

# **Audit**

## **Follow Up**

*As of September 30, 2006*



### **“Electric Revenues”**

*(Report #0602, Issued November 15, 2005)*

**Report #0702**

**November 15, 2006**

#### **Summary**

***The applicable City departments completed three of the four action plan steps that were due during the six-month period ending September 30, 2006. In summary, 16 of the 29 action plan steps developed to address the issues identified in the initial audit report have been completed.***

In audit report #0602, we identified issues that indicated the need to better manage operations, activities, and records impacting electric consumption and related revenues. The audit found that, overall, electric consumption and related activities were properly billed. However, the audit identified instances of unbilled consumption, billing errors, errors in the records used to determine the semiannual energy cost recovery rate, and errors in the application of non-consumption fees. In addition, the audit identified the need to enhance use of the PeopleSoft Customer Information System (CIS) to account for all meter activity and to enable an efficient process for identifying meters for periodic testing based on meter age and prior test dates.

We provided specific recommendations to address these issues. For the six-month period addressed in this follow up engagement, the Utility Business and Customer Services (UBCS) Utility Accounting Division and the Electric Meter Shop completed three of the four action steps that were due for completion. The three completed actions included:

- Developing and using system queries to detect billing errors through identification of instances where premises type, service point type, service agreement type, and/or rate structure do not match (e.g., a “commercial” premises with a corresponding service point, service agreement, and/or rate structure that is “residential”);
- Providing system permissions to applicable Power Engineering staff thereby enabling that staff to efficiently manage activities within the PeopleSoft CIS relating to area lights; and
- Correcting the recorded status of 565 meters from “active” to “retired” in the PeopleSoft CIS.

The remaining action plan step, due but not yet completed, involves conducting independent analyses of meter seal activity as a means to help detect unbilled consumption.

#### **Scope, Objectives, and Methodology**

The initial audit and this subsequent follow up were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the Professional Practice of Internal Auditing.

**Report #0602**

The scope of report #0602 included a review of activity impacting Electric Utility revenues during the period January 2004 through July 2005. The primary focus of our audit addressed revenues generated from the sale of electricity to City customers. We also reviewed revenues generated from charges to customers for initiation of services, reconnection of services after disconnection because of nonpayment by the customer, and miscellaneous activities, including meter tampering, meter re-reads, and meter testing. The process for establishing rates charged to recover the City's cost of energy was also reviewed.

The objectives of the audit were to determine whether:

- Consumption of City electricity is properly measured and billed to City customers;
- Amounts billed are proper based on customer class, premises location, contractual terms and conditions, and applicable City ordinances;
- Rates established to recover energy costs are properly and accurately determined;
- Fees for connection, reconnection, and other miscellaneous activities are properly charged; and
- Controls and processes pertaining to electric meter inventory and maintenance are adequate.

**Report #0702**

This is our second follow up on action plan steps identified in audit report #0602. In our first follow up, we reported on the progress and status of efforts to implement action plan steps due as of March 31, 2006. The purpose of this second follow up is to report on the status of efforts in completing the action plan steps due for completion by September 30, 2006. To obtain information,

we conducted interviews with key staff, made observations, and reviewed relevant documentation.

### **Previous Conditions and Current Status**

In report #0602, we identified issues that indicated the need to better manage operations, activities, and records impacting consumption and related revenues. Some instances of unbilled consumption were identified through our testing. The most significant of those instances occurred because the existing system software programming developed to identify unbilled consumption inadvertently excluded certain customer types. We also found some billing errors, including three instances where tax-exempt customers were incorrectly charged state sales taxes in amounts approximating \$150,000. Our review disclosed a \$1.2 million understatement in fuel oil costs. Had that error not been detected and corrected, future energy cost rate determinations likely would have resulted in the City not recovering fuel costs in that amount. We also found a few instances where non-consumption fees were incorrectly applied. Furthermore, we noted the need to enhance use of the PeopleSoft Customer Information System (CIS) to account for all meter activity and to enable an efficient process for identifying meters for periodic testing based on meter age and prior test dates.

Twenty-nine action plan steps were developed to address the identified issues. Of those 29 steps, 13 were completed by March 31, 2006, as reported in our initial follow up report (see report #0619). An additional four steps were due for completion as of September 30, 2006. In summary, 17 of the 29 action steps were addressed and/or due for completion as of September 30, 2006. Table 1 provides a summary of those 17 action steps due for completion and their current status.

Table 1

Action Plan Steps from Report #0602 initially due (or completed) as of September 30, 2006, and Current Status

Action Plan Steps	Current Status
<b>Ensure consumption is correctly and accurately billed</b>	
<b>UBCS - Utility Accounting</b>	
<ul style="list-style-type: none"> <li>With the assistance of Information System Services (ISS), complete the modifications to the software programming such that demand service points are included in the determination of any unbilled consumption.</li> </ul>	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>Follow up on the three instances where area lights were on but no customers were billed to ensure that either (1) PeopleSoft CIS field activities/orders are initiated and completed to turn the power off or (2) billing agreements are initiated for the applicable customers. If warranted by the circumstances, back-bill the customers in accordance with City policy.</li> </ul>	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>Develop and run queries to identify service agreements for which state sales taxes or public service taxes are applied when new exemption statuses are not recorded in PeopleSoft CIS after the current exemption expires. Review those query results and take appropriate actions, including updating the system for new exemptions and (when applicable) notifying the customers that new exemptions are needed.</li> </ul>	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>Develop and run queries to periodically identify temporary service points over five years old. Investigate those service points to determine if they are still temporary in nature. If warranted by those investigations, change the status from temporary to the appropriate permanent classification. When appropriate, back-bill or refund customers that were incorrectly billed due to the service point misclassification in accordance with City policy.</li> </ul>	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> <li>Enhance existing queries to identify services where the premises type, service point type, service agreement type, and/or rate structure do not match each other in the PeopleSoft CIS. (An example would be a "commercial" premises with the correlating service point, service agreement, and/or rate structure coded as "residential.")</li> </ul>	<p>√ Utility Accounting created three new queries to identify instances where relationships between the noted elements are not appropriate or logical. Utility Accounting schedules those three queries to be run and worked monthly. We noted, for the most recent run, that appropriate actions had been initiated to resolve the few discrepancies identified in the query results.</p>
<ul style="list-style-type: none"> <li>Correct the City limit designations in the PeopleSoft CIS for the 75 service points noted in the audit report as being incorrectly reflected in that system. In accordance with City policy, back-bill or refund the applicable customers for</li> </ul>	<p>√ Completed during prior period.</p>

incorrectly applied taxes and surcharges.	
<ul style="list-style-type: none"> <li>With the assistance of ISS, research the six service points with physical locations in the PeopleSoft CIS that are different than the locations recorded in the Electric Utility Geographical Information System (GIS). Correct the recorded locations in the two systems as appropriate.</li> </ul>	√ Completed during prior period.
<ul style="list-style-type: none"> <li>Provide applicable staff in Power Engineering access and permissions in PeopleSoft CIS allowing them to initiate and complete system field activities and orders. Train that staff in initiating and completing system field activities and orders.</li> </ul>	√ Utility Accounting provided system permissions, allowing the initiation and completion of system field activities and orders, to applicable Power Engineering staff. (Note: Power Engineering staff is scheduled to start using those permissions in the subsequent follow up period. Those uses will pertain to starting and stopping service for “area lights.” We will address Power Engineering’s success in using those recently assigned permissions in our subsequent follow up engagement.)
<b>UBCS - Utility Customer Services</b>	
<ul style="list-style-type: none"> <li>General Service Demand customers billed at the non-demand rate will be identified and their consumption tracked to ensure that their demand levels remain at the appropriate levels (i.e., low activity and demand levels) to justify billing at lower rates. When demand levels increase, the billing structure rates will be changed back to the demand rate.</li> </ul>	√ Completed during prior period.
<b>Ensure accurate determinations of over/under recoveries of energy costs when establishing semiannual ECRC rates</b>	
<b>Electric Control Center</b>	
<ul style="list-style-type: none"> <li>Steps will be taken to ensure the mathematical accuracy of records prepared to determine actual energy costs incurred by the City in the generation of electricity.</li> </ul>	√ Completed during prior period.
<b>UBCS - Utility Accounting</b>	
<ul style="list-style-type: none"> <li>Make appropriate adjustments so that the subsequent semiannual ECRC determination properly considers the understated costs of \$1.2 million.</li> </ul>	√ Completed during prior period.
<b>Ensure correct application of non-consumption fees</b>	
<b>Utility Business and Customer Services (UBCS)</b>	
<ul style="list-style-type: none"> <li>For incorrect non-consumption fees identified in the audit report, charge or back-bill applicable customers for the over/under charges in accordance with City policy.</li> </ul>	√ Completed during prior period.
<ul style="list-style-type: none"> <li>Management will address with staff the instances of incorrect non-consumption fee application identified in the audit report, and</li> </ul>	√ Completed during prior period.

emphasize to staff the importance of identifying and applying the correct non-consumption fees based on the activities performed.	
<ul style="list-style-type: none"> <li>Efforts will be continued to include functionality in the updated version of PeopleSoft CIS that provides for reconnection fees to be based on the reconnect activity instead of the disconnect activity.</li> </ul>	√ Completed during prior period.
<b>Ensure effective and efficient meter management practices</b>	
<b>UBCS - Utility Accounting</b>	
<ul style="list-style-type: none"> <li>Complete appropriate modifications to PeopleSoft CIS that allow meter test dates and results to be tracked in system fields that can be efficiently queried for monitoring and managerial oversight purposes.</li> </ul>	√ Completed during prior period.
<ul style="list-style-type: none"> <li>Provide for periodic independent determinations of meter seal quantities used based on differences between quantities purchased and on hand. That independent staff will compare those quantities used based on that analysis to activity indicating meter seal usage recorded in PeopleSoft CIS. Discrepancies will be investigated.</li> </ul>	X Due to recent reassignments of staff and responsibilities, completion of this action step has been delayed.
<b>Electric Meter Shop</b>	
<ul style="list-style-type: none"> <li>For the 569 out-of-service meters incorrectly shown in the PeopleSoft CIS as "active un-installed," the system status will be revised to "retired."</li> </ul>	√ For the applicable meters, Meter Shop staff correctly changed the status in the PeopleSoft CIS to "retired." (NOTE: The status was corrected for 565 of the 569 meters; additional research showed that the recorded status for the remaining four meters was correct.)

**Table Legend:**

- Issue addressed in the original audit

- √ Issue addressed and resolved
- X Step not completed

**Conclusion**

Applicable City departments had completed all but one of the action plan steps initially due for completion as of September 30, 2006. When completed, that remaining step will provide reasonable assurance that meter seals are used only for authorized purposes.

Other significant actions remaining to be completed subsequent to September 30, 2006, include:

- Power Engineering staff using recently provided system permissions to properly and efficiently manage activities within the PeopleSoft CIS relating to area lights;

- Using system queries to compare City limit designations in PeopleSoft CIS to City limit designations in the Electric GIS for purposes of helping to ensure that billing set-ups are correct;
- Revising the City's official fee schedule to include fees charged for new service points within the City limits;
- Using the enhanced PeopleSoft CIS to more efficiently manage electric meters;
- Locating and accounting for electric meters not found on audit; and
- Providing for periodic accounting and reconciliations of meters as a means to

help detect unbilled consumption.

We appreciate the cooperation and assistance provided in this audit follow up by the UBCS Utility Accounting Division and the Electric Meter Shop.

### ***Appointed Official Response***

#### **City Manager:**

The results of the audit follow up reflect management's commitment to internal control and improvements to efficiency and effectiveness.

Copies of this Audit Follow Up or audit report #0602 may be obtained from the City Auditor's website (<http://www.talgov.com/auditing/auditreports.cfm>), via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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