



Dave Yost • Auditor of State





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To the residents, elected officials, management, and stakeholders of the City of Steubenville,

At the request of the Mayor and City Council, the Auditor of State's Ohio Performance Team conducted a performance audit of the City to provide an independent assessment of operations. Functional areas selected for operational review were identified with input from City management and were selected due to strategic and financial importance to the City. Where warranted, and supported by detailed analysis, this performance audit report contains recommendations to enhance the City's overall efficiency and effectiveness. This report has been provided to the City and its contents have been discussed with the appropriate elected officials and City management.

The City has been encouraged to use the management information and recommendations contained in the performance audit report. However, the City is also encouraged to perform its own assessment of operations and develop alternative management strategies independent of the performance audit report. The Auditor of State has developed additional resources to help Ohio governments share ideas and practical approaches to improve accountability, efficiency, and effectiveness.

**SkinnyOhio.org:** This website, accessible at <http://www.skinnyohio.org/>, is a resource for smarter streamlined government. Included are links to previous performance audit reports, information on leading practice approaches, news on recent shared services examples, the Shared Services Idea Center, and other useful resources such as the Local Government Toolkit. The Shared Services Idea Center is a searchable database that allows users to quickly sort through shared services examples across the State. The Local Government Toolkit provides templates, checklists, sample agreements, and other resources that will help local governments more efficiently develop and implement their own strategies to achieve more accountable, efficient, and effective government.

This performance audit report can be accessed online through the Auditor of State's website at <http://www.ohioauditor.gov> and choosing the "Search" option.

Sincerely,

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

February 17, 2014

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# Executive Summary

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## Purpose and Scope of the Audit

The City of Steubenville (Steubenville or the City) requested the Auditor of State's (AOS) Ohio Performance Team (OPT) conduct a limited scope performance audit in order to provide an objective assessment of the economy, efficiency, and effectiveness of the City's water, wastewater, and refuse operations and management.

In consultation with the City, the following scope areas were selected for detailed review and analysis: receivables, metering, new services, the Utility Delinquency Review Board (UDRB) adjustments, delinquencies, rates, staffing and financial policies. See **Appendix A: Scope and Objectives** for detailed objectives developed to assess operations and management in each scope area.

## Performance Audit Overview

The United States Government Accountability Office develops and promulgates Government Auditing Standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are commonly referred to as generally accepted government auditing standards (GAGAS).

OPT conducted this performance audit in accordance with GAGAS. These standards require that OPT plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. OPT believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

This performance audit provides objective analysis to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

## Audit Methodology

To complete this performance audit, auditors gathered data, conducted interviews with numerous individuals associated with the various divisions internally and externally, and reviewed and assessed available information. Assessments were performed using criteria from a number of sources including: peer comparison, industry standards, leading practices, statutory authority, and applicable policies and procedures.

In consultation with the City, the following Ohio municipalities were identified as peers: the cities of Ashland (Ashland County), Ashtabula (Ashtabula County), Defiance (Defiance

County), Fremont (Sandusky County), Norwalk (Huron County), Painesville (Lake County), Perrysburg (Wood County), and Sidney (Shelby County). Where reasonable and appropriate, peer cities were used for comparison. However, in some operational areas, industry standards or leading practices were used for primary comparison. Sources of industry standards or leading practices used in this audit include: the Government Finance Officers Association (GFOA), the Environmental Protection Agency (EPA), the Municipal Research and Service Center (MRSC), and the American Institute of Certified Public Accountants (AICPA).

The performance audit involved information sharing with the City, including drafts of findings and recommendations related to the identified audit areas. Periodic status meetings throughout the engagement informed the City of key issues impacting selected areas, and shared proposed recommendations to improve operations. The City provided verbal and written comments in response to various recommendations, which were taken into consideration during the reporting process.

AOS and OPT express their appreciation to the elected officials, management, and employees of the City of Steubenville for their cooperation and assistance throughout this audit.

## Summary of Recommendations

The following table summarizes performance audit recommendations and financial implications, where applicable.

### Summary of Recommendations

Recommendations	Savings
<b>R.1 Monitor capital asset records</b>	N/A
<b>R.2 Increase internal controls related to delinquency policies and procedures</b>	N/A
<b>R.3 Develop policies and procedures for sending delinquent accounts to collections</b>	N/A
<b>R.4 Design and implement interest schedule for delinquent utility accounts</b>	N/A
<b>R.5 Develop and implement formal policies for account adjustments and write-offs</b>	N/A
<b>R.6 Improve utility billing internal controls</b>	N/A
<b>R.7 Enforce lien policies and procedures detailed in codified ordinances</b>	N/A
<b>R.8 Apply utility payments to refuse charges first</b>	N/A
<b>R.9 Implement formal policy on water meter inventory and storage</b>	N/A
<b>R.10 Develop and implement formal meter calibration policy</b>	N/A
<b>R.11 Update utility billing system to incorporate county parcel numbers</b>	N/A
<b>R.12 Update the strategic plan</b>	N/A
<b>R.13 Develop and implement formal financial policies</b>	N/A
<b>R.14 Eliminate 2 FTE refuse operator positions</b>	\$91,000
<b>R.15 Eliminate 2 FTE wastewater line maintenance positions</b>	\$87,000
<b>R.16 Develop formal policies for the Utility Delinquency Review Board (UDRB)</b>	N/A
<b>R.17 Increase transparency of the UDRB</b>	N/A
<b>Total Cost Savings from Performance Audit Recommendations</b>	<b>\$178,000</b>

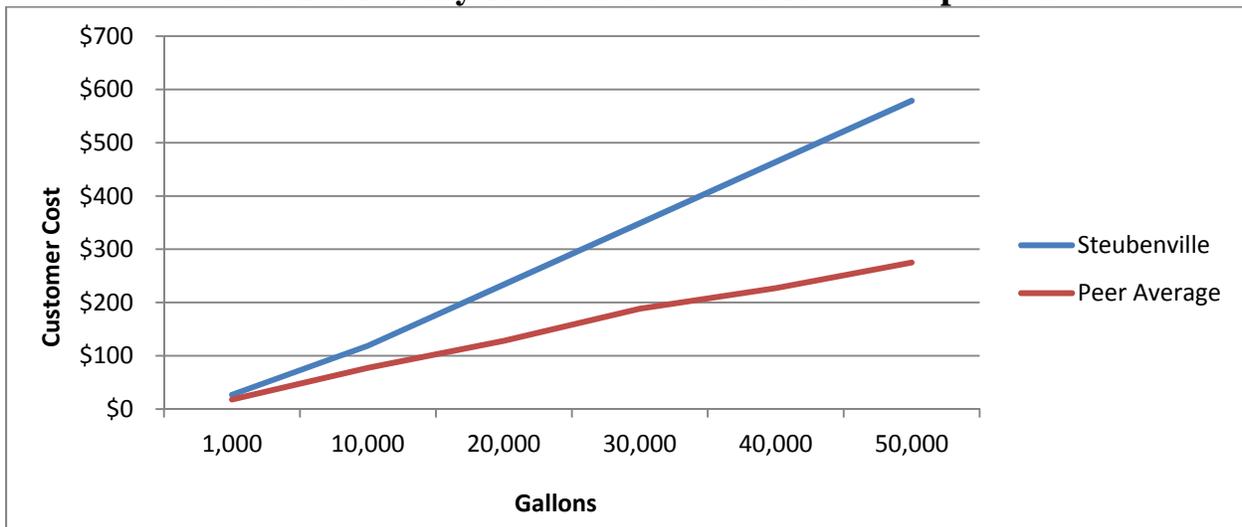
# Background

The City of Steubenville contracted with AOS to conduct a performance audit with the goal of improving the operations of the City’s public utilities function. City administrators requested particular focus be placed on the policies and procedures of the water, wastewater and refuse operations to determine if they are efficient and effective.

## Rates

On February 7, 2014, the City increased water and wastewater rates. In addition to a base rate increase, a service charge of \$3.90 per unit was added for water in order to fund repairs and improvements to the infrastructure. **Chart 1** through **Chart 3** reflect this rate increase, comparing the City’s utility rates to the peer average.

**Chart 1: Monthly Residential Water Rate Comparison**



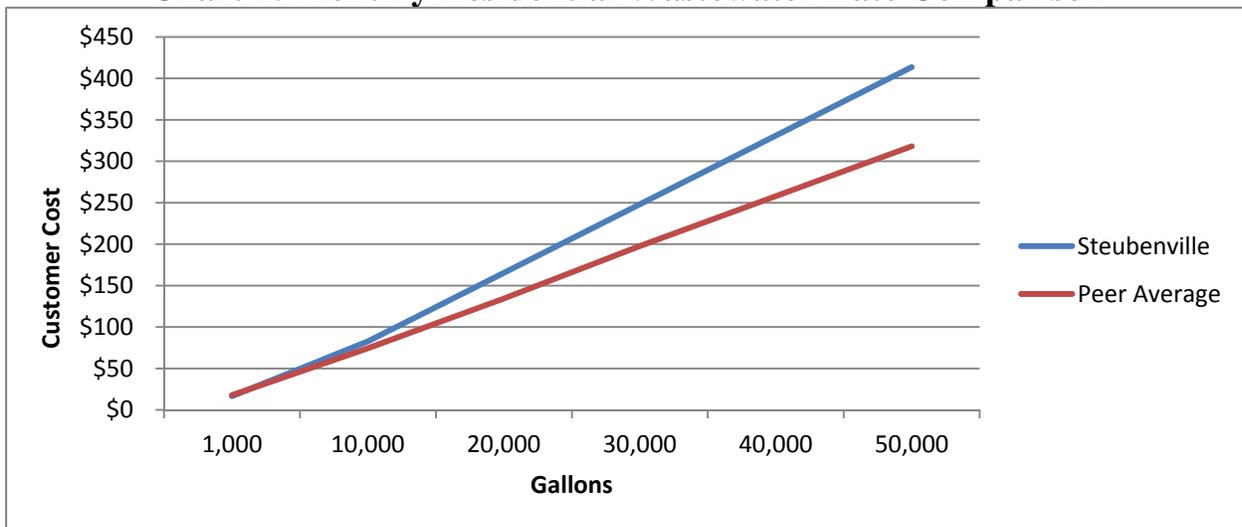
Source: Steubenville and peer cities of Alliance, Defiance, Norwalk and Painesville

Note: Peer rates vary with the level of usage.

As shown in **Chart 1**, the City’s water rates are significantly higher than the peer average. Steubenville charges residents a flat rate per 1,000 gallons, while 3 out of the 4 peers offer tiered rates. Steubenville has a minimum charge of 2,000 gallons a month at a rate of \$26.90, including a \$3.90 service charge for infrastructure improvements, while the peer average minimum monthly charge was \$17.93. In addition to a higher minimum charge, the City’s water rates are higher than the peer average regardless of the usage amount. Historically, Steubenville’s water function has operated with revenues exceeding expenses (see **Appendix B: Historical Financial Data**).

**Chart 2** illustrates Steubenville’s monthly wastewater rates compared to the peer average.

**Chart 2: Monthly Residential Wastewater Rate Comparison**

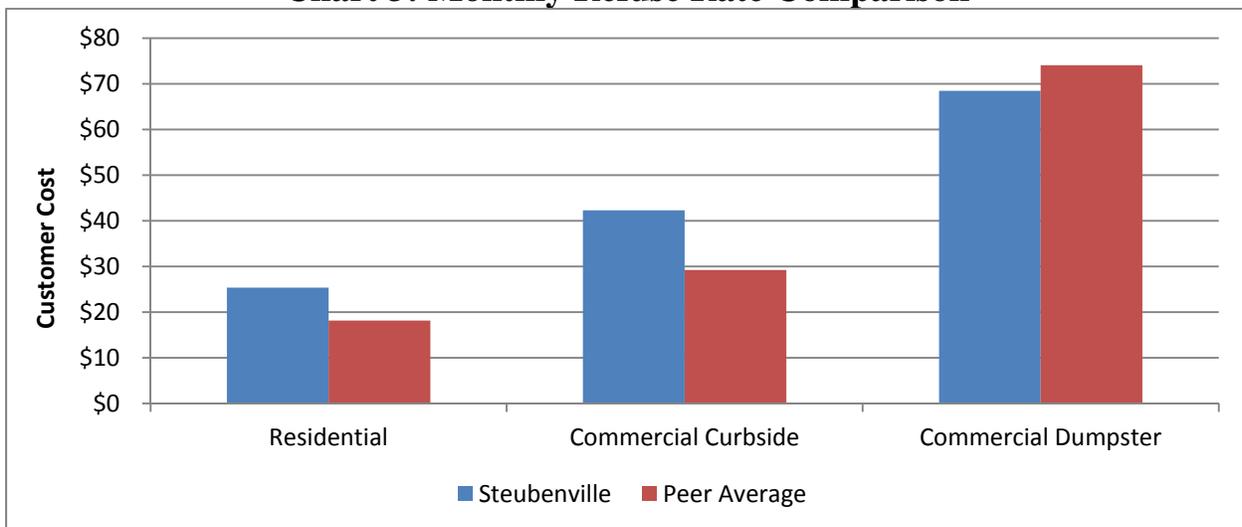


Source: Steubenville and peer cities of Alliance, Defiance, Norwalk and Painesville  
 Note: Peer rates vary with the level of usage.

As shown in **Chart 2**, Steubenville’s minimum monthly charge for wastewater is slightly lower than the peer average, but increases at a faster pace than the peer average with higher usage. The City has a monthly minimum of 2,000 gallons at a rate of \$16.54. In comparison, the peers had a minimum charge of \$17.67. Steubenville charges a flat rate, while 3 out of the 4 peers offer tiered rates. Historically, Steubenville’s wastewater function has operated with revenues exceeding expenses (see **Appendix B: Historical Financial Data**).

**Chart 3** shows a comparison of the City’s residential refuse, commercial, and dumpster rates compared to the peer average.

**Chart 3: Monthly Refuse Rate Comparison**



Source: Steubenville and peer cities of Ashland, Ashtabula, Norwalk, Perrysburg, and Sidney  
 Note: Peer average for commercial curbside and commercial dumpster include peer cities of Ashland and Ashtabula, other peers do not offer commercial pick-up.

As shown in **Chart 3**, the City's residential and commercial curb-side pick-up rates are significantly higher than the peer average, while the commercial dumpster rate is slightly lower. Historically, Steubenville's refuse function has operated with revenues exceeding expenses (see **Appendix B: Historical Financial Data**).

### Key Performance Indicators

One method of evaluating success of an organization is the development and tracking of key performance indicators (KPIs) of selected areas based on the particular activities for which they are engaged. **Table 1** through **Table 3** show potential KPIs of the City's utility services in 2012 in comparison to the peer average. Although these KPIs were developed by AOS during the performance audit, the City is encouraged to utilize these indicators or develop an alternative set to track and evaluate its service performance.

**Table 1: Water Department KPIs**

	Steubenville	Peer Average	Difference	% Difference
Operational Revenue	\$5,448,141	\$4,743,580	\$704,561	14.9%
Operational Expenses	\$3,941,249	\$3,858,307	\$82,942	2.1%
Water Treatment FTEs	6.0	4.3	1.7	39.5%
Gallons Treated (MGD) <sup>1</sup>	4.1	2.6	1.5	57.7%
<b>Operating Income Margin</b>				
	<b>27.7%</b>	<b>18.7%</b>	<b>9.0%</b>	<b>N/A</b>
<b>Expenses per 1,000 Gallons</b>				
	<b>\$961,280</b>	<b>\$1,483,964</b>	<b>(\$522,684)</b>	<b>(35.2%)</b>
<b>Gallons Produced per FTE (millions)</b>				
	<b>0.7</b>	<b>0.6</b>	<b>0.1</b>	<b>16.7%</b>

Source: Steubenville and the peer cities of Alliance, Defiance, Norwalk and Painesville

<sup>1</sup> Million gallons daily (MGD) is a common industry measure of water production and represents the volume of water that was used, delivered or passed through a point during a 24 hour period.

**Table 1** indicates that the City's water operation is more efficient than the peer average. Steubenville produced water at a lower cost than the peer average, and had a gallons produced per FTE ratio that was almost 17 percent higher than the peer average. These operating efficiencies resulted in an operating income margin of 27.7 percent; 9.0 percentage points higher than the peer average.

**Table 2** shows a comparison of performance indicators for the Wastewater Department.

**Table 2: Wastewater Department KPIs**

	Steubenville	Peer Average	Difference	% Difference
Operational Revenue	\$4,426,856	\$4,180,986	\$245,870	5.9%
Operational Expenses	\$3,394,521	\$3,577,907	(\$183,386)	(5.1%)
Wastewater Treatment FTEs	9.0	5.5	3.5	63.6%
Gallons Treated (MGD) <sup>1</sup>	6.3	2.9	3.4	117.2%
<b>Operating Income Margin</b>				
	<b>23.3%</b>	<b>14.4%</b>	<b>8.9%</b>	<b>N/A</b>
<b>Expenses per 1,000 Gallons</b>				
	<b>\$538,813</b>	<b>\$1,235,763</b>	<b>(\$696,950)</b>	<b>(56.4%)</b>
<b>Gallons Produced per FTE (millions)</b>				
	<b>0.7</b>	<b>0.5</b>	<b>0.2</b>	<b>40.0%</b>

Source: Steubenville and peer cities of Alliance, Defiance, Norwalk and Painesville

<sup>1</sup> Million gallons daily (MGD) is a common industry measure of water production and represents the volume of water that was used, delivered or passed through a point during a 24 hour period.

As illustrated in **Table 2**, Steubenville's wastewater operation is more efficient than the peer average. Wastewater treatment employees were significantly more productive than the peer average, treating 0.7 million gallons per FTE compared to 0.5 million, at a cost that was more than 56 percent lower. These operating efficiencies resulted in an operating income margin of 23.3 percent; 8.9 percentage points higher than the peer average.

**Table 3** shows a comparison of performance indicators for the Refuse Department.

**Table 3: Refuse Department KPIs**

	Steubenville	Peer Average	Difference	% Difference
Operational Revenue	\$2,259,319	\$1,631,522	\$627,797	38.5%
Operational Expenses	\$1,480,209	\$1,552,926	(\$72,717)	(4.7%)
Operations FTEs	11.0	10.0	1.0	10.0%
Accounts	6,478.0	7,575.3	(1,097.3)	(14.5%)
<b>Operating Income Margin</b>				
	<b>34.5%</b>	<b>4.8%</b>	<b>29.7%</b>	<b>N/A</b>
<b>Expenses per Account</b>				
	<b>\$228</b>	<b>\$205</b>	<b>\$23</b>	<b>11.2%</b>
<b>Accounts per FTE</b>				
	<b>588.9</b>	<b>757.5</b>	<b>(168.6)</b>	<b>(22.3%)</b>

Source: Steubenville and peer cities of Ashland, Ashtabula, Norwalk and Perrysburg

As shown in **Table 3**, Steubenville's refuse operation is less efficient than the peer average. The City has the opportunity to see gains in efficiency as witnessed by the expenses per account ratio that was 11.2 percent higher than the peer average, and an accounts per FTE ratio that was 22.3 percent lower than the peer average. However, Steubenville's refuse operation has an operating income margin that is significantly higher than the peer average, 34.5 percent compared to 4.8 percent, which may be due to charging above-average refuse rates (see **Chart 3**).

It is reasonable to assume there is a positive correlation between rate levels, the inefficiency of operations, and/or capital improvement expenditures. Higher rates would be expected for those utility service providers that operate inefficiently or have incurred long term costs for significant capital improvement projects. As shown above however, Steubenville charges higher rates compared to the peer average for all three utility services, water, wastewater, and refuse while appearing to operate more efficiently in all areas. According to the City, higher rates were implemented to cover infrastructure improvements, the financial effect of which is not included

in **Table 1** through **Table 3** (see **R.1**). Therefore, key performance indicators that were developed based on the City's information may not provide a true measure of efficiency. Despite the possible disconnect between the rate structure and the perceived efficiency of operations, the City should consider the recommendations included in this report which aim to improve the efficiency and effectiveness of public utility operations. Efficiencies gained through implementation of these recommendations could then help to reduce residential rates or offset future rate increases and allow Steubenville to provide these services at rates more in-line with the peer averages.

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# Recommendations

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## R.1 Monitor capital asset records

In 2010, the City built a 23,616 square foot municipal building that houses several departments. The building was funded with a long-term loan of \$3.5 million and other City funds. The Water, Wastewater and Refuse funds contributed approximately \$1.3 million, or 27 percent of the total cost, to the construction of the building. The City identified that approximately 23 percent of the building's square footage is dedicated to utility collection, the largest area allocated to one function. Although the utility departments contributed to the funds used to construct the building, the City has not recorded a portion of the fixed asset in those funds. The City's financial system documents the funding sources, but has the entire fixed asset recorded in the General Fund. As a result, the appropriate funds are not contributing to the depreciation expense. The City indicated that the municipal building plan and funding sources were identified and presented to City Council, however, ordinances supporting the contribution from the utilities could not be provided.

*Measuring the Full Cost of Government Services* (GFOA, 2002) recommends that governments calculate the full cost of services provided including both direct and indirect costs. Without properly allocating all expenses related to the construction of the City's new municipal building, expenditures will be understated in the utility funds, and the true fiscal condition will not be fully represented. Ensuring all relevant costs are billed to the Water, Wastewater, and Refuse funds will allow the City to fully evaluate the funds efficiency and performance and better situate utility operations to be fully self-sufficient. The City should monitor capital asset records to ensure that capital assets are recorded in the appropriate funds and depreciation is paid by those funds.

## R.2 Increase internal controls related to delinquency policies and procedures

The City did not have internal controls necessary to ensure policies and procedures are being adhered to in the following areas:

- **Delinquency Late Fees:** Delinquencies are classified by 30, 60, and 90 days or greater past due. Shut off notices are generated when a customer's past due account reaches 60 days. After this, customers have 21 days to make the payment. If a payment is not made, a penalty is applied on the 24<sup>th</sup> day. This three day lag differs from the City of Steubenville Rules and Regulations of the Department of Utilities Water Section (Water Policy) which states that a penalty is to be applied to the account if a payment is not received by the 21<sup>st</sup> day. Delaying penalties on past due accounts results in lost revenue and delayed payment to the City.
- **Reconnection Fees:** The Water Policy states that whenever it becomes necessary for service to be disconnected for violation or non-compliance with any of the rules and regulations, a reconnect fee of \$50.00 shall be paid before the service is turned back on. An analysis of 25 randomly sampled delinquent accounts revealed that the City is not

charging a reconnection fee to all accounts. Specifically, reconnection fees were applied to 2 of the 16 accounts for which service had been shut off, and a reconnect fee was applied to one account that did not have service shut off. Reconnection fees are not applied to accounts consistently. Not charging customer's reconnection fees results in lost revenue to the City.

- **Shut off notices:** Shut off notices are generated when an account has a balance that is 60 days past due. Additionally, the Water Policy states that a written notice of proposed disconnection must be sent at least 14 days, and no more than 21 days prior to the date proposed for disconnection. An analysis could not be completed to determine if service was shut off in accordance with policies and procedures. The City could not identify the last time delinquent accounts were paid in full, because the utility billing software automatically places past due accounts in the relevant delinquency field. The City is unable to exercise internal controls because it cannot draw the information necessary to ensure policies and procedures are being followed. An analysis of 25 randomly selected delinquent accounts that received a shut off notice revealed that the City was unable to shut off service to 4 of the 25 accounts (16 percent). Service was not shut off due to personnel being unable to locate or gain access to the curb box needed to disconnect water service. Continuing water service to residents who are delinquent results in lost revenue to the City.

*Presenting Official Financial Documents Online* (Government Finance Officers Association (GFOA), 2012) recommends governments establish a revenue control and management policy and review it on an annual basis. Management should establish internal controls and ensure they are documented and followed. All aspects of cash, receipting, and accounts receivables should be subject to proper internal controls.

The City should analyze internal control practices in order to verify that policies and procedures are being followed. Increasing adherence to internal controls would ensure the City is charging and collecting accurate revenue for services provided.

### **R.3 Develop policies and procedures for sending delinquent accounts to collections**

The City has historically used a third party agent to collect delinquent utility accounts. In 2013, it contracted with a new company and forwarded 1,905 delinquent utility accounts totaling more than \$1.3 million to the new company. Since August 2013, the new agency deemed more than 870 accounts, approximately \$750,000, uncollectable due to the statute of limitations expiring or the account holder being deceased.

City of Steubenville Codified Ordinance 953.01 indicates a collection service fee of 25 percent of the balance due and owed will be charged to all delinquent water, wastewater and refuse accounts. Aside from having an ordinance that recognizes the utilization and service fees associated with the credit collection agency, there are no formalized policies and procedures in place for forwarding a delinquent account to the credit collection agency.

According to *Village Operations: Importance of Written Policies & Procedures* (Michigan Municipal League, 2006), not having written policies and procedures can result in inconsistencies, which can in turn result in misunderstandings, grievances, and even lawsuits.

Having an up-to-date policy manual would help to improve the current process of sending uncollected accounts and could serve as an effective tool for communicating policies and procedures to the community.

Steubenville should adopt formal policies and procedures for processing delinquent accounts and sending them to a credit collection agency. The City should avoid sending accounts to a collection agency if they are able to file liens against properties in accordance with Codified Ordinances 921.05 and 925.22 and guidelines established by ORC § 743.04 and ORC § 6117.02 (see **R.7**).

#### **R.4 Design and implement interest schedule for delinquent utility accounts**

The City does not charge interest on delinquent utility accounts. The Utility Delinquency Review Board (UDRB) heard 77 cases between January and October of 2013. Approximately 62 percent of these cases received an account credit, totaling \$22,681. A total of 24 accounts were placed on a repayment plan, with 16 of those accounts on a repayment plan of two years or more in length without interest.

According to *Collection Practices for Delinquent Utility Accounts* (Municipal Research and Service Center (MRSC), 2012), public utilities should charge interest on delinquent utility accounts. Accordingly, the City should design and implement an interest schedule for delinquent utility accounts. Charging interest on delinquent accounts would result in increased revenue for the City as well as deter residents from non-payment.

#### **R.5 Develop and implement formal policies for account adjustments and write-offs**

The City does not have formal documented policies that place authority on a specific employee to write-off utility accounts, nor are there procedures that stipulate thresholds for account adjustments and write-offs. In practice, various personnel have the authority to approve account adjustments. **Table 4** shows the classifications of account adjustments for 2013.

**Table 4: 2013 Utility Account Adjustments**

Classification	Total Amount Adjusted	% of Total Amount Adjusted
Billing Errors	(\$669,288)	64.3%
Aged Write-Offs	(\$129,447)	12.4%
Meter Reading Error	(\$114,275)	11.0%
Collections Paid	(\$70,428)	6.8%
Review Board	(\$25,823)	2.5%
Law Director	(\$22,696)	2.2%
Deceased Write-offs	(\$20,491)	2.0%
Deduct Meter	(\$13,356)	1.3%
City Manager <sup>1</sup>	(\$4,995)	0.5%
Miscellaneous Adjustments <sup>2</sup>	(\$4,350)	0.4%
Finance Director	(\$1,037)	0.1%
Credits <sup>3</sup>	\$34,577	(3.3%)
<b>Total Adjustments</b>	<b>(\$1,041,609)</b>	<b>100.0%</b>

Source: Steubenville

<sup>1</sup> Includes pool credits.

<sup>2</sup> Includes bankruptcy, penalty adjustments, and unidentified account credits.

<sup>3</sup> Includes returned check and lien fees.

**Table 4** shows adjustments by classification. The Utility Billing Department staff is permitted to adjust or write-off accounts that are \$10 or less. **Table 4** shows that more than 64 percent of the account adjustments were due to errors from billing (see **R.6**) and meter reading (see **R.10**). Formal policies and procedures identifying who is permitted to adjust utility accounts will ensure that residents are treated equitably and ensure the City is collecting as much revenue as possible for services.

*Presenting Official Financial Documents Online* (GFOA, 2012) recommends governments establish a revenue control and management policy and review it on an annual basis. Management should establish internal controls and ensure they are documented and followed. All aspects of cash, receipting, and accounts receivables should be subject to proper internal controls. Establishing a formal documented write-off policy will allow the City to increase internal controls over the account write-off processes while increasing public transparency and ensuring consistency in application.

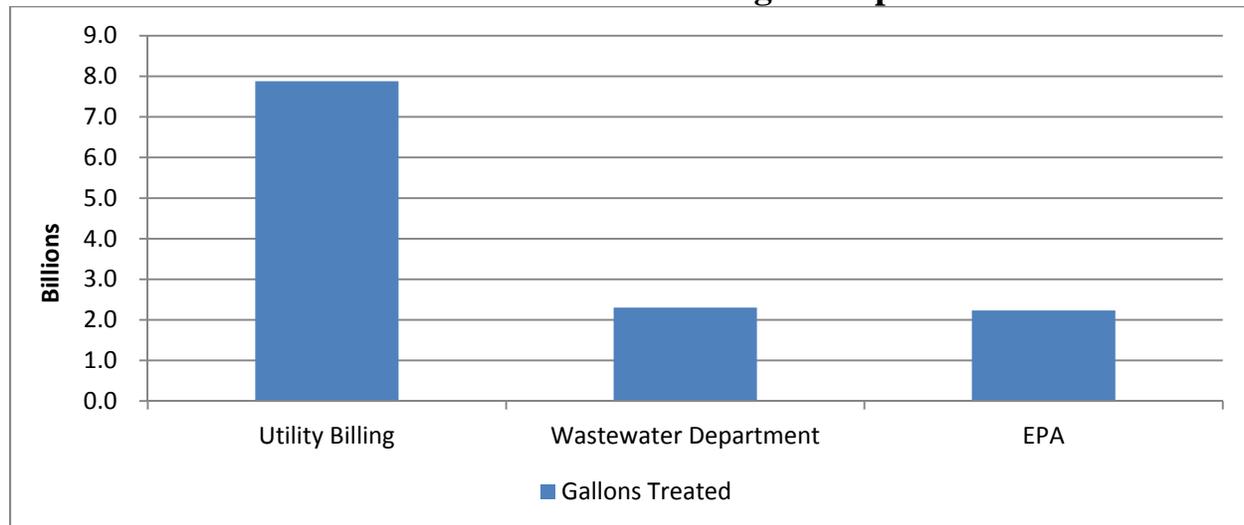
The City should develop and implement formal policies and procedures that identify who has the authority to adjust or write-off utility accounts. By not having proper policies and procedures in place, the City loses control over the utility billing and write-off process. Subsequently, in 2013 the City received more than 870 delinquent accounts totaling more than \$750,000 from a credit collection company as uncollectable due to the statute of limitations expiring.

### **R.6 Improve utility billing internal controls**

Total gallons treated are recorded by the Utility Billing and Wastewater departments and the Ohio Environmental Protection Agency (EPA). In 2012, the Utility Billing Department billed for 5.5 billion gallons more than the Wastewater Department recorded as treated, and 5.6 billion

gallons more than the EPA reported. **Chart 4** shows the total amount of wastewater treated as reported by the various departments.

**Chart 4: 2012 Wastewater Usage Comparison**



Source: Steubenville and EPA

As shown in **Chart 4**, the City recorded wastewater usage totals that were more than three times the amount of wastewater treated. Further review identified that a majority of the variance was tied to an industrial account that was overstated by 5.1 billion gallons, or 69.3 percent of the total gallons billed, due to a data entry error in the billing software. The account belonged to a company that had been procuring untreated water from the City. The Utility Billing Department indicated that the company actually only procured 5.1 million gallons of water from the City. However, a calculation error caused the account usage to be overstated by 5.1 billion gallons. The account was billed for the correct amount; however, the data entry error for the wastewater usage total was not identified by the Utility Billing Department in a timely manner. Subsequently, all reports generated regarding total usage billed for wastewater in 2012 reflected the data entry error. In addition to the data entry error, the City recorded the revenue from the contract, more than \$25,000, in the Wastewater Fund instead of the Water Fund.

*The Importance of Internal Controls in Financial Reporting and Safeguarding Plan Assets* (American Institute of Certified Public Accountants (AICPA), 2007) states “because errors and fraud can and do occur, it is important that you establish safeguards at your plan to ensure you can adequately meet your fiduciary responsibilities. One way this can be accomplished is by implementing effective internal control over financial reporting. Internal controls protect your plan by minimizing opportunities for unintentional errors or intentional fraud that may harm the plan and by discovering small errors before they become big problems.”

The City should improve internal controls in accordance with standards detailed by the AICPA. Doing so will afford the City the ability to identify errors in an effective and timely manner and allow City officials to conduct reviews of the department to ensure policies and procedures are being applied consistently.

## **R.7 Enforce lien policies and procedures detailed in codified ordinances**

Steubenville's codified ordinances 921.05 and 925.22 state that the City is permitted to file a lien against a property if payment for water or wastewater service is not received after 90 days, or if payment for refuse services is not received 30 days after billing. The ordinance also identifies that tenants are permitted to contract with the City for water service; however, the property owner is still responsible for water rents. Historically, the City has submitted delinquencies to a collection agency and certified select accounts for liens to the Jefferson County Auditor once a year. Utility Billing Department personnel and the Finance Director review a list of delinquent utility accounts and determine which accounts should be submitted for a lien. Codified ordinances state that the City will certify liens on properties for non-payment, a collection agency is not mentioned.

The City is not applying liens against properties in an equitable and consistent manner. An analysis completed in July 2014 revealed that 28 of the 109 accounts (25.7 percent) that no longer had water service had liens filed against the property. The analysis also indicated that for 27 of the 28 accounts that had a lien filed, 382 days or more had elapsed since the service was shut off. Additionally, 7 accounts that did not have water service or a lien filed had a range of 389 to 640 days that had passed since service was shut off signifying that the City is not applying liens in accordance with Codified Ordinance 921.05 and 925.22.

ORC § 505.87, § 743.04, and § 6117.02 permit entities to certify a lien on a property to the county auditor when water, wastewater, or sanitary rents are not paid. The cities of Norwalk and Painesville are examples of Ohio cities that routinely work with the respective county auditor to expedite collection on unpaid accounts. The City of Norwalk (Huron County) certifies liens to the Huron County Auditor several times through the year as needed. This office keeps a running list of properties submitted throughout the year and residents can settle liens at any time. If a lien is not paid prior to the tax bill being sent, a 1 percent fee is added. Similarly, the City of Painesville (Lake County) certifies unpaid water and wastewater charges to the Lake County Auditor every 2 to 3 months. The Lake County Auditor then accepts payments throughout the year.

In 2013, the City's credit collection agency deemed more than \$750,000 uncollectable due to the statute of limitations expiring. If the City begins filing liens against delinquent accounts in accordance with City Ordinance 921.05, 925.22, and 951.14, and ORC § 505.87, § 743.04, and § 6117.02, it could result in a reduction in its dependency on the use of a credit collections agency and subsequently avoid paying the 25 percent account service charge billed by the collections agency (see **R.3**). Furthermore, the City will reduce the risk of accounts being deemed uncollectable due to the statute of limitations expiring.

## **R.8 Apply utility payments to refuse charges first**

The City includes charges for water, wastewater, and refuse on customer utility bills. When a bill is not paid in full, the City applies the payment equally as a percentage across the Water, Wastewater and Refuse funds. Although payments are applied equitably, ramifications of non-payment vary in severity for these three services. As outlined in the Water Policy, the City is

permitted to shut off water service (and as an extension, wastewater service) as a result of non-payment. However, the City will not discontinue refuse service as this could create a public nuisance. Because the City will not stop collecting refuse, it runs the risk of not funding this service and instead funding other services that can be ceased.

The payment allocation policy of the City of Wooster (Wayne County) applies payments in the following order: storm water, refuse, wastewater, and lastly to water. Wooster indicated that it applies payments in this manner due to the fact that it can shut off water services. Accordingly, Steubenville should apply payments in this manner to ensure services vital to public welfare are continually funded.

### **R.9 Implement formal policy on water meter inventory and storage**

The City does not have formal policies or procedures that identify how water meter purchases are tracked, entered into inventory, and stored prior to installation. Unused meters are stored in a City owned building that employees have access to. Although an inventory of meters that are installed is maintained, there is no inventory taken of unused meters in storage. Without a formal policy or procedure in place that defines how meters are entered into inventory and stored once purchased, the City risks over- or under-purchasing meters and supplies leading to higher expenditures. A formal policy or procedure would decrease the risk of unnecessary expenditures or theft.

The City of South Bend, Indiana implemented an inventory procedure in January 2010 that defines internal controls for the inventory of water meters and supplies. The procedure identifies that the first-in/first-out method is to be used. Delivery receipts are inspected to ensure accuracy, receipts are verified against the purchase order, irregularities are reported, receipts require a signature of approval, and packing slips and other documents are sent to the appropriate person. In addition, the procedure requires that meters and supplies are stored in a safe place and protected from weather and theft. Once a meter is assigned to a property, the inventory is updated.

The City should implement a formal policy that defines how water meters and supplies are tracked and stored prior to installation. A formal policy would decrease the risk of theft and ensure meters and supplies are tracked through the system.

### **R.10 Develop and implement formal meter calibration policy**

A water rate study completed by the Rural Community Assistance Program (RCAP) identified that the City incurred water loss of 24.3 percent in treatment and 59.7 percent in distribution. *Control and Mitigation of Drinking Water Losses in Distribution Systems* (United States Environmental Protection Agency, 2010) identifies that most states have regulatory policies that set acceptable losses from public water distribution systems at a maximum of between 10 and 15 percent. The City's 59.7 percent loss in distribution is nearly four times higher than the recommended 10 to 15 percent. A high percentage of water loss can be attributed to many factors, such as: outdated or broken infrastructure, unauthorized consumption, administrative errors, and failure or inaccurate calibration of meters.

*Indoor Water Use in the United States* (EPA, 2014) estimates that the average American household uses approximately 223 gallons of water daily or 81,447 gallons per year. A comparison of the City's residential usage to the average identified by the EPA is shown in **Table 5**.

**Table 5: 2012 Residential Water/Wastewater Usage Comparison**

	Steubenville	EPA	Difference	% Difference
Residential Water Accounts	6,437			
Average Annual Household Usage (Gallons)	41,547	81,447	(39,900)	(49.0%)
<b>Water</b>				
Rate per 1,000 Gallons	\$10.20 <sup>1</sup>			
Total Amount Billed	\$2,923,932	\$5,347,304	(\$2,423,372)	(45.3%)
<b>Wastewater</b>				
Rate per 1,000 Gallons	\$8.27 <sup>2</sup>			
Total Amount Billed	\$2,401,731	\$4,335,511	(\$1,933,780)	(44.6%)

Source: Steubenville and the EPA

<sup>1</sup> Based on 2012 water rates.

<sup>2</sup> Based on 2012 wastewater rates.

As illustrated in **Table 5**, the City's meters recorded that each household used approximately 49 percent less water than the average American household in 2012. While this water usage level may hold true, it is more reasonable to assume that Steubenville residents use water similar to the national average. It is more likely to assume that lower recorded use is the result of inaccurate metering. Water meters that under-record usage result in lost revenue. The City should work to determine the cause of its above-average water loss percentage as it is unlikely that Steubenville residents had significantly lower usage (49 percent less) than the average American household.

The Water Policy guarantees that residential meters are accurate within 2 percent. The policy also identifies that customers can request a meter test at any time, however, charges are assessed if the test reveals the meter is accurate. The master meters were last calibrated in October 2013 as a result of a repair. The City, however, could not identify when the meters were calibrated prior to this. A policy indicating how often the master meters are calibrated does not exist nor does a policy indicating how often residential meters will be replaced. *Water Meter Calibration, Repair, and Replacement Program* (Georgia Environmental Protection Division, 2007) indicates that meters should be calibrated on a regular basis in order to ensure accuracy of the quantity of water being supplied so appropriate decisions on maintenance or replacement frequency can be made. Meters that are not accurately calibrated can lead to loss in revenue, and make it difficult for an entity to pinpoint leaks, locate pressure problems and identify peak and non-peak use.

The City has taken steps to update, replace, and calibrate residential and commercial water meters and implement radio frequency meter reads. However, formal policies on the implementation and frequency of calibration on residential, commercial, industrial and master meters would assist the City in determining the source of above-average water loss and ensure that revenues are not lost through outdated meters.

The City should develop and implement a formal meter calibration policy and continue to replace outdated meters in order to determine the source of water loss. A formal policy for calibration will help ensure that customers are billed for the actual amount of water consumed and ensure the proper amount of revenue is generated.

Based on the national average household water use identified by the EPA, Steubenville has the opportunity to collect up to \$2.4 million in water revenues and \$1.9 million in wastewater revenues, once the source of the City's water loss is determined. The City should continue to replace meters, and determine the other sources of water loss, outdated or broken infrastructure, unauthorized consumption, administrative errors, etc.

### **R.11 Update utility billing system to incorporate county parcel numbers**

The City currently utilizes an EGOV database system that allows personnel to access customer utility accounts using a variety of search indicators including address, customer name, and parcel number. An analysis of a random sample of 262 county parcels found that 186, or 71 percent, had a building on the property and all were tied to a utility bill. The remaining 76 accounts did not have a building on the property and therefore, were not tied to a utility bill. Of these 186 accounts, 26.8 percent (50 accounts), did not contain a parcel number that corresponded to the Jefferson County Auditor. The City is currently in the process of updating its utility billing system to incorporate parcel information held by the Jefferson County Auditor but the process is not yet complete.

The City should continue to update parcel information for utility billing accounts to correspond with the parcel information held by the County in order to ensure all properties with a building on the property are being billed for utilities.

### **R.12 Update the strategic plan**

The City adopted a strategic plan in October 2010 that includes goals through 2020. The plan incorporates a vision statement, goals and objectives, and deadlines. The plan, however, has not been updated to identify the status of the objectives, nor does the document include potential revenues and expenditures. Although the City has developed a Capital Improvement plan that is linked to the budget, the lack of an updated strategic plan can result in capital purchases that are not aligned with long term mission or goals and important initiatives to be missed.

According to *Recommended Budget Practice on the Establishment of Strategic Plans* (GFOA, 2005), strategic planning is a comprehensive and systematic management tool designed to help organizations assess the current environment, anticipate and respond appropriately to changes in the environment, envision the future, increase effectiveness, develop commitment to the organization's mission, and achieve consensus on strategies and objectives for achieving that mission. The GFOA continues by recommending that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting to create logical links between authorized spending and broad organizational goals.

The City should update the current strategic plan and link it to the Capital Improvement Plan, operating standards, and the financial budget. In order to effectively develop goals, it should determine the values and priorities of residents and stakeholders and allocate resources to those areas deemed most important. Developing, reviewing, and updating a strategic plan will allow the City to redefine its top budgetary priorities and initiatives and allocate resources to meet priorities in a manner that reflects changing needs.

### R.13 Develop and implement formal financial policies

The City does not have formal financial policies or procedures to help guide long-term spending. The development of such policies would enable the City to ensure resources are allocated in an efficient manner and in accordance with the goals and needs set forth in the policy.

*Determining the Appropriate Levels of Working Capital in Enterprise Funds* (GFOA, 2011) recommends that local governments adopt a target amount of working capital to maintain in each of their enterprise funds. Ideally, targets would be formally described in a financial policy and/or financial plan.

The cities of Wooster and Kettering are examples of Ohio cities that have implemented formal financial policies that govern enterprise fund operations. The City of Wooster has developed financial policies that ensure funds are spent appropriately. For example, the policy states the enterprise funds should be self-supporting operations. Charges for services in the enterprise funds must generate sufficient revenue to ensure high quality service for an indefinite amount of time. Also, the City of Kettering (Montgomery County) publishes a formal budget document that includes policies on long term revenues, expenditures, debt, fund balances, and short term financial goals. Kettering has a goal to maintain an ending fund balance of not less than 90 days of operating expenditures and transfers.

The lack of formal financial policies would increase the likelihood that the City would not have enough working capital to cover costs of the utility funds. The City should develop and implement formal financial policies to help guide long term spending for enterprise funds to ensure resources are allocated efficiently and effectively.

### R.14 Eliminate 2 FTE refuse operator positions

The City provides full-service manual refuse collection to residential and commercial customers and provides dumpsters for commercial customers. **Table 6** shows a comparison of Steubenville's refuse operation FTEs to the peer average.

**Table 6: Refuse Operation Staffing**

	Steubenville	Peer Average	Difference	% Difference
Refuse Accounts	6,478	7,575	(1,097)	(14.5%)
Refuse Operation FTEs	11.0	10.0	1.0	10.0%
Refuse Accounts per FTE	588.9	757.5	(168.6)	(22.3%)
Calculated Staffing Need (FTEs)				8.6
<b>Staffing Reduction (FTEs)</b>				<b>2.4</b>

Source: Steubenville and peer cities of Ashland, Ashtabula, and Norwalk

As illustrated in **Table 6**, the City's refuse operation is less efficient in comparison to the peers, all of which manually collect refuse. Specifically, the City's refuse operators are responsible for nearly one-fourth fewer accounts per FTE. Based on current operations, Steubenville should eliminate 2 FTE refuse operators in order to be more in line with the peer average. The elimination of 2 FTE would decrease expenditures in the Refuse Fund.

In contrast to the peers included in **Table 6**, the City of Perrysburg (Wood County) uses automated garbage trucks which require fewer operators. **Table 7** shows an accounts per FTE comparison between Steubenville and Perrysburg.

**Table 7: Automated Refuse Staffing Comparison**

	Steubenville	Perrysburg	Difference	% Difference
Refuse Accounts	6,478	7,678	(1,200)	(15.6%)
Refuse Operation FTEs	11.0	5.0	6.0	120.0%
Refuse Accounts per Operations FTE	588.9	1,535.6	(946.7)	(61.7%)
Calculated Staffing Need (FTEs)				4.2
<b>Staffing Reduction (FTEs)</b>				<b>6.8</b>

Source: Steubenville and City of Perrysburg

As shown in **Table 7**, if the City transitioned to automated garbage trucks, the City could operate with approximately 6.0 fewer FTEs and realize significant savings in salaries and benefits. However, the purchase of automated garbage trucks would require significant capital outlay.<sup>1</sup>

**Financial Implication:** Reducing 2 FTE refuse operator positions would save approximately **\$91,000** in salaries and benefits. The savings is calculated by using the salary of an entry level sanitation operator (\$36,999) with a fringe benefit savings of 24.2 percent. Estimated savings could increase if reduction occurs through retirement or voluntary separation of higher salaried staff.

### R.15 Eliminate 2 FTE wastewater line maintenance positions

Wastewater line maintenance employees are responsible for monitoring, cleaning and maintaining the wastewater collection system throughout the City, including the wastewater lines, storm drains and catch basins. **Table 8** shows a comparison of the City's wastewater line maintenance workload metrics compared to peers.

**Table 8: Wastewater Line Maintenance Staffing Comparison**

	Steubenville	Peer Average	Difference	% Difference
Line Maintenance FTEs	4.7	2.3	2.4	104.3%
Miles of Wastewater Lines	81	79.3	1.7	2.1%
Miles per FTE	17.2	34.5	(17.3)	(50.1%)
Calculated Staffing Need (FTEs)				2.3
<b>Staffing Reduction (FTEs)</b>				<b>2.4</b>

Source: Steubenville and peer cities of Defiance, Norwalk, and Painesville

<sup>1</sup> A 2014 Mack side loader with 30 yard trash body has an estimated cost of over \$200,000 per truck.

As shown in **Table 8**, the wastewater line maintenance employees are responsible for significantly fewer (50 percent) wastewater line miles per FTE than the peer average. Overstaffing causes higher expenditures and does not guarantee a higher level of service.

Financial Implication: Eliminating 2.0 FTE wastewater line maintenance positions would save approximately **\$87,000** in salaries and benefits. The savings is calculated by using the salary of an entry level wastewater line maintenance employee (\$34,832) with a fringe benefit savings of 24.2 percent. Estimated savings could increase if reduction occurs through retirement or voluntary separation of higher salaried staff.

### **R.16 Develop formal policies for the Utility Delinquency Review Board (UDRB)**

The UDRB was created by the City on the recommendation of the United States Southern District Court of Ohio Eastern Division and is composed of three members, who are residents of the City, appointed by the Mayor and approved by City Council. Members serve a term of five years and are not compensated. Codified Ordinance 179.01 outlines the responsibilities of the UDRB and states that it has “the right to uphold, amend, or reverse any decision previously made by the Utilities Billing Manager of the City or of the City Manager, subject to the provision that the Board does not have the right to repeal, amend or modify any regulation that may be promulgated by the City Manager, or ordinances passed Council.”

Although its authority is outlined by ordinance, the UDRB does not have formal policies or procedures to guide it on decisions related to account adjustments. The Water Policy identifies guidelines for the hearing process and Board members are provided a list of ordinances to help guide in the decision making process, but are not required to follow them. The UDRB stated that they do their best to remain fair and unbiased in their decisions.

Seventy-seven rulings made by the UDRB between January and October 2013 were reviewed for consistency. Leaks and large utility bills constituted 68.8 percent of the UDRB hearings. Of the cases examined, two did not include an explanation as to why the case was brought before the board and for three cases the only explanation provided was disputing charges. The analysis revealed that the UDRB is not applying rulings consistently based upon the reason for the hearing. In particular, of 53 accounts where the reason for the hearing was large bill or leak, the UDRB credited 37 accounts (69.8 percent). No reason could be provided as to why the other 16 accounts (30.2 percent) that appeared before the UDRB with the same reason for the hearing were not credited.

*Presenting Official Financial Documents Online* (GFOA, 2012) states “a formal manual that documents the entity’s revenue control and management procedures can help to facilitate policy implementation, as well as serve as an effective internal control.” The lack of a formal manual documenting policies and procedures leaves the City at risk of treating residents inequitably. The City should design and implement formal policies and procedures for the UDRB to ensure that residents are treated equitably and that the City is collecting revenue for bills owed.

**R.17 Increase transparency of the UDRB**

The UDRB does not publish minutes or other information regarding hearings for residents to review. *Transparency Breeds Self-Correcting Behavior* (GFOA, 2010), indicates that operating in a transparent way offers enormous benefits to government agencies and to the public. It can improve operations, increase accountability, and raise trust. For example, the City of New Castle, Indiana has a Utility Impact Board and publishes minutes on their website for residents to review.

Without transparency, Steubenville is creating distrust between the City and its residents. The City should increase transparency of the UDRB's operations by posting minutes and other Board related information on their website. This would keep residents informed, increase accountability, and increase trust between the City and residents.

## Appendix A: Scope and Objectives

Generally accepted government auditing standards require that a performance audit be planned and performed so as to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. Objectives are what the audit is intended to accomplish and can be thought of as questions about the program that the auditors seek to answer based on evidence obtained and assessed against criteria.

In consultation with the City, OPT identified the following scope areas for detailed review: receivables, metering, new services, Board adjustments, delinquencies, rates, staffing and financial policies. Based on the agreed upon scope, OPT developed objectives designed to identify improvements to economy, efficiency, and/or effectiveness. **Table A-1** illustrates the objectives assessed in this performance audit and references the corresponding recommendation when applicable. Nine of the twenty-eight objectives did not yield a recommendation. See **Appendix C** for additional information including comparisons and analyses that did not result in recommendations.

**Table A-1: Audit Objectives and Recommendations**

Objective	Recommendation
<b>Receivables</b>	
Is the policy for processing of water, wastewater, and refuse bills documented?	<b>R.6, R.11</b>
Are procedures used in processing utility billing for water, wastewater, and refuse applied consistently and are they aligned with the policy?	<b>R.6, R.11</b>
Are policies and procedures sufficient and consistent with leading practices?	<b>R.6, R.11</b>
Is the policy for writing-off billing amounts documented?	<b>R.5</b>
Are procedures applied consistently and aligned with the policy?	<b>R.5</b>
Are policies and procedures sufficient and consistent with leading practices?	<b>R.5</b>
<b>Metering</b>	
Are internal controls used to monitor the physical security of meters? Are these documented and consistently applied?	<b>R.9</b>
Are master water and wastewater meters used to monitor water loss?	<b>R.10</b>
Are meters routinely tested? Are these documented and consistent with leading practices?	<b>R.10</b>
<b>New Services</b>	
Is the policy for new services for unimproved property documented?	N/A
Are procedures applied consistently and aligned with the policy?	N/A
Are policies and procedures sufficient and consistent with leading practices?	N/A
Is the policy for new services for improved property documented?	N/A
Are procedures applied consistently and aligned with the policy?	N/A
Are policies and procedures sufficient and consistent with leading practices?	N/A
<b>Board Adjustments</b>	
Is the policy for review board consideration documented?	<b>R.16</b>
Are procedures applied consistently and are they aligned with the policy?	<b>R.16</b>
Are policies and procedures sufficient and consistent with leading practices?	<b>R.16, R.17</b>

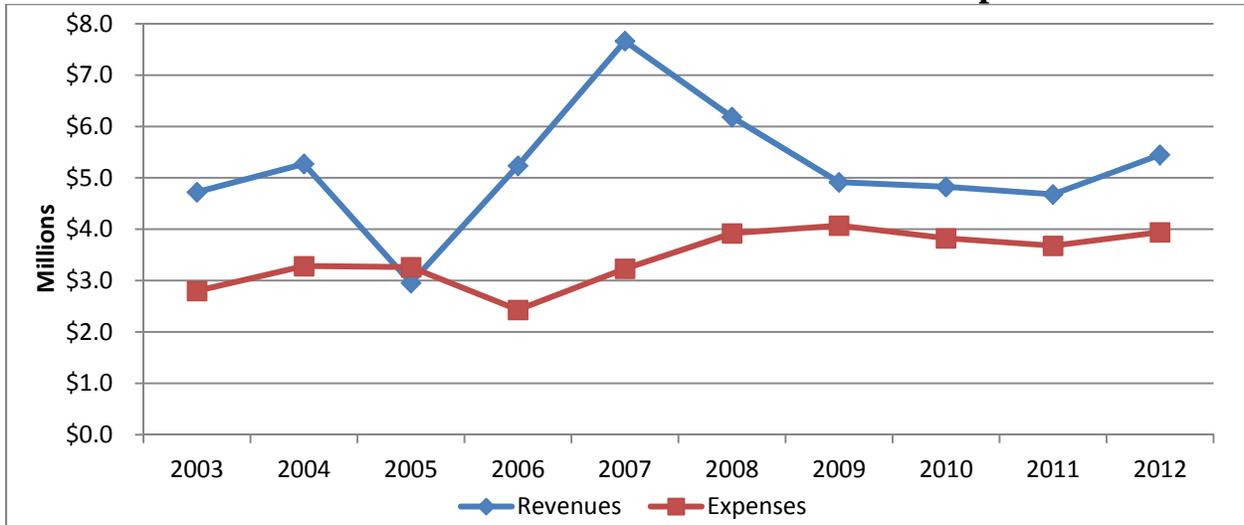
<b>Delinquencies</b>	
Is the policy for managing delinquencies documented and consistent with leading practices?	<b>R.2, R.4, R.8</b>
Is the delinquent accounts collections policy consistent with leading practices?	<b>R.3, R.7</b>
Are procedures for collections and write-off applied consistently and aligned with the policy?	<b>R.5</b>
<b>Rates</b>	
Are water rates reasonable when compared to peers?	<b>Background</b>
Are wastewater rates reasonable when compared to peers?	<b>Background</b>
Are the refuse rates reasonable when compared to peers?	<b>Background</b>
<b>Staffing</b>	
Are Water, Wastewater, and Refuse staffing levels comparable to the peers?	<b>R.14, R.15, Appendix C</b>
<b>Financial Policies</b>	
Does the City have a strategic plan for each of the enterprise funds?	<b>R.12</b>
Are financial policies aligned with the strategic plan?	<b>R.13</b>
Is capital outlay for the city building consistent with the strategic plan?	<b>R.1</b>

# Appendix B: Historical Financial Data

## Financial History

Chart B-1 displays Water Fund revenues and expenses for 2003 through 2012.

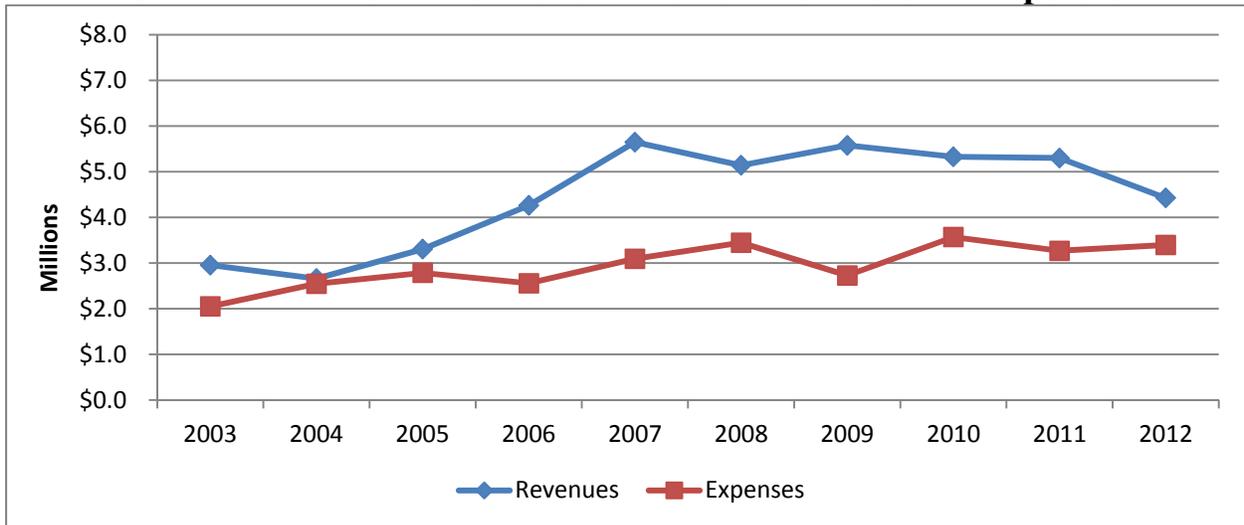
**Chart B-1: Water Fund Historical Revenues vs. Expenses**



Source: AOS financial audits

As shown in **Chart B-1**, the Water Fund maintained positive results of operations in nine of the ten years shown. Revenues increased in 2012, after a four year period of decreases. A similar comparison was completed for the Wastewater Fund in **Chart B-2**.

**Chart B-2: Wastewater Fund Historical Revenues vs. Expenses**

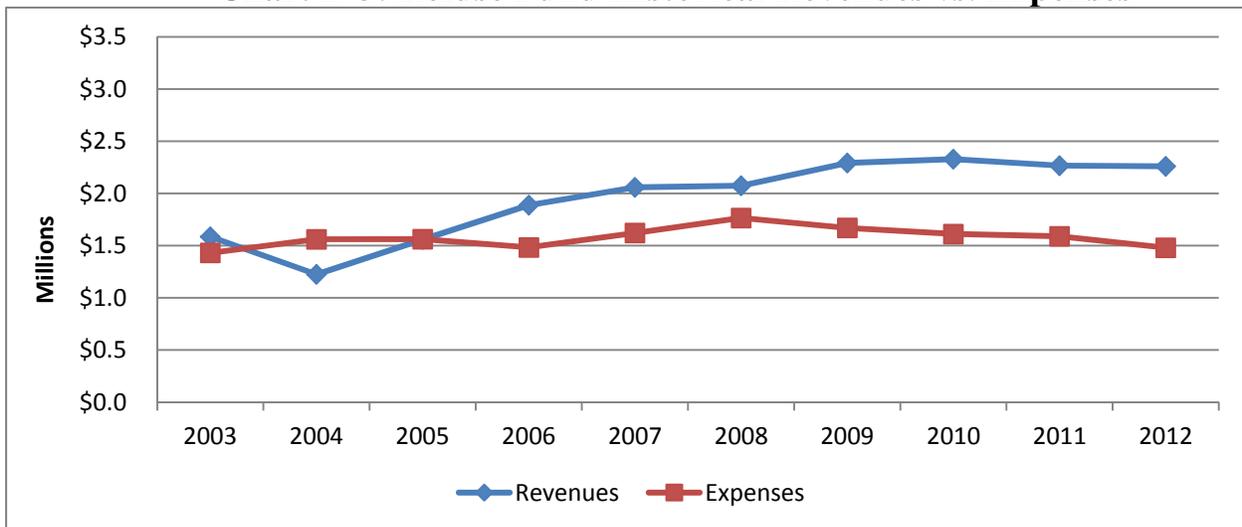


Source: AOS financial audits

As illustrated in **Chart B-2**, the Wastewater Fund expenses increased steadily for the period shown with the exception of 2009 and 2011. Despite rising expenses, the City was able to maintain positive results of operations from 2003 through 2012. In order to cover the costs of repairs and improvements to the wastewater plant and lines, the City increased wastewater rates and added a service charge in 2014. Although capital improvements have not yet caused a spike in overall expenses, the City’s capital improvement plan identifies more than \$31.5 million of projects and improvements planned for 2014 through 2018.

**Chart B-3** shows revenues and expenses for the Refuse Fund from 2003 through 2012.

**Chart B-3: Refuse Fund Historical Revenues vs. Expenses**



Source: AOS financial audits

As shown in **Chart B-3**, the Refuse Fund has maintained positive results of operations since 2005, with a steadily increasing gap between revenues and expenses since 2008.

## Appendix C: Supplemental Information

### Staffing

Additional peer comparisons were made in the areas of water line maintenance, water plant maintenance, meter reading, and utility billing cashier staffing levels to determine if they are in line with the peer levels. Each of these analyses showed work load measures that exceeded the peer average signifying efficient staffing levels.

**Table C-1** shows a comparison of the City's waterline maintenance workload measures compared to the peer average.

**Table C-1: Water Line Maintenance Staffing Comparison**

	Steubenville	Peer Average	Difference	% Difference
Miles of Water Lines	68.0	111.3	(43.3)	(38.9%)
Line Maintenance FTEs	4.3	7.3	(3.0)	(41.1%)
<b>Miles per FTE</b>	<b>15.8</b>	<b>15.2</b>	<b>0.6</b>	<b>3.9%</b>

Source: Steubenville and peer cities of Alliance, Defiance, Norwalk, and Painesville

As shown on **Table C-1**, the City's water line maintenance FTE employees are responsible for more miles of water line than the peer average.

**Table C-2** shows of the City's water plant maintenance staffing compared to the peer average.

**Table C-2: Water Plant Maintenance Staffing Comparison**

	Steubenville	Peer Average	Difference	% Difference
Water MGD <sup>1</sup>	1,488.3	945.7	542.6	57.4%
Water Plant Maintenance FTEs	6.0	4.8	1.2	25.0%
<b>MGD per Plant Maintenance FTE</b>	<b>248.1</b>	<b>197.0</b>	<b>51.1</b>	<b>25.9%</b>

Source: Steubenville and peer cities of Defiance, Norwalk, and Painesville

<sup>1</sup> Million gallons daily (MGD) is a common industry measure of water production and represents the volume of water that was used, delivered or passed through a point during a 24 hour period.

As illustrated in **Table C-2**, the City's water plant maintenance FTEs are responsible for more MGD than the peer average.

**Table C-3** shows the City's wastewater plant maintenance staffing compared to the peer average.

**Table C-3: Wastewater Plant Maintenance Staffing Comparison**

	Steubenville	Peer Average	Difference	% Difference
Wastewater MGD <sup>1</sup>	2,311.0	1,058.4	1,252.6	118.3%
Wastewater Plant Maintenance FTEs	9.0	5.5	3.5	63.6%
<b>MGD per Plant Maintenance FTE</b>	<b>256.8</b>	<b>192.4</b>	<b>64.4</b>	<b>33.5%</b>

Source: Steubenville and peer cities of Alliance, Defiance, and Norwalk

<sup>1</sup> Million gallons daily (MGD) is a common industry measure of water production and represents the volume of water that was used, delivered or passed through a point during a 24 hour period.

As illustrated in **Table C-3**, the City had a higher MGD per employee than the peer average.

**Table C-4** shows the City's meter reader staffing compared to the peer average.

**Table C-4: Meter Reader Staffing Comparison**

	Steubenville	Peer Average	Difference	% Difference
Meters	7,614.0	8,296.8	(682.8)	(8.2%)
Meter Reader FTEs	2.0	2.6	(0.6)	(23.1%)
<b>Meters per Meter Reader FTE</b>	<b>3,807.0</b>	<b>3,191.1</b>	<b>615.9</b>	<b>19.3%</b>

Source: Steubenville and peer cities of Alliance, Defiance, Norwalk, and Painesville

As shown in **Table C-4**, the City's meter readers are responsible for 20.0 percent more meters per FTE than the peer average.

**Table C-5** shows the City's utility billing cashier staffing compared to the peer average.

**Table C-5: Utility Billing Cashier Staffing Comparison**

	Steubenville	Peer Average	Difference	% Difference
Customers	7,264.0	8,289.0	(1,025.0)	(12.4%)
Utility Billing Cashiers FTEs	3.0	3.1	(0.1)	(3.2%)
<b>Customers per Utility Billing Cashier FTE</b>	<b>2,421.3</b>	<b>2,673.9</b>	<b>(252.6)</b>	<b>(9.4%)</b>

Source: Steubenville and peer cities of Alliance, Defiance, Norwalk, and Painesville

As illustrated in **Table C-5**, the City's utility billing cashiers are responsible for less than 10 percent fewer customers per FTE than the peer average. Although the City's cashiers are responsible for fewer customers, during the course of the audit the City eliminated 1.0 FTE utility billing cashier, which results in a customers per FTE ratio that is 27 percent higher than the peer average.

## **Client Response**

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The letter that follows is the City's official response to the performance audit. Throughout the audit process, staff met with City officials to ensure substantial agreement on the factual information presented in the report. When the City disagreed with information contained in the report, and provided supporting documentation, revisions were made to the audit report.

Prior to the release of the audit, the City requested supporting documentation for the analyses concerning recommendation **R.2** and **R.16**. On February 3, 2015, AOS submitted to the City the list of accounts used in these analyses. As the City further develops priorities for implementing the recommendations in this report, AOS will provide assistance in identifying the best practices applicable to the City.



# THE CITY OF STEUBENVILLE

## Office of the City Manager

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January 30, 2015

The Honorable David Yost, Auditor of State  
State of Ohio  
88 East Broad Street  
Columbus, Ohio 43216

Re: Performance Audit Report Response  
City Enterprise Funds

Dear Auditor Yost:

On behalf of the City of Steubenville, I would like to take this opportunity to express my appreciation to you and your Performance Audit team for conducting a performance audit of the City's Enterprise Funds.

The project began in 2014 and looked back at the City's performance related to these funds from 2012 and before. The report of the results of this performance audit provided 17 recommendations as to how the City may be able to improve its performance in the coming years related to management of these funds and overall utility and sanitation operations.

Please know we have reviewed these recommendations (R-1 to R-17) and have provided our initial responses to the findings as noted below. Specific comments on a given recommendation are noted below after the corresponding recommendation. For recommendations with no specific comments, please know that the City acknowledges these recommendations and is prepared to work towards incorporating these into our corresponding Enterprise Fund operations. I believe most importantly, that these recommendations provide valuable guidance for our City and we intend to incorporate these recommendations where effective into our operations. I am pleased to note that the City has taken steps, most significantly the hiring of a Water & Sewer Billing Manager to oversee operations in this office, which I believe will address the recommendations noted. Please know we will continue to study these recommendations as we move forward into 2015.

### **Recommendations & Responses:**

#### **R.1 Monitor capital asset records**

R.1: Since 2010 the City has taken additional steps to better account for capital assets. The construction of the City Building spanned over three years and was audited several times by our external auditors. The eight to nine percent portions paid by the water, sewer, and refuse funds never came up as a material issue in the City's annual audits. After checking with our external auditors they stated that the water, sewer, refuse portions were immaterial based on the amount and the fifty year useful life associated with these assets. We will however take the recommendation to record one asset as four separate assets in our system under consideration going forward.

#### **R.2 Increase internal controls related to delinquency policies and procedures**

**R.2:** The City recently hired a Utility Billing Manager. With this new manager position the office will be able to review the policies and procedures that need to be addressed and implemented. While the meter replacement project needs to be the focus at this time, going forward we will be able to address these concerns.

### **Delinquency Late Fees**

Penalties cannot be applied on the 21st day due to the fact that we must balance drawers and post payments before the end of the day. If cash drawers were counted at the end of the business day penalties could be applied on the 21st day. However, this would cause an overtime situation for the utility employees. This would be effective if we found evidence that the 21st day penalties increased revenue enough to fund overtime + a revenue increase.

### **Reconnection Fees**

Reconnection Fees are always applied when disconnected service is reconnected. If the service is not turned back on a reconnect fee is not applied. A list of the accounts pulled for the audit by the AOS Performance Audit team would be helpful for the City to have in order to examine why or why not reconnection fees were not applied in specific instances. We would request assistance in this matter.

### **Shut off notices**

To address the concern of curb boxes, certified letters were sent on December 1, 2014 to property owners explaining that the curb boxes need repaired. These certified letters serve as a 30 notice that will allow the City to repair the curb boxes and then charge the property owner with said cost.

## **R.3 Develop policies and procedures for sending delinquent accounts to collections**

**R.3:** RBC - serves as our collection agency for final accounts 90 days past due under \$500.00. Lien's (Auditors Office) – collection accounts 90 days past due over \$500.00.

I agree that with being able to process liens we should eliminate the third party collection agency. Another solution is to have one person in the Utility Billing Department responsible for delinquent accounts. Unfortunately, we do not have the work to person ratio for one staff member to focus solely on the collection of delinquent accounts.

## **R.4 Design and implement interest schedule for delinquent utility accounts**

## **R.5 Develop and implement formal policies for account adjustments and write-offs**

## **R.6 Improve utility billing internal controls**

## **R.7 Enforce lien policies and procedures detailed in codified ordinances**

**R.1 – R.7:** The City recently hired a Utility Billing Manager. Now that a manager has been hired we will be better able to work on the recommended policies and procedures. We will also be able to work on increasing our internal controls. However the current focus is going to need to be on the meter replacement project at this time.

## **R.8 Apply utility payments to refuse charges first**

**R.8:** The City water and sewer funds are currently under stress so allocating payments to the refuse fund which is currently not under stress is not a feasible option at this time. We will however consider the recommendation to apply utility payments to the refuse fund first when the water and sewer funds are more stable.

## **R.9 Implement formal policy on water meter inventory and storage**

## **R.10 Develop and implement formal meter calibration policy**

## **R.11 Update utility billing system to incorporate county parcel numbers**

**R.11:** The Utility Billing Office has started to update customer accounts to include county parcel number and will continue to update the system as time permits.

## **R.12 Update the strategic plan**

## **R.13 Develop and implement formal financial policies**

**R.13:** The City water and sewer funds are both under stress. The City is beginning a City wide residential water meter replacement program. As the performance audit indicates it appears many of the current meters may be under recording usage and the City may see a significant increase in revenue by replacing these meters. As the water and sewer funds become more stable and we know how much additional revenue we will have per year as a result of the installation of new meters, we will look at adopting a policy similar to the policy recommended.

## **R.14 Eliminate 2 FTE refuse operator positions**

**R.14:** While the City will take the recommendation to decrease the number of refuse operators under consideration, the City is currently exploring the option of using the additional staffing to help increase the types of sanitation services offered to our residents.

Per our Director of M&R:

While we should, and will, consider the recommendation, it is important to note that the Sanitation Department operated for much of 2014 with 8-9 employees which is in line with the recommendation of the auditors and peer community averages cited in the audit. Also, the City of Steubenville is exploring additional services that may be provided to the community which would utilize additional staffing. Automation was mentioned by the auditors in conjunction with some peer communities. The City of Steubenville should, and will, move toward this process but, as the auditors stated, this will require significant study and capital outlay.

## **R.15 Eliminate 2 FTE wastewater line maintenance positions**

**R.15:** The Wastewater Superintendent asked the City's Wastewater Maintenance Foreman to contact the peer communities used to determine the peer average numbers utilized in table 8 under R.15 on page 19 of the draft performance audit. He was asked to find out how many full time employees FTE's were on each peer community's line maintenance crew, what their duties were, what portion of their lines are in the road and what portion are in remote areas, and who handles repair work. The results of that inquiry are shown below and it clearly indicates our peers use significantly more FTEs than the report indicates to maintain their collection systems on an ongoing basis and the majority of those FTEs are from outside the official wastewater line maintenance positions.

The following should also be taken into consideration when discussing the number of wastewater line maintenance positions:

- Our collection system is very different from everyone else in the state due to the amount of sewer lines we have running through remote wooded hills and valleys that can only be accessed on foot for maintenance and repair unless we cut a road in.

- Due to the significant number of hills and valleys in our area, our roads have a lot of dips, twists, and blind turns that require two or more people for traffic control during maintenance and repair operations. Because traffic control operations are performed by our Wastewater line maintenance personnel for collection system repairs and maintenance, reducing staffing by two people as proposed would require us to reach out to other departments in the city further complicating staffing issues in those departments.

Wastewater line maintenance personnel are already stretched very thin. They are frequently required to assist the water line maintenance personnel with repairs and maintenance in the distribution system. Reducing staffing by two people on the wastewater line maintenance staff would severely hinder our ability to respond to both water distribution system maintenance and repair issues and collection system maintenance and repair issues. This would cause a significant increase in contracting out and would negatively impact the already delicate situations in the water fund and the sewer fund.

### **R.16 Develop formal policies for the Utility Delinquency Review Board (UDRB)**

### **R.17 Increase transparency of the UDRB**

**R.16 – R.17:** We agree the UDRB needs policies and regulations as well as additional education on the City’s policies, utility, water, wastewater and meter knowledge. Such improvements to consider would include the following:

1. Payment plans need to be capped at 24 months
2. Credits must be for valid reason
3. One month should be credited

Keeping minutes is great way for board members to remember prior decisions and improve consistency, as well as instilling confidence in the public in the review board process.

While the audit offered helpful key performance recommendations it would have been helpful to understand which accounts were pulled for this audit. This would have allowed us to review those accounts during the audit.

On a final note, any guidance the AOS Performance Audit Team can provide in directing us on where to find examples of the policies and procedures called for that other communities have already adopted would be greatly appreciated. Being able to see examples of such “Best Management Practices (BMP’s)” would assist us in incorporating these into our system in an expedited manner.

Once again, on behalf of the City of Steubenville, we appreciate this performance audit and look forward to utilizing this report as a tool to help the City to bring continual improvement to our operations.

Sincerely,

*Timothy M. Boland*

Timothy M. Boland  
City Manager

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# Dave Yost • Auditor of State

**CITY OF STEUBENVILLE**

**JEFFERSON COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 17, 2015**