



State of Rhode Island and Providence Plantations
Office of Management and Budget
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December 27, 2018

Mr. Vincent Mesolella
Chairman of the Board of Commissioners
Narragansett Bay Commission
1 Service Road
Providence, RI 02905

Dear Mr. Mesolella:

The Office of Internal Audit has completed its limited scope audit of Narragansett Bay Commission (NBC). The limited scope audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with the Rhode Island General Laws (RIGL) §35-7.1-2(a) – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL§35-7.1-10 (d), entitled Annual and interim reports, states that, “Within twenty (20) calendar days following the date of issuance of the management response copy of the draft audit report, the head of the department, agency, public body or private entity audited shall respond in writing to each recommendation made in the audit report.” Accordingly, management submitted its response to the audit findings and recommendations on December 20, 2018 and such response is included in this report. Pursuant to this statute, the Office may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of Narragansett Bay Commission for the cooperation and courtesy extended to the members of our team during this limited scope audit.

Respectfully yours,

Dorothy Z. Pascale, CPA
Chief

c—Jonathan Womer, Director, Office of Management and Budget
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Marvin Abney, Chairperson, House Finance Committee

Audit Executive Summary

Why the Office of Internal Audit Did This Review

Rhode Island General Law §42-155-7, *Audit of quasi-public corporations*, requires the Office of Internal Audit to conduct a performance audit of all quasi-public corporations once every five years. The Office of Internal Audit established an initial five-year schedule; this audit was performed in compliance with the statute and the established schedule.

The Office of Internal Audit conducted an audit of Narragansett Bay Commission.

Background Information

Narragansett Bay Commission (NBC) is a quasi-public agency, established under Chapter 46-25 of the Rhode Island General Laws to improve, operate, and maintain publicly owned sewage treatment facilities in the greater Providence metropolitan area. NBC operates and maintains the two largest wastewater treatment facilities in Rhode Island.

The OIA Recommends:

- Reassessing the permit fee rate structure
- Updating the Strategic Plan and transparency links on the Narragansett Bay Commission's website
- Creating an electronic process for pretreatment permit applications
- Streamlining the capital asset budget process

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Introduction

The Narragansett Bay Commission (NBC) was incorporated during 1980 and merged with the Blackstone Valley District Commission during 1992. NBC provides wastewater collection and treatment services to approximately 360,000 residents and 8,000 businesses throughout their service area. NBC owns, operates and maintains Rhode Island's two largest wastewater treatment facilities, the Field's Point Wastewater Treatment Facilities (WWTF) and the Bucklin Point WWTF. In addition, NBC owns, operates and maintains 110 miles of interceptors, six outlying pump stations, 32 tide-gates, 61 combined sewer overflows (CSOs), and a septage receiving station. NBC's Tunnel Pump Station, located adjacent to the Ernest Street Pump Station at Field's Point, pumps combined sewage flow from the CSO tunnel to the Field's Point WWTF for treatment. NBC has also invested in renewable energy with three 1.5 MW wind turbines located at Field's Point and three 1.5 MW turbines located off-site.

The Office of Internal Audit (OIA) has reviewed NBC's controls over billing and cash receipts, permit application procedures, purchasing, capital asset management and compliance with the Quasi-Public Corporation Accountability and Transparency Act Section 42-155-2 during this limited scope audit. Our recommendations to improve controls and efficiencies are discussed in the following section.

Recommendations for Improved Controls

Quasi-Transparency Act

The Quasi-Public Corporations Accountability and Transparency Act was passed in 2014 to provide assurance that quasi-governmental agencies operate effectively, efficiently, and with appropriate transparency.

RIGL §42-155-2(5) states in pertinent part:

It is essential that quasi-public corporations provide more, not less, transparency by making their decisions and budgets especially transparent and open to public scrutiny, and by demonstrating a commitment to protecting the interests of Rhode Island taxpayers by achieving the highest standards of transparent, effective, and ethical operation.

The act requires the quasi-governmental agencies to implement specific policies and publicize certain reports. NBC demonstrated substantial compliance with the Act during our review. However, we noted the following areas involving the agency website in which transparency can be improved:

- The strategic plan is outdated - last update was 2011.
- The link to the quarterly contracting reports is broken.
- The link to NBC regulations takes users to the general Secretary of State regulation page rather than directly to NBC regulations.

Recommendation:

1. Update the Strategic Plan.

2. Correct the website link to the quarterly contracting reports.
3. Create a more direct link to NBC regulations on the Secretary of State website.

Management Response:

1. Strategic Plan - The 2011 Strategic Plan has been reviewed annually and it was determined that no revisions were required until the Combined Sewer Overflow (CSO) Phase III Project was more clearly defined, NBC received the new Rhode Island Pollution Discharge Elimination System (RIPDES) permits for its two wastewater treatment facilities, and the new Consent Agreements with the Rhode Island Department of Management (RIDEM) were executed. The Strategic Plan was subsequently updated to incorporate these new mandates and activities in the fall of 2018. The 2018 Strategic Plan was reviewed and adopted by NBC's Board of Commissioners at the December 11, 2018 meeting.
2. Correct the website link to the quarterly contracting reports - The State of Rhode Island has not posted these reports and NBC understands that a link will be provided once the new site is live. In the interim, NBC has posted the reports for FY 2017 and FY 2018 on its website at www.narrabay.com.
3. Create a more direct link to NBC regulations on the Secretary of State website –NBC has posted all of NBC's Rules and Regulations in a single location on its website at www.narrabay.com and the link to the Secretary of State website has been updated to directly link to Title 835 of the Rhode Island Code of Regulations, which contains the NBC's Rules and Regulations.

Responsible Party: Thomas Uva and Jennifer Harrington, Esq.

Anticipated Completion Date: Completed.

Electronic Permit Applications

All new connections to the NBC's system, whether residential or business, must apply for and obtain a Sewer Connection permit prior to discharging water into the NBC sewer system. All new and existing industrial and commercial users must obtain a wastewater discharge permit, in accordance with NBC's Rules and Regulations, before discharging to NBC's facilities, as noted in the following laws:

RIGL §46-25-19(a) states, in part:

No person shall make any connection from any structure to any sewer or appurtenance thereto discharging to the project without first being granted a written permit from the commission, in accordance with the rules and regulations.

RIGL §46-25-25(b) states, in part:

No person shall discharge any pollutant into the facilities, except as in compliance with the provisions of this section, and any rules and regulations promulgated hereunder, and pursuant to the term and conditions of a permit.

Currently, the pretreatment application is paper based and received via US mail. The Sewer Connection and Storm Water application and supplemental documentation can be mailed, faxed, or submitted electronically. For the applications reviewed during our audit, the OIA noted:

- Sewer Connection permits were issued within 3-5 business days.
- The shortest issuance time for a Pretreatment permit was 26 business days.

The difference in processing times for permit issuance demonstrates that the Pretreatment permit process could benefit from electronic processing.

Recommendation:

4. Implement a process for electronic Pretreatment permit applications.

Management Response:

4. Pretreatment permit applications typically take longer to process than sewer connection permits or stormwater permits because they are more complex. Most importantly, if the pretreatment permit is not written correctly with proper pretreatment limits, discharges from the permitted user may adversely impact the collection system, disrupt treatment plant operations, or cause NBC to violate its RIPDES permits.

Pretreatment permits are control documents required by state and federal regulations and are custom tailored to the permittee. The pretreatment permit application requires an applicant to submit the permit application, and process operations and pretreatment system plans. The applicant may also be required to submit a Spill Control Plan and a Toxic Organic/Solvent Management Plan. Historically, these documents have been submitted by mail or in person since the documents must be signed by a company official. Pretreatment staff must review all of this information and ensure it is accurate prior to writing the permit. Pretreatment staff often inspects the facility and meets with company representatives to obtain missing information. Once all of the required information is obtained, the permit is then written.

NBC submitted a request to RIDEM for a minor modification to the Pretreatment Program to accept electronic signatures on permit applications. This modification was approved by DEM in July 2017. Staff from the Pretreatment Program will work with Information Technology (IT) to enable the electronic completion and submission of pretreatment permit applications through NBC's website.

Responsible Party: Thomas Uva

Anticipated Completion Date: June 2019

Review Permit Fees

The NBC is authorized by the Rhode Island Public Utilities Commission (PUC) to charge fees for Pretreatment and Sewer Connection permits. These fees were originally designed to recover a portion of the costs of the permitting programs including administration, facility inspections, and other related expenditures. As a public utility, NBC is charged with providing services through an equitable cost allocation and recovery system of fees and charges.

The fees presently in effect for the Pretreatment and Sewer Connection permits have not changed since 2003 and 2005, respectively, and should be analyzed to ensure that the fees are reflective of the intended cost allocation and recovery system.

Recommendation:

5. Review and update permit fee schedule.

Management Response:

5. NBC's user charges, fees and tariffs are reviewed frequently and any modifications are subject to a nine-month PUC review and approval process. Due to concerns about competitiveness and CSO impacts, NBC had requested and the PUC approved the exemption of pretreatment and connection permit fees from rate increases. NBC recently completed a review of the cost allocation and recovery of these fees and applied for modifications to the pretreatment and sewer connection permit fees and fee structure as part of its October 10, 2018 general rate filing with the PUC. NBC is proposing the elimination of the annual pretreatment permit fee and replacing it with a pretreatment permit application fee. NBC is also proposing to change the sewer connection permit fee structure from residential and non-residential fees to one based on whether or not the connection is direct or indirect. The new rates are to be effective July 1, 2019; however, there are no assurances that the proposed fees will be approved in whole or in part by the PUC.

Responsible Party: Karen Giebink

Anticipated Completion Date: Completed.

Integrate Asset Management and Budgeting Processes

NBC uses an asset management system to record and track capital assets through their lifecycle. The system offers the ability to track the cost, age, condition, criticality, and preventive and corrective

maintenance of NBC's assets. This information is used to develop NBC's capital asset budget and five-year capital asset plan. Due to reporting limitations of the asset management software, staff must extract data from the asset management system and combine it manually in a spreadsheet to develop the capital asset budget.

Recommendation:

6. Enhance the reporting functions of the asset management system to streamline the capital asset budget process.

Management Response:

Asset management staff will work with NBC's IT section to enhance the reporting functions of the asset management system.

Responsible Party: Paul Nordstrom

Anticipated Completion Date: June 30, 2019.

Objective and Scope

The Office of Internal Audit (OIA) conducted an audit of Narragansett Bay Commission (NBC). The purpose of the engagement is to determine if operations at NBC are being administered efficiently and effectively in accordance with requirements, statutes, and state procedures.

Methodology

As part of our audit work, the OIA gained an understanding of the existing controls in place at NBC for performance management. To address our audit objective, we performed the following:

- Interviewed personnel, including permit department management and customer service staff
- Researched State and Federal laws and regulations
- Depicted work flows
- Reviewed the permitting approval process
- Assessed compliance with EPA regulations related to water testing

The OIA used an external audit firm, Clifton Larson Allen LLP, to supplement its staff during the performance of this audit. Clifton Larson Allen LLP performed the detailed audit work surrounding Capital Asset Management, Purchasing, and Reserve Funding and was selected using a competitive bidding process.