

## Follow-Up Performance Audit of the Industrial Wastewater Control Program

*The Public Utilities Department's Cost Recovery Practices for IWCP Remain Out of Compliance with City Policies and Possibly State Law*

### Why OCA Did This Study

The Public Utilities Department's (PUD) Industrial Wastewater Control Program (IWCP) permits, monitors, and inspects a variety of industries across the City and 12 other Participating Agencies to detect and minimize the discharge of toxic substances into the sewerage system.

In 2013, we issued a [performance audit of IWCP](#). At that time, we found that outdated fees, billing lapses, and inadequate controls limited program cost recovery from IWCP permittees. Most program costs were passed on to other wastewater customers who were not IWCP permittees. In addition, we issued a confidential memorandum raising the possibility that these cost recovery practices were not in compliance with Proposition 218 (Prop 218).<sup>1</sup> The objective of the current audit was to review the status of the recommendations we made in 2013.

### What OCA Found

We found that the issues we identified in 2013 remain largely unaddressed.

**Finding 1:** While an IWCP fee update is in progress, it has not been completed, and many program fees remain unadjusted since 1984. As a result, from FY 2010 to FY 2019, program costs totaled about \$38.8 million, of which only \$5.5 million (14 percent) was recovered from fees charged to IWCP permittees. The remaining \$33.3 million (86 percent) was passed on to other customers via wastewater rates. By not regularly reviewing IWCP fees and presenting them to the City Council for approval, PUD's IWCP cost recovery practices remain out of compliance with City regulations and policies. In addition, the continuance of these practices again raises the possibility of non-compliance with Prop 218.<sup>1</sup>

**Finding 2:** PUD continues to use overly-complex billing processes for IWCP, which is inefficient and has caused billing lapses. Even though PUD implemented our 2013 recommendation to recover unbilled costs from FY 2008 to FY 2012, we found that, since FY 2017, PUD has again failed to bill many IWCP permittees outside the City.



Source: U.S. Environmental Protection Agency

### What OCA Recommends

We make a total of 9 recommendations to correct the issues we identified, which are similar to the public and confidential recommendations we made in 2013.

Specifically, we recommend that PUD:

- Document procedures to track IWCP costs and revenues;
- Complete the current IWCP fee study, consult with the City Attorney's Office to develop a fee proposal that is in compliance with City regulations, policies, and state law, and present the proposal to the City Council for approval;
- Document policies and procedures for periodically reviewing and updating IWCP fees moving forward;
- Consolidate and simplify the billing process for IWCP fees; and
- Seek recovery of IWCP fees that went unbilled since FY 2017.

PUD agreed with all 9 recommendations and has taken several steps towards implementation.

For more information, contact Kyle Elser, Interim City Auditor at (619) 533-3165 or [cityauditor@sandiego.gov](mailto:cityauditor@sandiego.gov)

<sup>1</sup> We do not reach any legal conclusions in our report regarding Proposition 218, and nothing in our report should be interpreted as any type of legal conclusion.