

**19-02 Sewer Fund Internal Controls Audit - Second Follow-up**

**Follow-up Status of Management Responses**  
**As of July 2021**  
**Original Report Issuance - October 2019**  
*Follow-up result: All items are closed for this audit.*



**City Auditor's Office**  
**Emily E. Kidd, CIA, CFE, CGAP**  
**Internal Auditor**

**City Manager's Office**

<b>Finding (condensed)</b>	<b>Recommendations</b>	<b>Management Response</b>
<b>1 Expenditures Assigned to the Sewer Fund Were Not Solely for O&amp;M</b>		
<p>On three occasions, the expenditure was assigned as an expense from the Enterprise Sewer Fund for Operations &amp; Maintenance (O&amp;M) although it was not specifically for an O&amp;M function. Reno Municipal Code Section 12.16.160 includes, "The proceeds from the sewer charges shall be used solely for the operation, maintenance and replacement of the wastewater facilities and stormwater facilities..." The dedicated fund is depleted unnecessarily for improper purchase types and full revenues collected may not be available for future needs of the enterprise fund, wastewater and stormwater facilities' operation and maintenance.</p>	<p>We recommend expenses from the Sewer Fund O&amp;M account be used solely for qualifying expenses, as was the intent of the Enterprise Fund.</p>	<p>A policy determination will be made regarding the types of expenditures that are necessary and reasonable expenses from the Sewer Fund Operations and Maintenance Enterprise Fund.</p> <p>Measures will be taken by January 2020.</p>

**Follow-up Status:**

<b>August 2020</b>	<p>Policy determination will be made in consultation with the new City Manager appointment by City Council. New City Manager appointment is anticipated to occur at the end of August with possible start in October 2020.</p>
	<p><u>Audit Comment to Follow-up:</u> Follow-up is scheduled in 6 months.</p>
<b>July 2021</b>	<p>A policy determination was made by new executive management regarding the types of expenditures that are necessary and reasonable expenses from the Sewer Fund Operations and Maintenance Enterprise Fund. Notably, the use of the fund for food at departmental meetings has been discontinued. The citywide purchasing policy is scheduled to be updated to reflect this policy clarification.</p>

5 Ownership Split of Capital Costs at TMWRF is Not Clear		
<p>An adjustment to the "Division of Capacity Ownership" was last documented in the second addendum to the Reno-Sparks-TMWRF Agreement dated February 14, 1983 upon the completion of the 40 MGD Master Project. Upon completion, however, the MGD Master Project resulted in a larger total capacity of 46.48 MGD. The Agreement was not updated to reflect the ownership amount of this increased capacity. However, a separate agreement referred to as Reno, Sparks and Washoe Phase III Wastewater Facilities dated November 8, 1999 does detail the capacity ownership split that agrees to the monthly billing calculations for capital costs issued to the City of Reno.</p>	<p>We recommend the capacity ownership split (capital cost split) be documented in the next iteration of the Reno-Sparks-TMWRF Agreement.</p>	<p>CMO will oversee that the capacity ownership split (capital cost split) be documented in the next iteration of the Reno-Sparks-TMWRF Agreement.  Measures be taken by June 2020.</p>

**Follow-up Status:**

<p><b>August 2020</b></p>	<p>Agreement being accessed in the City Attorney's Office.</p>
<p><u>Audit Comment to Follow-up:</u> Follow-up is scheduled in 6 months.</p>	
<p><b>July 2021</b></p>	<p>Per lack of management action leading to a resolution to this audit exception after two years, the finding is reopened for additional audit review for fiscal year 21/22.</p>