual Ethics Report for FY 2012 provided details about the results of this focus group. The purpose of this focus group was to gather feedback on Austin Water's communications to employees and the current state of ethics in the organization. We will revisit the need for focus groups in FY 2017.

Conclusion

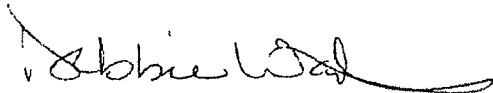
In FY 2015 Austin Water continued to focus on improving its ethical environment. This is evident through management's encouragement of

Utility Audit Committee Members
Page 8
December 7, 2016

employee participation in the Ethics Bowl, monitoring required employee ethics training attendance, providing ethics-related training in Austin Water New Employee Orientation, distributing ethics-related articles, including ethics as a priority in SSPRs, and having a departmental ethics SPOC where employees can seek ethics-related advice. As a result, the number of substantiated cases of fraud, waste, abuse, ethics, and integrity-related allegations involving Austin Water employees decreased from the previous year. While, on average, Listening to the Workforce results for ethics-related questions remained the same as the previous year, there are still opportunities for improvement in this area.

We welcome your feedback on this Annual Ethics Report and look forward to working with you as we continue our efforts to support Austin Water's ethics initiatives.

Sincerely,



Debbie Walters, CIA, CGAP, CFE
Division Manager, Internal Audit

cc: Anna Bryan-Borja, CIA, CFE, Utility Chief Support Service Officer
Sherri Hampton, SPHR & SCP, Division Manager, Human Resource Services
Teri Pennington, CISSP, Chief Information Officer
Leslie Jansen, IAP, Internal Auditor II



Austin Water

Docket No. 49189

Test Year Ending 9/30/2018

Schedule V-2 Variance Reports

Witness: Joseph Gonzales

Austin Water publishes monthly Financial Status Reports as shown on V-2 for the months of November 2017 through September 2018. Austin Water did not publish an October 2017 Financial Status Report as October was never issued in prior years due to the extended closing year-end period.



FINANCIAL STATUS REPORT
For the Period Ending November 30, 2017





City of Austin | Austin Water
P.O. Box 1088 Austin, TX 78767
AustinWater.org

MEMORANDUM

To: Greg Meszaros, Director, Austin Water
From: David Anders, Assistant Director, Austin Water
Date: December 14, 2017
Subject: Financial Status Report for the Period Ended November 30, 2017

Attached is Austin Water's Financial Status Report. The combined fund balance at the end of November was \$218.31 million, or \$10.62 million more than projected, as detailed in the Executive Summary. The beginning balance was \$12.08 million more than projected, fiscal year requirements were \$2.91 million below budget, and revenues and transfers in were \$4.36 million below projections.

The Buchanan and Travis lake system is now 85% full at the end of November. The City remains in Conservation Stage water restrictions to conserve availability and protect the integrity of water supply. Water service revenues are \$1.31 million below projections, and wastewater service revenues are \$1.50 million below projections this fiscal year. The Executive Summary includes more discussion of revenue and requirements highlights.

Actual spending for operating requirements was below budget by \$2.52 million and spending for other requirements were below budget by \$0.05 million. Payments for debt service requirements were below budget by \$0.33 million, and transfers out were on target. The extent of these variances by program is discussed in the Executive Summary and detail pages.

In addition to the Executive Summary and Fund Summary, this report provides detailed analysis of Revenues, Operating Requirements, Outstanding Debt and Debt Service Requirements, Customer Demand Characteristics, Transfers Out, CIP Expenditures, and Cash Balances.

Please feel free to contact me should you have any questions.

Attachments

cc: Robert Goode, Assistant City Manager
Greg Cannally, Interim Chief Financial Officer, Financial Services
Assistant Directors, Austin Water
Division Managers, Austin Water



The City of Austin is committed to compliance with the Americans with Disabilities Act (ADA). Reasonable modifications and equal access to communications will be provided upon request.

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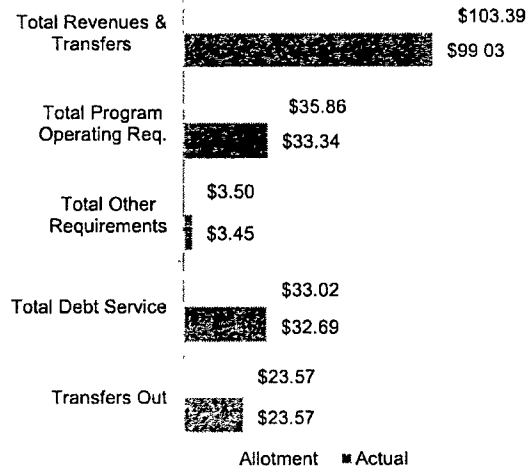
Executive Summary

The Combined Water, Reclaimed Water, and Wastewater Operating Fund balance as of November 30, 2017, was \$218.31 million. The combined balance was \$10.62 million more than projected for this date, as shown below:

	YTD Allotment	YTD Actual	Difference
Beginning Balance	200.25	212.33	12.08
Water Services	52.04	50.73	(1.31)
Wastewater Services	46.32	44.82	(1.50)
Reclaimed Services	0.33	0.31	(0.02)
Reserve Fund Surcharge	1.27	1.23	(0.04)
Other Revenues	1.68	1.88	0.20
Transfers In	1.77	0.08	(1.69)
Total Revenues & Transfers	103.39	99.03	(4.36)
Program Operating Req.	35.86	33.34	2.52
Other Requirements	3.50	3.45	0.05
Debt Service	33.02	32.69	0.33
Transfers Out	23.57	23.57	0.00
Total Revenue Requirements	95.96	93.05	2.91
Ending Balance	207.69	218.31	10.62
Debt Service Coverage	1.86	1.88	

Note: Numbers may not add due to rounding.

Revenue & Requirements Summary Year-to-Date in Millions



Revenue Highlights

Total revenues for the fiscal year were \$99.03 million, \$4.36 million (4.2%) less than the allotment to date.

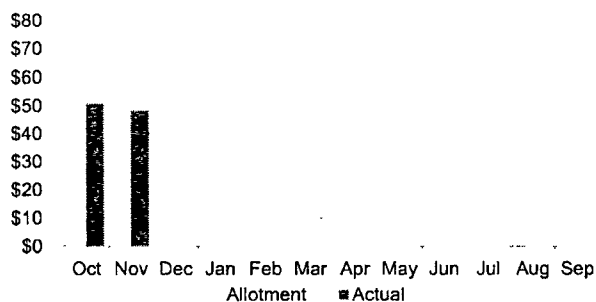
The following source has exceeded projections:

- Other revenues totaled \$1.88 million (12.0% above)

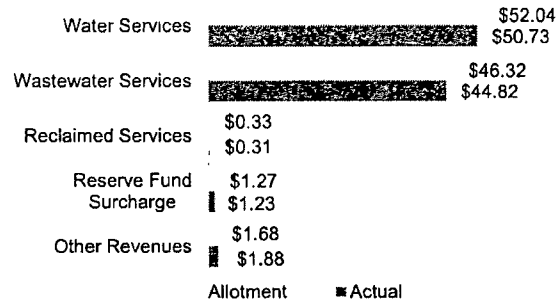
The following sources are below projections:

- Water service totaled \$50.73 million (2.5% below)
- Wastewater service totaled \$44.82 million (3.2% below)
- Reclaimed service totaled \$0.31 million (4.4% below)
- Reserve fund surcharges totaled \$1.23 million (3.2% below)
- Transfers in totaled \$0.08 million (95.8% below)

Total Revenue by Month FY2017-18 in Millions



Revenue - Budget vs. Actual Year-to-Date in Millions



Water service revenue exceeded projections in the Large Volume and Wholesale classes by 17.7% and 10.8%, respectively. Other classes fell below projections.

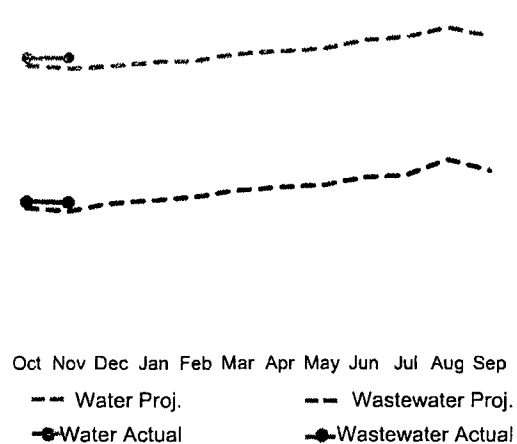
Wastewater service revenue exceeded projections in the Large Volume and Wholesale classes by 23.1% and 40.4%, respectively. Other customer classes fell below projections.

November's total revenue and transfers in of \$48.33 million fell 2.8% below projections.

User Characteristics

	Projected	Actual	Variance	
Water Customers	230,190	231,146	956	
Wastewater Customers	216,987	217,809	822	240
Monthly Pumpage	3.38	3.73	0.35	235
YTD Pumpage	7.37	7.82	0.45	230
Monthly Billed Use	3.37	3.03	(0.34)	
YTD Billed Use	7.10	6.63	(0.47)	225
Monthly Influent Flow	3.51	2.76	(0.75)	220
YTD Influent Flow	6.99	5.88	(1.11)	215
Monthly Billed Flow	2.39	2.09	(0.30)	210
YTD Billed Flow	4.77	4.44	(0.33)	205
(Above in Billions of Gallons)				
Avg. Residential Use (gal)	5,600	4,712	(888)	
Avg. Residential Flow (gal)	4,144	3,369	(774)	

Number of Customers by Month FY 2017-18 in Thousands



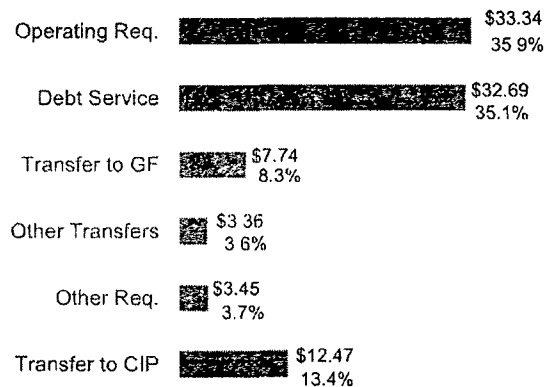
Requirement Highlights

Total requirements for the fiscal year were \$93.05 million, \$2.91 million (3.0%) less than the allotment to date.

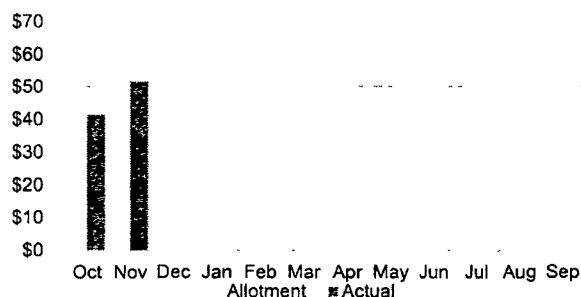
The following uses are below projections:

- Program operating requirements totaled \$33.34 million (7.0% below)
- Other requirements totaled \$3.45 million (1.7% below)
- Debt service requirements totaled \$32.69 million (1.0% below)
- Transfers out to Capital Improvement Projects, the General Fund, Debt Defeasances, and Other Uses totaled \$23.57 million (0.0% below)

Total Requirements by Type FY 2017-18 in Millions



Total Requirements by Month FY 2017-18 in Millions



Lower than projected expenditures in Operations, Engineering Services, Environmental Affairs & Conservation, and Water Resource Management more than offset greater than anticipated expenditures in the Support Services and Other Utility Program Requirements programs.

Pages 18 and 19 provide details on variances in spending by program area and object code.

Total Requirements of \$51.71 million for the month were \$2.57 million, or 5.2% more than the budget allotment.

City of Austin, Texas
Austin Water
FUND SUMMARY - COMBINED
As of November 2017

	2017-18 APPROVED	2017-18 AMENDED	BUDGET ALLOTMENT	MTD ACTUAL W/ ENCUMB	YTD ACTUAL W/ ENCUMB	YTD VARIANCE	% VARIANCE
BEGINNING BALANCE	200,254,074	200,254,074	200,254,074	0	212,328,316	12,074,242	6.0%
REVENUE							
Water Revenue	297,299,813	297,299,813	52,035,146	24,194,835	50,725,220	(1,309,926)	-2.5%
Wastewater Revenue	269,302,437	269,302,437	46,324,743	22,391,174	44,821,785	(1,502,958)	-3.2%
Reserve Fund Surcharge	7,385,497	7,385,497	1,273,067	607,862	1,232,155	(40,912)	-3.2%
Other Revenue	6,043,360	6,043,360	1,007,928	381,080	745,918	(262,010)	-26.0%
Reclaimed Revenue	1,895,166	1,895,168	325,255	130,891	310,888	(14,367)	-4.4%
Interest	1,127,380	1,127,380	187,896	354,574	723,282	535,386	284.9%
Public Health Licenses, Permits, Inspections	642,400	642,400	107,068	51,326	99,191	(7,875)	-7.4%
Other Fines	616,800	616,800	102,800	28,300	18,425	(83,375)	-81.1%
Miscellaneous Franchise Fees	93,000	93,000	15,500	0	0	(15,500)	-100.0%
Building Rental/Lease	114,500	114,500	19,084	30,168	30,168	11,084	58.1%
Land & Infrastructure Rental/Lease	67,000	67,000	11,166	0	5,500	(5,666)	-50.7%
Scrap Sales	42,700	42,700	7,118	5,379	7,008	(110)	-1.6%
Development Fees	1,257,100	1,257,100	208,816	95,187	236,690	27,874	13.3%
Parking Revenue	0	0	0	32	32	32	0.0%
Total Revenue	585,887,153	585,887,153	101,625,585	48,250,610	98,957,261	(2,668,324)	-2.6%
TRANSFERS IN							
CIP	27,573,000	27,573,000	0	0	0	0	0.0%
Community Benefit Charge Transfer In	10,250,511	10,250,511	1,708,418	0	0	(1,708,418)	-100.0%
Support Services/Infrastructure Funds	300,582	300,582	50,096	75,000	75,000	24,904	49.7%
Austin Resource Recovery Fund	53,334	53,334	8,890	0	0	(8,890)	-100.0%
General Fund	0	0	0	0	0	0	0.0%
Total Transfers In	38,177,427	38,177,427	1,767,404	75,000	75,000	(1,692,404)	-95.8%
TOTAL AVAILABLE FUNDS	624,064,580	624,064,580	103,392,989	48,325,610	99,032,261	(4,350,728)	-4.2%
PROGRAM REQUIREMENTS							
Operations	134,746,425	134,864,305	21,705,953	10,593,068	20,058,051	1,647,902	7.6%
Support Services	29,241,114	29,123,234	5,197,493	2,042,394	5,838,547	(441,054)	-8.5%
Other Utility Program Requirements	11,214,618	11,214,618	2,082,491	381,653	2,161,965	(79,474)	-3.8%
Environmental Affairs & Conservation	12,392,708	12,392,708	2,086,585	1,072,389	1,833,701	252,985	12.1%
Engineering Services	12,943,002	12,943,002	3,319,099	627,672	2,218,676	1,100,423	33.2%
Water Resources Management	9,129,340	9,129,340	1,379,344	697,525	1,345,776	33,568	2.4%
One Stop Shop	0	0	0	0	0	0	0.0%
Reclaimed Water Services	591,699	591,699	89,838	47,332	87,219	2,819	2.9%
Total Program Requirements	210,258,906	210,258,906	35,860,902	15,442,033	33,343,934	2,516,968	7.0%
OTHER REQUIREMENTS							
Utility Billing System Support	20,566,947	20,566,947	3,486,151	1,713,912	3,427,824	58,326	1.7%
Market Study Adjustment	0	0	0	0	0	0	0.0%
Accrued Payroll	297,236	297,236	0	0	0	0	0.0%
Interdepartmental Charges	112,760	112,760	18,769	9,400	18,780	9	0.0%
Trf to PID Fund	75,000	75,000	0	0	0	0	0.0%
Services-PID contract expense	0	0	0	0	0	0	0.0%
Compensation Adjustment	0	0	0	0	0	0	0.0%
Total Other Requirements	21,051,943	21,051,943	3,504,919	1,723,312	3,446,584	58,335	1.7%
DEBT SERVICE REQUIREMENTS							
Trf to Util D/S Separate Lien	132,503,838	132,503,838	26,067,933	10,982,014	25,756,359	311,574	1.2%
Trf to Utility D/S Pnwr Lien	58,658,374	58,658,374	5,340,800	4,891,420	5,340,795	5	0.0%
Trf to Utility D/S Sub Lien	9,076,100	9,076,100	875,800	759,723	876,034	(234)	0.0%
Trf to GO Debt Service	2,868,844	2,868,844	717,210	0	718,716	(1,506)	-0.2%
Trf to Util D/S Tax/Rev Bonds	648,483	648,483	0	0	0	0	0.0%
Commercial paper interest	125,355	125,355	20,892	0	0	20,892	100.0%
Total Debt Service Requirements	201,880,994	201,880,994	33,022,635	16,633,157	32,691,904	330,731	1.0%

City of Austin, Texas
Austin Water
FUND SUMMARY - COMBINED
As of November 2017

	2017-18 APPROVED	2017-18 AMENDED	BUDGET ALLOTMENT	MTD ACTUAL W/ ENCUMB	YTD ACTUAL W/ ENCUMB	YTD VARIANCE	% VARIANCE
TRANSFERS OUT							
Trf to General Fund	45,914,379	45,914,379	7,739,312	3,817,510	7,739,279	33	0.0%
Trf to Wastewater CIP Fund	42,000,000	42,000,000	7,225,000	7,225,000	7,225,000	0	0.0%
Trf to Water CIP Fund	29,000,000	29,000,000	5,074,000	5,074,000	5,074,000	0	0.0%
TRF CRF to Debt Defeasance	27,573,000	27,573,000	0	0	0	0	0.0%
Administrative Support	12,122,210	12,122,210	2,116,560	1,000,565	2,116,560	0	0.0%
Trf to Water Revenue Stab Rsv	9,385,497	9,385,497	1,232,155	607,862	1,232,155	0	0.0%
CTM Support	4,029,576	4,029,576	0	0	0	0	0.0%
Trf to Reclaimed Water Fund	3,400,000	3,400,000	0	0	0	0	0.0%
Trf to Economic Development	3,233,332	3,233,332	0	0	0	0	0.0%
Trf to Reclaimed Water CIP Fnd	1,000,000	1,000,000	172,000	172,000	172,000	0	0.0%
Trf to CIP Mgm - CPM (5460)	2,407,858	2,407,858	0	0	0	0	0.0%
Workers' Compensation	1,254,566	1,254,566	0	0	0	0	0.0%
Regional Radio System	293,217	293,217	0	0	0	0	0.0%
CTECC Support	11,774	11,774	11,774	11,774	11,774	0	0.0%
Liability Reserve	0	0	0	0	0	0	0.0%
Trf to CTECC Fund	0	0	0	0	0	0	0.0%
Trf to Support Services Fund	0	0	0	0	0	0	0.0%
Trf to Wireless Communication	0	0	0	0	0	0	0.0%
Trf to Environmental Rmdn Fund	0	0	0	0	0	0	0.0%
Total Transfers Out	181,625,409	181,625,409	23,570,802	17,908,711	23,570,768	33	0.0%
TOTAL REQUIREMENTS	614,817,252	614,817,252	95,959,258	51,707,213	93,053,191	2,906,067	3.0%
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	9,247,328	9,247,328	7,433,731	(3,381,604)	5,979,070	(1,454,661)	-19.6%
ADJUSTMENT TO GAAP	0	0	0	0	0	0	0.0%
ENDING BALANCE	209,501,402	209,501,402	207,687,805		218,307,386	10,619,582	5.1%

Note: Numbers may not add due to rounding

DEBT SERVICE COVERAGE RATIO

1.69

1.69

1.88

City of Austin, Texas
Austin Water
FUND SUMMARY - WATER
As of November 2017

	2017-18 APPROVED	2017-18 AMENDED	BUDGET ALLOTMENT	MTD ACTUAL W/ ENCUMB	YTD ACTUAL W/ ENCUMB	YTD VARIANCE	% VARIANCE
BEGINNING BALANCE	98,407,343	98,407,343	98,407,343	-	109,992,931	11,585,588	11.8%
REVENUE							
Water Revenue	297,299,813	297,299,813	52,035,146	24,194,835	50,725,220	(1,309,926)	-2.5%
Reserve Fund Surcharge	7,385,497	7,385,497	1,273,067	607,862	1,232,155	(40,912)	-3.2%
Other Revenue	3,063,512	3,063,512	510,586	158,100	312,873	(197,713)	-38.7%
Development Fees	1,252,900	1,252,900	208,816	94,660	235,821	27,005	12.9%
Other Fines	616,800	616,800	102,800	28,300	19,425	(83,375)	-81.1%
Interest	492,028	492,028	82,004	183,460	371,611	289,607	353.2%
Miscellaneous Franchise Fees	76,300	76,300	12,716	0	0	(12,716)	-100.0%
Land & Infrastructure Rental/Lease	67,000	67,000	11,166	0	5,500	(5,666)	-50.7%
Building Rental/Lease	57,500	57,500	9,584	15,084	15,084	5,500	57.4%
Public Health Licenses, Permits, Inspections	46,400	46,400	7,734	5,446	10,758	3,024	39.1%
Scrap Sales	27,200	27,200	4,534	2,690	3,504	(1,030)	-22.7%
Parking Revenue	0	0	0	32	32	32	0.0%
Total Revenue	310,384,950	310,384,950	54,258,163	25,290,469	52,931,984	(1,326,169)	-2.4%
TRANSFERS IN							
CIP	19,973,000	19,973,000	0	0	0	0	0.0%
Community Benefit Charge Transfer In	4,048,009	4,048,009	674,668	0	0	(674,668)	-100.0%
Support Services/Infrastructure Funds	150,291	150,291	25,048	37,500	37,500	12,452	49.7%
General Fund	0	0	0	0	0	0	0.0%
Total Transfers In	24,171,300	24,171,300	699,716	37,500	37,500	(662,216)	-94.6%
TOTAL AVAILABLE FUNDS	334,556,250	334,556,250	54,957,869	25,327,969	52,969,484	(1,988,366)	-3.6%
PROGRAM REQUIREMENTS							
Operations	71,523,429	71,581,709	11,241,359	5,236,834	9,974,004	1,267,354	11.3%
Support Services	14,781,305	14,723,025	2,607,233	1,044,385	2,837,615	(230,382)	-8.8%
Environmental Affairs & Conservation	9,055,473	9,055,473	1,561,676	849,580	1,392,333	169,343	10.8%
Other Utility Program Requirements	5,828,252	5,828,252	995,228	182,958	935,857	59,371	6.0%
Engineering Services	5,050,457	5,050,457	644,959	227,377	471,919	173,040	26.8%
Water Resources Management	4,273,293	4,273,293	654,190	371,959	670,489	(18,299)	-2.5%
Total Program Requirements	110,512,209	110,512,209	17,704,645	7,913,093	16,282,218	1,422,427	8.0%
OTHER REQUIREMENTS							
Utility Billing System Support	12,953,273	12,953,273	2,205,065	1,079,439	2,158,879	46,186	2.1%
Accrued Payroll	151,150	151,150	0	0	0	0	0.0%
Interdepartmental Charges	56,380	56,380	9,384	4,700	9,380	4	0.0%
Trf to PID Fund	37,500	37,500	0	0	0	0	0.0%
Total Other Requirements	13,198,303	13,198,303	2,214,449	1,084,139	2,168,259	46,190	2.1%
DEBT SERVICE REQUIREMENTS							
Trf to Util D/S Separate Lien	72,226,776	72,226,776	14,132,111	5,885,391	13,949,334	182,777	1.3%
Trf to Utility D/S Prior Lien	27,248,800	27,248,800	2,410,700	2,309,155	2,410,300	400	0.0%
Trf to Utility D/S Sub Lien	5,075,700	5,075,700	480,800	424,604	480,852	(52)	0.0%
Trf to GO Debt Service	1,327,428	1,327,428	331,857	0	333,362	(1,505)	-0.5%
Trf to Util D/S Tax/Rev Bonds	239,965	239,965	0	0	0	0	0.0%
Commercial paper Interest	69,423	69,423	11,570	0	0	11,570	100.0%
Total Debt Service Requirements	106,188,092	106,188,092	17,367,038	8,619,151	17,173,847	193,191	1.1%

City of Austin, Texas
Austin Water
FUND SUMMARY - WATER
As of November 2017

	2017-18 APPROVED	2017-18 AMENDED	BUDGET ALLOTMENT	MTD ACTUAL W/ ENCUMB	YTD ACTUAL W/ ENCUMB	YTD VARIANCE	% VARIANCE
TRANSFERS OUT							
Trf to Water CIP Fund	29,000,000	29,000,000	5,074,000	5,074,000	5,074,000	0	0.0%
Trf to General Fund	24,538,645	24,538,645	4,089,774	2,044,890	4,089,745	29	0.0%
TRF CRF to Debt Defeasance	19,973,000	19,973,000	0	0	0	0	0.0%
Trf to Water Revenue Slab Rsv	9,385,497	9,385,497	1,232,155	607,862	1,232,155	0	0.0%
Administrative Support	6,926,977	6,926,977	1,154,477	577,250	1,154,477	0	0.0%
Trf to Reclaimed Water Fund	2,550,000	2,550,000	0	0	0	0	0.0%
CTM Support	2,032,488	2,032,488	0	0	0	0	0.0%
Trf to Economic Development	1,710,432	1,710,432	0	0	0	0	0.0%
Trf to CIP Mgm - CPM (5460)	1,123,401	1,123,401	0	0	0	0	0.0%
Workers' Compensation	627,283	627,283	0	0	0	0	0.0%
Regional Radio System	293,217	146,609	0	0	0	0	0.0%
CTECC Support	5,887	5,887	5,887	5,887	5,887	0	0.0%
Total Transfers Out	98,166,825	98,020,217	11,566,293	8,309,889	11,556,264	29	0.0%
TOTAL REQUIREMENTS	328,065,429	327,918,821	48,842,425	25,926,272	47,180,588	1,661,837	3.4%
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	6,490,821	6,637,429	6,115,444	(598,303)	5,788,896	(326,548)	-5.3%
ADJUSTMENT TO GAAP	0	0	0	0	0	0	0.0%
ENDING BALANCE	104,898,164	105,044,772	104,522,787		115,781,826	11,259,040	10.8%
<i>Note: Numbers may not add due to rounding</i>							
DEBT SERVICE COVERAGE RATIO	1.68	1.68			1.98		

City of Austin, Texas
Austin Water
FUND SUMMARY - WASTEWATER
As of November 2017

	2017-18 APPROVED	2017-18 AMENDED	BUDGET ALLOTMENT	MTD ACTUAL W/ ENCUMB	YTD ACTUAL W/ ENCUMB	YTD VARIANCE	% VARIANCE
BEGINNING BALANCE	100,522,211	100,522,211	100,522,211	-	101,396,032	873,821	0.9%
REVENUE							
Wastewater Revenue	269,302,437	269,302,437	46,324,743	22,391,174	44,821,785	(1,502,958)	-3.2%
Other Revenue	2,979,848	2,979,848	497,342	202,980	433,045	(64,297)	-12.9%
Interest	618,454	618,454	103,076	167,600	343,425	240,349	233.2%
Public Health Licenses, Permits, Inspections	596,000	596,000	99,332	45,881	88,432	(10,900)	-11.0%
Building Rental/Lease	57,000	57,000	9,500	15,084	15,084	5,584	58.8%
Miscellaneous Franchise Fees	16,700	16,700	2,784	0	0	(2,784)	-100.0%
Scrap Sales	15,500	15,500	2,584	2,690	3,504	920	35.6%
Development Fees	4,200	4,200	0	527	869	869	0.0%
Total Revenue	273,590,139	273,590,139	47,039,361	22,825,935	45,706,143	(1,333,218)	-2.8%
TRANSFERS IN							
CIP	7,600,000	7,600,000	0	0	0	0	0.0%
Community Benefit Charge Transfer In	2,802,502	2,802,502	467,064	0	0	(467,064)	-100.0%
Support Services/Infrastructure Funds	150,291	150,291	25,048	37,500	37,500	12,452	49.7%
Austin Resource Recovery Fund	53,334	53,334	8,890	0	0	(8,890)	-100.0%
Total Transfers In	10,606,127	10,606,127	501,022	37,500	37,500	(463,522)	-92.5%
TOTAL AVAILABLE FUNDS	284,196,266	284,196,266	47,540,383	22,863,435	45,743,643	(1,796,740)	-3.8%
PROGRAM REQUIREMENTS							
Operations	63,222,996	63,282,596	10,464,594	5,356,234	10,084,047	380,547	3.6%
Support Services	14,458,809	14,400,209	2,590,260	998,009	2,800,932	(210,672)	-8.1%
Engineering Services	7,892,545	7,892,545	2,674,140	400,296	1,746,756	927,384	34.7%
Other Utility Program Requirements	5,358,190	5,358,190	1,085,249	178,059	1,222,253	(137,004)	-12.6%
Water Resources Management	4,856,047	4,856,047	725,154	325,567	675,287	49,867	6.9%
Environmental Affairs & Conservation	3,337,235	3,337,235	525,009	222,809	441,368	83,642	15.9%
Total Program Requirements	99,126,822	99,126,822	18,064,406	7,480,973	16,970,642	1,093,764	6.1%
OTHER REQUIREMENTS							
Utility Billing System Support	7,613,674	7,613,674	1,281,086	634,473	1,268,946	12,140	0.9%
Accrued Payroll	145,040	145,040	0	0	0	0	0.0%
Interdepartmental Charges	56,380	56,380	9,384	4,700	9,380	4	0.0%
Trf to PID Fund	37,500	37,500	0	0	0	0	0.0%
Total Other Requirements	7,852,594	7,852,594	1,290,470	639,173	1,278,326	12,145	0.9%
DEBT SERVICE REQUIREMENTS							
Trf to Util D/S Separate Lien	58,254,809	58,254,809	11,534,064	4,862,480	11,343,176	190,888	1.7%
Trf to Utility D/S Prior Lien	29,409,574	29,409,574	2,930,100	2,582,265	2,930,496	(396)	0.0%
Trf to Utility D/S Sub Lien	4,000,400	4,000,400	395,000	335,118	395,182	(182)	0.0%
Trf to GO Debt Service	1,541,416	1,541,416	385,353	0	385,354	(1)	0.0%
Trf to Util D/S Tax/Rev Bonds	408,518	408,518	0	0	0	0	0.0%
Commercial paper interest	8,512	8,512	1,418	0	0	1,418	100.0%
Total Debt Service Requirements	93,623,229	93,623,229	15,245,935	7,779,864	15,054,207	191,728	1.3%

City of Austin, Texas
Austin Water
FUND SUMMARY - WASTEWATER
As of November 2017

	2017-18 APPROVED	2017-18 AMENDED	BUDGET ALLOTMENT	MTD ACTUAL W/ ENCUMB	YTD ACTUAL W/ ENCUMB	YTD VARIANCE	% VARIANCE
TRANSFERS OUT							
Trf to Wastewater CIP Fund	42,000,000	42,000,000	7,225,000	7,225,000	7,225,000	0	0.0%
Trf to General Fund	21,271,435	21,271,435	3,545,239	1,772,620	3,545,235	4	0.0%
TRF CRF to Debt Defeasance	7,600,000	7,600,000	0	0	0	0	0.0%
Administrative Support	5,079,783	5,079,783	846,633	423,315	846,633	0	0.0%
CTM Support	1,994,262	1,994,262	0	0	0	0	0.0%
Trf to Economic Development	1,509,967	1,509,967	0	0	0	0	0.0%
Trf to CIP Mgm - CPM (5460)	1,150,750	1,150,750	0	0	0	0	0.0%
Trf to Reclaimed Water Fund	850,000	850,000	0	0	0	0	0.0%
Workers' Compensation	627,283	627,283	0	0	0	0	0.0%
CTECC Support	5,887	5,887	5,887	5,887	5,887	0	0.0%
Regional Radio System	0	146,608	0	0	0	0	0.0%
Total Transfers Out	82,089,367	82,235,975	11,622,759	9,426,822	11,622,755	4	0.0%
TOTAL REQUIREMENTS	282,692,012	282,838,620	46,223,571	25,326,832	44,925,930	1,297,641	2.8%
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL	1,504,254	1,357,646	1,316,812	(2,463,397)	817,713	(499,099)	-37.9%
ADJUSTMENT TO GAAP	0	0	0	0	0	0	0.0%
ENDING BALANCE	102,026,465	101,879,857	101,839,023		102,213,745	374,722	0.4%
<i>Note: Numbers may not add due to rounding</i>							
DEBT SERVICE COVERAGE RATIO	1.72	1.72			1.81		

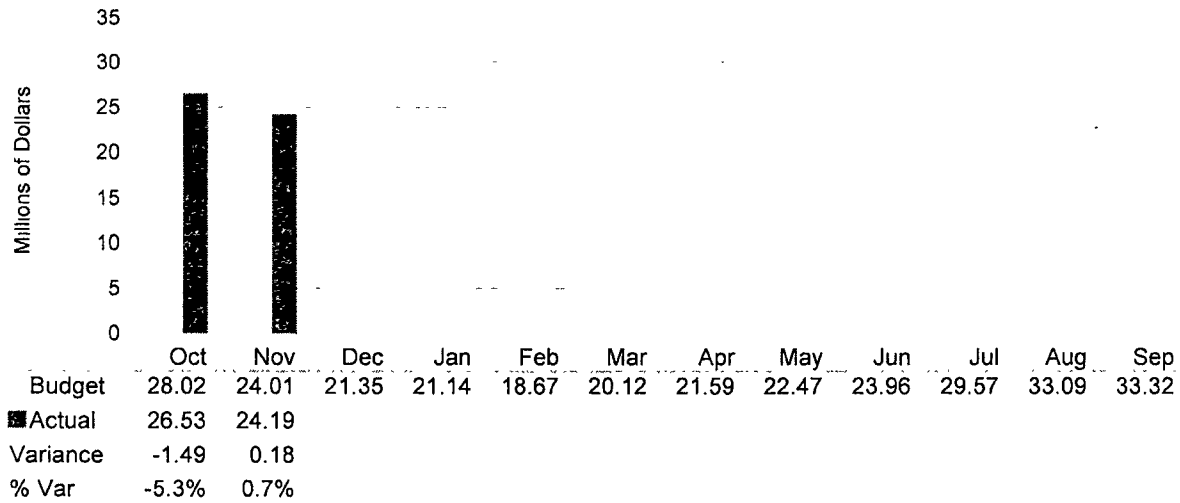
City of Austin, Texas
Austin Water
FUND SUMMARY - RECLAIMED
As of November 2017

	2017-18 APPROVED	2017-18 AMENDED	BUDGET ALLOTMENT	MTD ACTUAL W/ ENCUMB	YTD ACTUAL W/ ENCUMB	YTD VARIANCE	% VARIANCE
BEGINNING BALANCE	1,324,520	1,324,520	1,324,520	0	939,353	(385,167)	-29.1%
REVENUE							
Reclaimed Services	1,895,166	1,895,166	325,255	130,691	310,888	(14,367)	-4.4%
Interest	16,898	16,898	2,816	3,514	8,246	5,430	192.8%
Other Revenue	0	0	0	0	0	0	0.0%
Total Revenue	1,912,064	1,912,064	328,071	134,205	319,134	(8,937)	-2.7%
TRANSFERS IN							
Community Benefit Charge Transfer In	3,400,000	3,400,000	566,666	0	0	(566,666)	-100.0%
Total Transfers In	3,400,000	3,400,000	566,666	0	0	(566,666)	-100.0%
TOTAL AVAILABLE FUNDS	5,312,064	5,312,064	894,737	134,205	319,134	(575,603)	-64.3%
PROGRAM REQUIREMENTS							
Reclaimed Water Services	591,699	591,699	89,838	47,332	87,219	2,619	2.9%
Other Utility Program Requirements	28,176	28,176	2,013	635	3,855	(1,842)	-91.5%
Total Program Requirements	619,875	619,875	91,851	47,967	91,074	777	0.8%
OTHER REQUIREMENTS							
Accrued Payroll	1,046	1,046	0	0	0	0	0.0%
Total Other Requirements	1,046	1,046	0	0	0	0	0.0%
DEBT SERVICE REQUIREMENTS							
Trf to Util D/S Separate Lien	2,022,253	2,022,253	401,758	234,142	463,850	(62,092)	-15.5%
Commercial paper interest	47,420	47,420	7,904	0	0	7,904	100.0%
Total Debt Service Requirements	2,069,673	2,069,673	409,662	234,142	463,850	(54,188)	-13.2%
TRANSFERS OUT							
Trf to Reclaimed Water CIP Fnd	1,000,000	1,000,000	172,000	172,000	172,000	0	0.0%
Administrative Support	115,450	115,450	115,450	0	115,450	0	0.0%
Trf to General Fund	104,299	104,299	104,299	0	104,299	0	0.0%
Trf to CIP Mgm - CPM (5450)	133,707	133,707	0	0	0	0	0.0%
Trf to Economic Development	12,933	12,933	0	0	0	0	0.0%
CTM Support	2,828	2,828	0	0	0	0	0.0%
Total Transfers Out	1,369,217	1,369,217	391,749	172,000	391,749	0	0.0%
TOTAL REQUIREMENTS	4,059,811	4,059,811	893,262	454,109	946,673	(53,411)	-6.0%
EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS	1,252,253	1,252,253	1,475	(319,904)	(627,539)	(629,014)	-42636.4%
ADJUSTMENT TO GAAP	0	0	0	0	0	0	0.0%
ENDING BALANCE	2,578,773	2,578,773	1,325,995		311,815	(1,014,180)	-78.5%
<i>Note: Numbers may not add due to rounding</i>							
DEBT SERVICE COVERAGE RATIO	0.51	0.51			0.24		

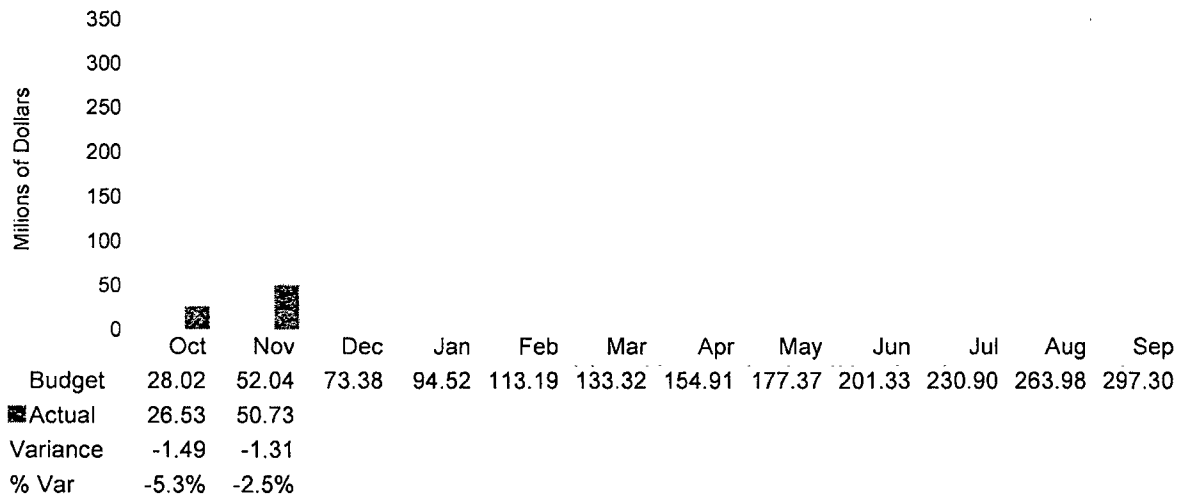
REVENUES

Water Service Revenue

Monthly Actuals v. Budget



Year-to-Date Actuals v. Budget



Water service revenues for November 2017 totaled \$24.19 million. This is \$0.18 million, or 0.7%, more than the budget allotment for the month. For the fiscal year, water service revenues totaled \$50.73 million, which is \$1.31 million, or 2.5% less than the budget allotment.

November 2017's billed water consumption totaled 3.03 BG, 0.34 BG (10.0%) lower than projected for the month. Year-to-date, billed water consumption of 6.63 BG is 0.47 BG (6.6%) lower than projected.