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LOREN E. MONROE, CPA
AUDITOR GENERAL

MEMORANDUM

DATE: November 18, 2010

TO: Honorable City Council

FROM: Loren E. Monroe, CPA *Loren E. Monroe*
Auditor General

RE: Detroit Residential Water Assistance Program (DRWAP)

CC: Mayor Dave Bing
Norman L. White, Chief Financial Officer
Shenetta Coleman, Department of Human Services (DHS) Director
Darryl A. Latimer, Detroit Water & Sewerage Department (DWSD)
Deputy Director

This memorandum serves to provide your Honorable Body with a report on the DRWAP. Your Honorable Body requested a report on the following aspects of the DRWAP program, the Water Access Volunteer Effort (WAVE) Program, the DWSD Donor Program, and the DWSD interest bearing late fee account. Below is a brief description of each of these areas along with a conclusion.

- The DRWAP program housed at DHS
 - The DRWAP program is a program to provide assistance for Detroit residents whose water bills have become delinquent. The program has been administered by DHS since September 2008. The Office of the Auditor General's (OAG) review of the program found inconsistencies in the administration of the program which are detailed later in this memorandum under Issues and Concerns.
- The WAVE Program
 - The WAVE Program was created in January 2003 as a Michigan non-profit 501 (c) 3 corporation. Its purpose was to provide assistance to low-income Detroit families by ensuring uninterrupted and safe access to drinking water. The WAVE Program received the funds from the DWSD Donor Program until the DRWAP program began receiving the funds in September 2008. DWSD has continued to provide \$100,000 in annual funding to WAVE. In total

WAVE has received \$1.5 million from DWSD. According to State of Michigan records this non-profit was dissolved by the state in October 2009. Representatives from the organization state that it is still functioning. The OAG was unable to confirm if WAVE received any funds from DWSD in 2010.

- The DWSD Donor Program
 - The DWSD Donor Program allows Detroit residents to voluntarily donate fifty cents every month when the bill is paid. Initially the Donor Program funds went to the WAVE program. In September 2008 all Donor program funds began going to fund the DRWAP program. At this point these funds are the only funding source for the DRWAP program.

- The DWSD interest bearing late fee account
 - DWSD informed the OAG that the initial funding for DRWAP came from non-rate revenue. This non-rate revenue does include interest earnings on investments and miscellaneous non-rate revenue. Representatives from DWSD stated that DRWAP was never to be funded solely from an interest bearing late fee account. The funding was lowered to \$2.5 million from the original amount of \$5.0 million by City Council as part of an agreement to lower the rate increase for Detroit customers from 9.4% to 7.4%. The initial \$2.5 million is the only funding that has been provided by the City of Detroit. As of December 25, 2009 there were 2,047 customers enrolled in DRWAP. The total funds required to meet the program commitments for these customers was \$3,430,383.37 and total funds available to meet the commitments were \$3,614,759 leaving \$184,375.63.

Additional background information on DRWAP, greater detail on the information provided above and additional issues and concerns are included in the remainder of this memorandum.

Background

DRWAP was established in August 2007. Discussions regarding the establishment of the program had begun as early as 2005. A Memorandum of Understanding (MOU) between DWSD and DHS provided that the program was to assist low-income residents of the City of Detroit related to the supply of drinking water. The program began in September 2007 and was to continue until June 2008 with initial funding of \$2.5 million.

DHS assumed responsibility for intake and qualification of applicants at the Department's four intake centers which are located throughout the City of Detroit, case management, energy education, tracking and maintaining files for program participants and reporting and evaluation. DWSD assumed responsibility for

reporting the program funding level, providing customer payment and history information, sharing outreach responsibilities, notifying DHS of participants' termination of service, scheduling monthly bill payments and reconnection services of customers upon enrollment in the program.

The original proposal for funding DRWAP for fiscal year 2007-2008 was \$5.0 million, which was comprised of interest on investment earnings and miscellaneous non-operating revenue. During hearings on proposed DWSD rate increases, DWSD proposed lowering the funding to \$2.5 million in order to lower the rate increase for Detroit customers from 9.4% to 7.4%. The lower rates were approved by City Council. DRWAP was never to be funded by an interest bearing late fee account.

An additional \$2.5 million in funding for DRWAP was included in DWSD's budget request for fiscal year 2008-2009. This amount was not included in the approved budget. In September 2008, DWSD began directing all funds received from the voluntary contribution program of Detroit customers to DRWAP. The proposed budget for fiscal year 2009-2010 did not contain any funding for DRWAP.

	Fiscal Year Ended June 30		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
DRWAP Funding – Sewerage	\$1,250,000	\$1,250,000	\$0
DRWAP Funding – Water	<u>1,250,000</u>	<u>1,250,000</u>	<u>\$0</u>
Total DRWAP Funding	<u>\$2,500,000</u>	<u>\$2,500,000</u>	<u>\$0</u>

According to information prepared by DWSD, there were 2,047 customers enrolled DRWAP at December 25, 2009. The total funds required to meet the program commitments for these customers was \$3,430,383.37 and total funds available to meet the commitments were \$3,614,759 leaving \$184,375.63 available for funding future applicants.

Issues and Concerns

During the course of the audit the OAG found deficiencies in the implementation and operation of the DRWAP program.

The Memorandum of Understanding governing the program expired on June 30, 2008. The MOU was not extended, nor was a new MOU executed. This has left the program without a governing document and the DWSD and DHS have continued to operate the program using the expired document.

DWSD did not properly execute its portion of the DRWAP program. The following includes areas of implementation in which DWSD failed to meet its obligations:

- DWSD did not provide the required data to DHS by the dates specified by the MOU and the associated Exhibit-A.
- DWSD did not post payments timely to the clients' account once the customer was approved for DRWAP.
- DWSD continued to bill accounts for the DRWAP donation even after the customer was enrolled as a recipient of the program.
- For seven of the ten accounts tested the customer continued to be billed for the \$0.50 per month donation for twelve months without making a payment toward the donation portion of the bill.

An escrow account was established by DWSD for the funds set aside for DRWAP, including the initial funding and the customer donations. DWSD did not properly manage the Water Affordability Project Escrow Account.

- Donations collected for the DRWAP program were not transferred to the escrow account for seven months of the two years examined.
- Donations collected for the DRWAP program were posted to a liability account established specifically for the donations. As of December 31, 2009, no entries had been made to account for the transfer of a portion of the funds from the liability account to the Escrow Account.
- DWSD did not reconcile the donations collected and posted to the liability account. The total amounts of credits applied to the accounts of customers participating in DRWAP are not reconciled to the escrow account or to the DWSD operations account. Donations received, credits applied and transfers to and from the escrow account are not reconciled to DRMS.

DWSD did not properly credit payments to DRWAP customer accounts.

- Ten accounts of customers enrolled in DRWAP were reviewed. All ten accounts had inconsistencies and were not properly handled. Six of the DRWAP customers owed money back to DWSD because the DWSD billing system erroneously provided credits to the customers even after the customers had defaulted from the program. Four of the ten DRWAP customers were owed money for the DRWAP program even though the enrollment had ended.
- An additional five accounts were reviewed and showed that the initial payment applied by DWSD did not match the calculation made by the DHS staff for all five accounts.

DHS did not properly meet its DRWAP responsibilities. Exhibit-A of the MOU, delineates the following for DHS responsibilities: intake and assessments including eligibility determination, affordability determination, case management and customer recertification, energy education, tracking, reporting and evaluation.

The OAG tested 23 DRWAP applications from the various intake locations and found the following:

- Eleven, or 48% of them were not completed in their entirety.
- Six or 26% had insufficient information to determine or verify the total household income.
- Nineteen or 83% consisted of clients being billed for donations over a twelve-month period, which was figured into their monthly payment amount for DRWAP.
- Ten or 43% did not have a residential utility shut off or shut off pending notice.
- Two or 9% did not have copies of recent utility bills in their file.
- Twelve or 52% reflected the incorrect monthly payment.
- Two or 9% did not have a copy of the rental agreement or mortgage document.
- Six or 26% had monthly payments that were not feasible based on insufficient monthly incomes.
- Two or 9% did not have a copy of the twelve-month water consumption history report.
- One or 4% did not include a copy of resident's social security card.
- Seven or 30% did not include a copy of the authorization to release form in the file.
- One or 4% was not a single-family residence.
- One or 4% had an address that did not match the utility bill.

The OAG also found that:

- DHS included the billed but unpaid voluntary water donations in the calculation of the applicants' average monthly bill, which was used to determine the applicants' required monthly payment amount under DRWAP.
- DHS did not provide the customers with written notice of the date the first payment was due under DRWAP.
- DHS did not advise applicants that if they defaulted on their DRWAP payment obligations they would be responsible for the entire account balance and the original DRWAP credit amounts could be reversed from the account.
- DHS did not require all applicants to attend the Energy Education Workshop as specified in the DRWAP guidelines.
- DHS did not notify customers enrolled in DRWAP of the recertification requirements prior to the expiration of the initial twelve-month participation in the program.

- The DHS employee who oversees the intake process did not submit account information to DWSD for processing on a daily basis.
- The DHS Community Service Commission never completed an annual evaluation of the program for 2008, 2009 and 2010.
- DHS has not billed DWSD for administrative costs associated with administering the DRWAP program. Because DHS is not billing DWSD, DHS is using other funding to pay for work associated with DRWAP. DHS is 99 percent grant funded and therefore DHS is using grant funds for other projects to administer DRWAP.

Sufficient policies and procedures were lacking from the associated Exhibit-A and the MOU to adequately control the program. There is no guidance for how to handle defaults and recertification. The lack of appropriate policies has allowed for customers enrolled to default and then re-enroll and ensure themselves of receiving multiple initial payments.

Recommendations

The OAG recommends that:

- DWSD and DHS convene the appropriate people from both departments to evaluate the program and determine which aspects of the program work and which do not.
- A new MOU be written and executed that clearly delineates the responsibilities of each department.
- DWSD and DHS develop appropriate policies and procedures to adequately govern all aspects of the program from application to default to recertification.
- DWSD and DHS each appoint one person from the department to oversee the department's responsibilities and to act as a liaison with the other department.
- DHS requires all intake centers and intake workers to use standardized documentation and guidelines when processing applications.
- DHS bills DWSD for administrative work and ensure that any expenses for employee time are either not charged to grant funds or are an allowable expense under the specific grant charged.
- DWSD should assign the appropriate level of staff to the program to allow for the DRWAP accounts to be handled in a timely manner.
- DWSD works to automate the processing of DRWAP payments to expedite and streamline the process.
- DWSD reconciles the donations due to DWSD operations to reimburse for the DRWAP credits and the associated bank accounts be reconciled to a control account on a monthly basis.

- DWSD transfers the collected donated funds to the escrow account monthly.
- DWSD transfer the appropriate funds from the escrow account to the operating account to cover the cost of the program on a monthly basis.