

Audit Report

**Water and Wastewater Cost Settlements
For The Year Ended June 30, 1996**



Office of the County Auditor
Baltimore County, Maryland
September 1998



**BALTIMORE COUNTY, MARYLAND
OFFICE OF THE COUNTY AUDITOR**

BRIAN J. ROWE, CPA
COUNTY AUDITOR

COURTHOUSE - ROOM 221
TOWSON, MARYLAND 21204
410-887-3193
410-887-4621 (Fax)

MARY P. ALLEN, CPA
DEPUTY COUNTY AUDITOR

September 22, 1998

Honorable Members of the County Council
Honorable C. A. Dutch Ruppertsberger, III, County Executive
Baltimore County, Maryland

Gentlemen:

We have audited the cost settlements between the City of Baltimore (the "City") and Baltimore County, Maryland (the "County") relating to the operation of the Water and Wastewater Funds for the year ended June 30, 1996 (the most recent completed cost settlements at the time of our audit).

The cost settlements for the Water and Wastewater Funds are prepared annually by the City's Department of Public Works to allocate the costs incurred by the City in providing water and sewerage services to the Baltimore County Metropolitan District. Costs are allocated to the County in accordance with Water and Wastewater agreements between the City and the County dated September 20, 1972 and March 6, 1974, respectively.

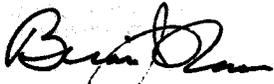
Our audit disclosed that costs totaling more than \$2.2 million were improperly allocated to or within the Funds resulting in overcharges to the County in excess of \$1.2 million. As of June 1998, the County has recovered \$364,819 of these overcharges. Our audit also disclosed that the methodology for allocating the City's general government overhead costs, although in conformity with the aforementioned agreements, resulted in excessive charges to the County. Finally, our audit disclosed that documentation supporting cost calculations and allocations applicable to the Water and Wastewater Funds was not maintained by the City and was not verified by the County's Department of Public Works.

The City's response to our findings and recommendations is included as Appendix A to this report. The County's response to applicable findings and recommendations is included as Appendix B.

Our audit reports and responses thereto are available to the public and may be obtained by contacting the Office of the County Auditor, Courthouse, 400 Washington Avenue, Towson, Maryland, 21204.

We wish to express our appreciation to the management of the City of Baltimore, Department of Public Works, Bureau of Water and Wastewater and the County Department of Public Works for the cooperation and assistance extended to us during our audit.

Respectfully submitted,



Brian J. Rowe, CPA
County Auditor



David E. Willis, Jr., CPA
Audit Manager

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Background Information

With the adoption of the Metropolitan District Act (Chapter 539 of the Acts of the General Assembly of 1924), the Baltimore County Metropolitan District was created as a separate and financially self-supporting entity under the jurisdiction of Baltimore County for the purpose of supplying water and providing sewerage and drainage systems to residents of the County living within prescribed areas. Under the Metropolitan District Act, the Mayor and City Council of Baltimore are required to provide water for the Metropolitan District at cost. In accordance with a formal agreement dated September 20, 1972, the County reimburses Baltimore City for its costs in providing metered water service to County residents. The Metropolitan District (County) constructs water facilities within its boundaries, and pursuant to agreement between the City of Baltimore and Metropolitan District, the City operates and maintains the facilities at cost, including billing and collection of water rents. Chapter 729 of the Acts of 1939 authorized the County to enter into contractual agreements with the City for the disposal of sewage or drainage and for the costs, rentals, service charges or other fees in connection therewith. Under a separate agreement dated March 6, 1974, the City provides for the treatment and disposal of County wastewater at cost.

Annually, the City prepares “cost settlements” for the Water and Wastewater Funds to allocate the City’s costs to the County for its proportionate share of the Funds’ operating costs. The Water Fund’s costs are allocated in accordance with the September 20, 1972 agreement between the City and the County, as modified by an arbitration ruling dated August 22, 1991. (The arbitration ruling which was requested by the City, modifies certain methodologies of allocating the City’s costs from those established in the 1972 agreement). The Wastewater Fund’s costs are allocated in accordance with the March 6, 1974 agreement between the City and the County. At the time of our field work, the most recent cost settlements prepared by the City for water and wastewater services were for the year ended June 30, 1996. These cost settlements indicated that for fiscal year 1996, the County’s allocated costs from the Water and Wastewater Funds were \$25,023,893 and \$32,242,318, respectively.

Findings and Recommendations

General Government Overhead:

- 1. The County was overcharged \$364,819 for its proportionate share of general government overhead costs in the Water Fund.**

The Water and Wastewater agreements between the City and the County provide that the County shall reimburse the City for its proportionate share of general government overhead costs (e.g., finance, payroll, etc.) allocable to the operation of the Water and Wastewater Funds. The agreements further provide that, in lieu of allocating overhead costs to the Funds, the County shall reimburse the City for general government overhead at the rate of 6% of the Water and Wastewater Funds' direct expenses. However, our review disclosed that general government overhead costs totaling \$821,532 were allocated to the Water Fund and were included in the Fund's direct expenses to be allocated to the County. Consequently, the County was overcharged \$344,169 for its proportionate share of general government overhead costs allocated to the Water Fund as direct expenses. Further, after applying the 6% overhead rate applicable to these costs, the County was overcharged an additional \$20,650 (\$344,169 x 6%) in general government overhead costs, for a total overcharge to the County of \$364,819.

We recommend that the County review the annual cost settlements to ensure that general government overhead costs are excluded from direct expenses allocated to the County in accordance with the aforementioned agreement. We further recommend that the County pursue reimbursement from the City in the amount of \$364,819 in general government overhead overcharges.

- 2. The methodology for allocating City general government overhead costs to the County is inappropriate and may result in overcharges to the County.**

As previously mentioned, the Water and Wastewater agreements between the City and the County provide that the County shall reimburse the City for its proportionate share of general government overhead costs at the rate of 6% of the Funds' direct expenses. For Fiscal Year 1996, general government overhead costs totaling \$1,316,078 and

\$1,964,648 applicable to the Water and Wastewater Funds, respectively, were allocated to the County. Although this method of reimbursing the City for general government overhead costs is in accordance with the aforementioned agreements and has been utilized for many years, a recent cost analysis of the City's actual overhead applicable to the Funds has not been performed. Further, we do not believe that the City's general government overhead costs correlate to a fixed percentage of the Funds' direct expenses. In this regard, we noted that the operational costs of the Water and Wastewater Funds have escalated at a rate much greater than the City's general government operating budget. For example, between FY 1991 and FY 1996, the general government operating expenses of Baltimore City increased 17.8%; however, during this same period, the operating expenses of the Water and Wastewater Funds increased 22.9% and 18.4%, respectively. Expenses in the Water Fund have significantly increased due to escalating costs (e.g., utility costs) for treatment plants and pumping stations. Further, since sludge disposal costs in the Wastewater Fund are expected to significantly increase in the near future, the County will be charged an increasing amount for general government overhead even though the cost of operating City government is not expected to experience this same rate of growth.

We recommend that the Water and Wastewater agreement between the City and the County be amended to provide for a more equitable allocation of the City's general government overhead costs. Specifically, we recommend that, based on a comprehensive cost analysis, overhead percentages be developed for each City bureau providing support to the Water and Wastewater Funds. These overhead percentages should be applied to the operating cost of each respective bureau to determine the amount of general government overhead to be allocated to the Funds. Finally, we recommend that the overhead percentages be periodically reviewed (e.g., every 3 years) to ensure that overhead costs are reasonable and are properly allocated to the County.

- 3. The County was overcharged for certain duplicative general government overhead costs allocated through the City Department of Public Works to the Water and Wastewater Funds.**

In addition to reimbursing the City for general government overhead, the County is also

charged its proportionate share of expenses allocated from the City Department of Public Works to the Funds. However, our review of the FY 1996 cost settlements disclosed that the City Department of Public Works' costs allocated to the Water and Wastewater Funds included certain general government overhead costs (e.g., City Law Department, building maintenance and Employee Assistance Program). As a result, the County was overcharged for duplicative general government overhead expenses, once through the 6% overhead rate and once through the allocation of expenses from the City Department of Public Works. Due to a lack of adequate documentation, however, we were unable to determine the amount of duplicate charges or the amount the County was overcharged.

Accordingly, we recommended that all general government overhead costs allocated through the City Department of Public Works to the Water and Wastewater Funds be excluded from the County's cost settlements. We further recommend that the County determine the amount of overcharges for FY 1996 and pursue reimbursement from the City.

Retirees' Health Insurance

- 4. The County was overcharged approximately \$158,609 and \$283,531 for retirees' health insurance costs in the Water and Wastewater Funds, respectively, for Fiscal Year 1996.**

During Fiscal Year 1996, the Water and Wastewater Funds were charged \$1,909,000 and \$2,562,000, respectively, for retirees' health insurance. We were advised that these amounts represented the Funds' estimated portion of retirees' health insurance based upon budgeted costs, the percentage of Fund employees to total City employees, and prior year expenditure histories. However, documentation supporting the amounts charged to the Funds for retirees' health insurance was not readily available. Based on available FY 1996 actual data, we estimated that the Water and Wastewater Funds should have been charged \$1,572,000 and \$1,978,000, respectively. Consequently, the County was overcharged approximately \$158,609 and \$283,531 for retirees' health insurance in the Water and Wastewater Funds, respectively, for Fiscal Year 1996.

We recommend that the County review the annual cost settlements to ensure that

retirees' health insurance is properly allocated to the Funds. We further recommend that the County pursue reimbursement from the City in the amount of \$442,140 in retirees' health insurance overcharges.

Back River Waste Water Treatment Plant Operations

5. The County was overcharged \$429,527 for the Back River Waste Water Treatment Plant Operations.

The Wastewater agreement between the City and the County provides that the County's share of costs relating to the operations of the Back River Waste Water Treatment Plant shall be equal to a percentage of total costs based on County sewage flows to total sewage flows to the plant. During Fiscal Year 1996, the County's percentage was 40.46%. However, our review disclosed that certain operating costs (i.e., odor control and debt service) totaling \$2,123,763 were allocated to the County at the rate of 50% for Fiscal Year 1996. Consequently, the County was overcharged \$405,214 for the Back River Waste Water Treatment Plant Operations. Further, after applying the 6% overhead rate applicable to these costs, the County was overcharged an additional \$24,313 ($\$405,214 \times 6\%$) in general government overhead costs, for a total overcharge to the County of \$429,527.

We recommend that the County review the annual cost settlements to ensure that the costs of the Back River Waste Water Treatment Plant Operations are properly allocated to the County in accordance with the Wastewater agreement. We further recommend that the County pursue reimbursement from the City in the amount of \$429,527 for overcharges applicable to the Back River Waste Water Treatment Plant Operations.

Cost Calculations and Allocations

6. Documentation supporting certain cost calculations and allocations on the annual cost settlement was not readily available.

The Water Agreement between the City and the County, dated September 20, 1972,

specified the methodology for calculating and allocating costs chargeable to the County for the operation of the Water System. Based on a decision of an arbitration panel dated August 22, 1991, the methodology was changed to the “utility basis” of accounting (e.g., charging depreciation of assets as a cost rather than debt service). In connection with this change in accounting methods, the City engaged an outside consultant to develop a computer program to calculate and allocate costs of the Water System to the various participating local jurisdictions, including Baltimore County. Although a “basic” users manual (April 1992) was provided to the City to explain procedures for inputting data, documentation supporting the operation of the program (e.g., explanation of the formulas performed to calculate and allocate certain costs) was not readily available. As a result, we were unable to adequately review and test the cost calculations and allocations on the annual cost settlement which totaled \$25,023,893 for FY 1996. Consequently, there was a lack of assurance that costs of the Water System were properly calculated and allocated to the County.

To help ensure that Water Fund costs are properly calculated and allocated to the County, we recommend that the County obtain and retain documentation regarding the operation of the computer programs. This documentation should be utilized to verify that the cost calculations and allocations to the Water Fund are in accordance with the City/County agreement and arbitration ruling.

Cost Allocations of the City Department of Public Works:

- 7. The methodology for allocating the City Department of Public Works’ salary costs to the Water and Wastewater funds was inappropriate and may result in overcharges to the County.**

Certain salary costs of the City Department of Public Works (e.g., administration, data processing, permits, general services) were allocated to the Water and Wastewater Funds based on the percentage of the Fund’s budgeted costs to the Department of Public Works’ total budget. This percentage was calculated by the Department of Public Works to be 44% in fiscal year 1996 and increased to 46% in fiscal year 1997. This methodology implies that if the Water and Wastewater budget increases at a rate faster than that of the Department of Public Works’ total budget, the time and effort expended by the Department of Public Works for the Water and Wastewater Funds

increases by the same proportion. We believe that the current methodology for allocating the City Department of Public Works' salary costs to the Water and Wastewater Funds is inappropriate and may result in overcharges to the County. Specifically, increases in the Funds' costs do not always correlate to increases in the amount of Department of Public Works' salary costs to be allocated to the Funds. Under the current methodology, a significant increase in the Funds' costs (e.g., utility costs) would result in a corresponding increase in Department of Public Works' salary costs to be allocated to the Funds, even though the time and effort expended by the Department would not necessarily increase accordingly.

We recommend that the Water and Wastewater agreement between the City and the County be amended to provide for a more equitable allocation of the Department of Public Works' salary costs. Specifically, we recommend that, based on a comprehensive cost analysis, specific allocation percentages be developed for each of the Department of Public Works' bureaus providing support to the Water and Wastewater Funds. These percentages should be applied to the salary cost of each respective bureau to determine the amount of these costs to be allocated to the Funds. Finally, we recommend that the calculated percentages be periodically reviewed (e.g., every 3 years) to ensure that allocated costs are reasonable and are properly allocated to the County.

8. Documentation to support administrative and technical support costs charged to the Water and Wastewater Funds was not available.

During FY 1996, approximately \$2,661,000 in administrative and technical support costs (e.g., salaries, data processing, etc.) of the Department of Public Works were charged to the Water and Wastewater Funds. These costs were charged to the Funds based on estimated (budgeted) or actual costs. For example, data processing costs were charged to the Funds at a standard hourly rate times the number of hours related to the operation of the Funds. However, documentation supporting the amounts charged (e.g., the number of data processing hours) was not available for review. Consequently, we were unable to verify the propriety of the Department of Public Works' administrative and technical support costs charged to the Funds.

We recommend that the County obtain and review the documentation supporting the amount charged to the Funds for administrative and technical costs. We further recommend that this documentation be maintained on file for future audit verification.

Verification of Annual Cost Settlements

- 9. The County's Department of Public Works did not adequately verify the accuracy and propriety of cost calculations and allocations supporting the annual cost settlements.**

The County's Department of Public Works received and processed the annual cost settlements for the Water and Wastewater Funds from Baltimore City. However, the Department had not established procedures to verify the accuracy and propriety of the complex cost calculations and allocations supporting the annual cost settlements. Although the Department verified the meter readings and related flow percentage calculations upon which the allocation of costs to the Wastewater Fund were based, it did not verify the propriety of the expenses included on the cost settlements. For example, the Department merely relied upon the information contained in the computer printouts provided by the City to support the Water Fund settlement. As a result, the Department lacked assurance that costs were properly calculated and allocated to the County. As noted in our previous report comments, our review disclosed numerous errors or instances of non-compliance in the fiscal year 1996 cost settlements.

Accordingly, we recommend that the Department establish procedures for the review and verification of the annual cost settlements prepared by the City for both the Water and Wastewater Funds to determine the propriety and reasonableness of the costs allocated to the County.

Audit Scope, Objectives and Methodology

As directed by the Baltimore County Council, we have audited the Water and Wastewater Cost Settlements with the City of Baltimore for the year ended June 30, 1996. The audit was conducted in accordance with generally accepted government auditing standards.

The objectives of this audit were to review the cost settlements between the City and County relating to the operations of the Water and Wastewater Funds, including compliance with the related agreements between the City and the County. In planning and conducting our audit, we focused on the major financial related areas of the cost settlements.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, recalculation of amounts included in the settlements and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of Baltimore, Department of Public Works, Bureau of Water and Wastewater is responsible for the preparation of the annual cost settlements and as such, is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed and properly recorded in accordance with management's authorization. Because of inherent limitations in any internal control structure, errors or fraud may nevertheless occur and not be detected. Management is also responsible for compliance with applicable laws, rules, regulations and the terms of the agreements between the City and Baltimore County.

Our reports on fiscal compliance are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports generally do not address activities we reviewed that may be functioning properly.

This report includes findings and recommendations relating to the preparation of the aforementioned cost settlements for the operations of the City's Water and Wastewater Funds including instances of non-compliance with the agreements between the City and

Baltimore County.

CITY OF BALTIMORE

KURT L. SCHMOKE, Mayor



DEPARTMENT OF PUBLIC WORKS

BUREAU OF WATER AND WASTEWATER
300 Abel Wolman Municipal Building
Baltimore, Maryland 21202

September 16, 1998



Mr. Brian J. Rowe, CPA
County Auditor
Baltimore County, Maryland
Office of the County Auditor
Courthouse - Room 221
Towson, Maryland 21204

Dear Mr. Rowe:

This is in response to the final draft report on your fiscal/compliance audit of the cost settlements between the City of Baltimore and Baltimore County, Maryland relating to the operation of the Water and Wastewater Funds for the Fiscal Year ended June 30, 1996.

The report contains eight findings with corresponding recommendations. Below is our response to the findings. In instances where we believe the City can make improvements to its procedures, we include a plan for implementing the improvement along with an implementation schedule.

Finding Number 1: The County was overcharged \$364,819 for its proportionate share of general government overhead costs in the Water Fund.

Response:

The City agrees that an error was made in the 1996 Settlement regarding general government overhead. There was \$821,532 of overhead posted incorrectly that was included by the City in the 1996 Settlement. We have refunded the County share as an adjustment to the 1997 Settlement. The amount of the refund is \$364,819.

Findings Number 2, 3, 7, and 8 concern the allocation of indirect costs to the Water and Wastewater Utility funds.

Response:

The Baltimore City Departments of Finance and Public Works have formed a task force to study the issue of the 6% overhead rate and other costs allocated to the Water and Wastewater funds.

Mr. Brian J. Rowe
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The group will review the 6% overhead allocation rate to determine whether there is a more reasonable basis for cost distribution and if any duplication of allocated overhead costs exists. However, the 6% method of reimbursing the City for general government overhead costs is in accordance with the Water and Wastewater Agreements between the City and the County.

The Task Force will be assisted in its review by a consultant with Federal OMB Circular A-87 Cost Allocation Plan expertise. The Task Force has developed the following Scope of Work for Cost Consulting Services:

1. Develop a full central service cost allocation plan and indirect cost rate proposal based on actual costs incurred for the Fiscal Years of 1996 and 1997. These reports will be used to determine the administrative support and indirect costs incurred by the City of Baltimore that are properly attributable to the Water and Wastewater Utilities. The cost allocation plan will incorporate those overhead/indirect costs that are not allowable per OMB-A87, but necessary to reflect the full indirect costs of the City. The plan will result in an indirect cost/overhead rate for central services provided to the Water and Wastewater Utilities and determine if there is any duplication of allocated overhead costs.
2. Develop a departmental full costs plan to determine the amount of Department of Public Works Administration, Data Processing, General Services, and Permit Section costs that are properly attributable to the Water and Wastewater Utilities.
3. Determine a methodology by which the share of data processing activities can be charged to the Water and Wastewater Utilities for use of the Department of Public Works mainframe computer system.
4. Develop a full cost allocation plan to determine the amount of the Collection Division's cost attributable to the Water Utility.
5. Meet with review agencies, if necessary, upon submission of the plan. Questions raised by review agencies will be addressed and the consultant's basis used in plan preparation will be supported.

We have initiated the procurement process. We expect the Board of Estimates to approve a cost consulting contract by November 1998. We expect the work to be complete within 150 days from Board of Estimates approval.

Mr. Brian J. Rowe
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Finding Number 4: The County was overcharged approximately \$158,609 and \$283,531 for retirees' health insurance costs in the Water and Wastewater Funds, respectively, for Fiscal Year 1996.

Response:

The City concurs that the Fiscal 1996 charges for retirees' health insurance costs to the Water and Wastewater funds were overallocated by \$336,950 and \$583,386, respectively.

However, a review of the Retirees Health Benefit charges to the Water and Wastewater funds from the inception of the charges beginning in Fiscal 1988 reveals that the funds were undercharged in total by \$538,407 and \$64,976, respectively, net of the amounts referenced above. The City's position is that the overallocations in Fiscal 1996 were not indicative of allocations to the funds over the past 10 years.

Further, the City has implemented procedures to ensure that the Water and Wastewater allocations are based upon the percentages derived from the allocation methodology. For example, the Fiscal 1997 allocation confirms that the correct percentages were applied. Additionally, the charges for Fiscal 1998 were applied with the correct allocation percentages.

Since the funds have been historically undercharged, the City's position is that the County is not entitled to a refund.

Finding Number 5: The County was overcharged \$429,527 for the Back River Wastewater Treatment Plant Operations.

Response:

Regarding Odor Control costs, Baltimore County has accepted the 50% charge as standard operating procedure since 1985. In the mid 1980's the City of Baltimore was subjected to a State Consent Order regarding odors at the Back River Wastewater Treatment Plant. It was agreed at that time that more extensive odor control measures be taken at the Plant and that Baltimore County would pay half the costs.

Regarding Heat Drying Capital costs, these are for debt service payments relating to a privatization contract. Although these costs reside in the operating budget, they are really capital costs. Baltimore County contributes 50% of all capital costs relating to the Back River Wastewater Treatment Plant.

Mr. Brian J. Rowe
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Finding Number 6: Documentation supporting certain cost calculations and allocations on the annual cost settlement was not readily available.

Response:

In 1992, Baltimore City engaged Black & Veatch to develop a user friendly computer model for determining charges to the County for Fiscal Years 1991 and beyond. The format of the computer model is consistent with the utility basis of accounting calculations which Black & Veatch prepared for the Arbitration Panel for the years 1984 through 1990.

Black & Veatch has considerable experience in strategic financial planning and modeling for government owned utilities. The firm developed the computer model based on the City/County Agreement as modified by the Arbitration ruling.

Baltimore City has submitted to Baltimore County the computer model on disk which contains formulas for all of the calculations used by the model. In addition, Baltimore County has a printout of the schedules contained in the computer model.

We plan on engaging a consultant in the near future with experience in the utility basis of accounting to update the existing computer model including reviewing the calculations and allocations made in the model to ensure that they are current. The consultant will also be asked to update the computer model so that it can be used in a Windows based computer environment. The consultant will provide a users manual and documentation regarding the model which demonstrates that the computations and allocations are in accordance with the 1972 Agreement as amended by the 1991 Arbitration Ruling.

The City of Baltimore advertised for a consultant to perform this task on July 30, 1998. Consultants were given until August 20, 1998 to submit their proposals. Consultant interviews are expected to take place in October 1998. The estimated time of performance of this project is six months from the date of contract approval by the Board of Estimates.

In conclusion, it should be pointed out that the Water and Wastewater Agreements between Baltimore City and Baltimore County call for the annual statements and computations to be jointly prepared by the City and the County. In recent years, the County has chosen not to actively participate in the preparation of the annual settlements. Active County participation in the annual settlements may reduce disagreements from occurring after the conclusion of annual settlements.

Mr. Brian J. Rowe
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The City of Baltimore strives to maintain the highest quality water and wastewater service in an efficient and environmentally sound manner to all of its customers in the Baltimore metropolitan area. We feel we have been successful in meeting this goal. Our customers enjoy a high quality service while paying rates that are among the lowest in the country.

Very truly yours,



GEORGE G. BALOG
DIRECTOR

GGB:lam

cc: Mr. William R. Brown, Jr.

"BALTIMORE: THE CITY THAT READS!"

Inter-Office Memo
Baltimore County, Maryland

DATE: September 16, 1998

TO: Brian J. Rowe
County Auditor

THROUGH: Robin L. Churchill *[Signature]*
Administrative Officer

FROM: *[Signature]* Charles R. Olsen, Director *[Signature]*
Department of Public Works

SUBJECT: Response to Final Draft Report
Audit of Water/Wastewater Cost Settlements



The Department of Public Works wishes to thank the County Auditor and his staff for the time and effort put forth in producing this valuable report. Your document will help form the basis for establishing a new process for the review and approval of County obligations to the Metropolitan Fund which will meet the test of acceptable accounting practices.

At this point our responses are necessarily brief but we would be pleased to have further discussions with you and your staff on their findings and possible improvements to be accomplished in the entire process.

Responses to Findings and Recommendations

- 1. The County was overcharged \$364,819 for its proportionate share of general government overhead costs in the Water Fund.**

The County has received a credit adjustment of \$364,819. This adjustment was credited on the Fiscal Year 1997 water settlement.

- 2. The methodology for allocating City general government overhead costs to the County is inappropriate and may result in overcharges to the County.**

The County does not disagree with the recommendation. Currently, a *Request for Proposal* (in final draft form) is being circulated among County departments. The work to be performed under the resulting agreement will address the issue of overhead costs and, if needed, the County will pursue amendments to the water and wastewater agreements with Baltimore City.

- 3. The County was overcharged for certain duplicative general government overhead costs allocated through the City Department of Public Works to the Water and Wastewater Funds.**

The County agrees that reimbursement should be pursued from Baltimore City with respect to this duplicative charge. The County will request the required documentation from Baltimore City in order to determine the proper amount of the overcharge.

- 4. The County was overcharged approximately \$158,609 and \$283,531 for retirees' health insurance costs in the Water and Wastewater Funds, respectively, for Fiscal Year 1996.**

The County agrees that reimbursement should be pursued from Baltimore City of these overcharges related to the costs for retirees' health insurance costs. Also, the County will request the required documentation from Baltimore City in order to determine the accurate amount of the overcharge.

- 5. The County was overcharged \$429,527 for the Back River Wastewater Treatment Plant Operations.**

The County agrees that reimbursement should be pursued from Baltimore City with respect to this overcharge. Additionally, the County will request Baltimore City to provide the documentation justifying the method of calculation used in this cost allocation.

- 6. Documentation supporting certain cost calculations and allocations on the annual cost settlement was not readily available.**

A final draft Request for Proposal is currently being circulated among County departments. The resulting agreement will address this issue. Also, Baltimore City is currently in the process of hiring a consultant who will address these issues of cost allocations.

- 7. The methodology for allocating the City Department of Public Works' salary costs to the Water and Wastewater funds was inappropriate and may result in overcharges to the County.**

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The County does not disagree with the recommendation presented in the audit. The County will determine the proper approach to addressing this issue which may include an audit and amendments to the water and wastewater agreements.

8. Documentation to support administrative and technical support costs charged to the Water and Wastewater Funds was not available.

The County will request Baltimore City to provide the required documentation in order to determine the proper cost allocation. The County agrees that reimbursement should be pursued, if needed.

9. The County's Department of Public Works did not adequately verify the accuracy and propriety of cost calculations and allocations supporting the annual cost settlements.

The County's Department of Public Works does not disagree with the findings and recommendations. The Request for Proposal will include consultant recommendations for improvements. Additionally, as indicated above, Baltimore City will be asked to provide documentation supporting the basis for certain cost allocations. Finally, the County will consider initiating on a regular basis audits and amendments to the water and wastewater agreements.

CRO/SRH/tmm

c: Fred Homan
William Korpman

AUDIT.MEM