Audit Follow Up

As of September 30, 2004

CITY OF TALLAHASSEE
OFFICE OF THE CITY AUDITOR

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"Gas Revenues"

(Report #0409, Issued April 12, 2004)

Report #0517 ***February 14, 2005***

Summary

The applicable City departments have completed 15 of the 18 action plan steps that were due for completion as of September 30, 2004. Actions have been initiated for the three remaining steps due for completion as of that date.

In audit report #0409, we identified issues that indicated the need for management to better manage financial risks created by the complexity of measuring and billing consumption for customers operating off elevated delivery pressures. In addition, we reported the need for better use of the PeopleSoft Customer Information System (CIS) as a management tool as well as the need for enhanced meter management.

We provided specific recommendations to address these issues. Overall, the Gas Utility, Utility Accounting, and Utility Customer Services have been responsive in addressing these issues as steps have been taken to:

- Refund/charge for identified over-billings and under-billings;
- Identify and correct improper billing setups;
- Standardize measurement methods at locations operating off elevated delivery pressures; and
- Establish and document a reasonable and formal meter testing and change out program.

Actions initiated but not finalized include:

- Making the field activity/order process for new gas taps and meter sets more efficient;
- Revising the process to ensure that customers are not incorrectly charged reconnect fees under certain circumstances; and
- Establishing complete records for the meter testing and change out program.

Scope, Objectives, and Methodology

The 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, as appropriate.

Report #0409

The scope of Report #0409 included a review of activity impacting Gas Utility revenues during the period October 2002 through November 2003. The primary City departments performing activities that impact gas revenues are Gas Utility and Utility Accounting. Growth Management and Utility Customer Services also conduct some activities (e.g., creating system field activities and orders) that impact those revenues.

The objectives of the audit were to determine whether:

- Gas consumption was properly measured and billed to City customers;
- Amounts billed were proper based on customer class, premises location, contractual terms, and applicable City ordinances;
- Functions (e.g., processing system field activities and orders and meter reading) that impact billings revenues were proper

and efficient;

- Controls and processes for gas meter inventory and maintenance were adequate; and
- Management took an active role in identifying and reducing and/or mitigating risk.

Report #0517

The purpose of this audit follow up is to report on the progress and status in completing the recommended action plan steps due as of September 30, 2004. To obtain information we conducted interviews with key staff, made observations, and reviewed relevant documentation.

Previous Conditions and Current Status

In Report #0409, we identified issues that indicated the need to better manage financial risks created by the complexities of measuring and billing consumption for customers (especially large commercial customers) operating off elevated delivery pressures. In addition, we noted the need for better use of the PeopleSoft Customer Information System (CIS) as a management tool as well as the need for enhanced meter management. Twenty-nine action plan steps were developed to address the identified issues. Of those 29 steps, 18 were due for completion as of September 30, 2004. Table 1 provides a summary of those 18 action steps and their current status.

Table 1
Action Plan Steps from Report #0409 due as of September 30, 2004, and Current Status

Action Plan Steps	Current Status
Ensure proper consumption measurement and billing for customers operating off elevated pressures	
Utility Accounting	
• For instances of under-billing and over-billing identified in the audit (i.e., under-billings of $9,325 and over-billings of $12,425), make appropriate adjustments to refund or recover amounts to/from applicable customers.	✓ For the six applicable customers, over-billed and under-billed amounts were refunded and recovered as appropriate. Under-billed customers were back-billed for only the most recent 12-month period as City policy is to not back-bill for a period greater than 12 months when the under-billing occurred due to City error. (NOTE: For one of the under-billed customers, the City used an incorrect factor [multiplier] when determining the amounts to back-bill. As a result, the customer was back-billed $6,545 too much. When we made staff aware of this error, adjustments were made and the customer was refunded [via credit on subsequent bills] that amount.)
Gas Utility	
• Make appropriate adjustments so that subsequent billings are correct for the six elevated pressure service points identified as being under-billed and over-billed due to errors in determining consumption.	✓ Gas Utility and Utility Accounting staffs made the appropriate adjustments so that consumption is now properly and accurately determined for these six customers. Adjustments included removing incorrect multipliers from the PeopleSoft CIS and installing compensating index instruments on meters. As a result, these customers are now correctly billed for their gas consumption.

• Select and implement standard methods for measuring consumption for service points operating off elevated pressures. Consider cost, resource efficiencies, and reliability issues when making the selection.	✓ A decision was made that system multipliers will no longer be used (except in one isolated case because of a customer's request). As a result, system multipliers were removed from the system and compensating index instruments or telecorrector instruments were installed at all service points operating off elevated pressures. These instruments are designed to measure actual consumption and, therefore, eliminate the need for a system multiplier.
• In conjunction with the preceding step, determine and use the most appropriate instrument type (e.g., telecorrector) for measuring consumption at service points operating off elevated pressures greater than five pounds.	✓ Through inquiry and review, the Gas Utility determined the best (i.e., dependable, accurate, user friendly, and affordable) telecorrector instruments available for their circumstances. Those instruments (i.e., "metreteks") were purchased and used to replace older and less dependable/favorable telecorrector instruments at selected service points. In some instances, existing telecorrector instruments determined still to be reliable and accurate were not replaced with the metreteks. The Gas Utility staff indicated that those telecorrectors would be periodically inspected and replaced with the metreteks as existing equipment fails or malfunctions. (NOTE: In addition to the above, service points with special telecorrector instruments that are compatible with and read through the City SCADA system also will not be replaced with the metreteks. The SCADA [i.e., Supervisory Control and Data Acquisition] system enables Gas Utility staff to monitor selected large consumption service points for purposes of quickly identifying problems and facilitating corrective actions.)
• Designate a sufficient number of staff to read and record gas consumption for service points operating off pressures greater than five pounds. Include backup readers as part of the designated staff.	✓ In addition to the two staff reading and/or qualified to read consumption during our initial audit, the Gas Utility has assigned an additional employee to read consumption and an additional employee to serve as backup (i.e., total of four employees qualified to read consumption for service points operating off pressures greater than five pounds; two read and two serve as backups).
• Train the designated staff (see preceding action step) to properly and accurately read/measure consumption at the applicable service points, and record the measures into the PeopleSoft CIS.	✓ The assigned employees are trained to properly and accurately read/measure consumption and record the measures in the PeopleSoft CIS.
• Designated staff (see preceding steps) will read all service points operating off elevated pressures greater than five pounds and enter those measures into PeopleSoft CIS.	✓ Consumption at all service points operating off elevated pressures greater than five pounds are now read by the designated Gas Utility staff. That staff also enters those measures directly into the PeopleSoft CIS for billing purposes.
• Develop comprehensive written procedures and guidelines for determining consumption at service points operating off elevated pressures. Distribute to Gas Utility meter reading staff and their supervisors.	✓ The Gas Utility Policy on Meter Testing and Change-out Program, revised effective January 5, 2005, addresses the process for determining consumption (meter reading) for those service points operating off elevated pressures.
• Track and monitor service points operating off elevated pressures using the PeopleSoft CIS or other system.	✓ With the assistance of Utility Accounting, the Gas Utility staff has prepared a record of all 40 service points operating off elevated pressures greater than five pounds. Their records identify for each service point the customer, type telecorrector, meter number, meter type, address, and measured consumption by read date.

Enhance use of the PeopleSoft CIS as a tool to provide accountability and monitor activities	
Utility Accounting	
• Determine the most appropriate type of system field activity/order that should be created and dispatched for each basic circumstance (e.g., meter tap and set, connection of services, light pilot, meter removal, meter replacement). Based on those determinations, develop and issue instructions to applicable departments/offices responsible for creating field activities (i.e., Growth Management, Utility Customer Services, and the Gas Utility).	✓ Utility Accounting staff have prepared and distributed various written procedures regarding creating and completing field activities/orders under various circumstances. Training has been provided to applicable staffs and will continue on an on-going and as needed basis.
• Revise the process for requesting gas taps and meter sets such that separate field activities/orders are created and dispatched for the tap and the set. Provide training to applicable Growth Management and Gas Utility staffs for the revised process.	◊ Utility Accounting, Gas Utility, Growth Management, and Utility Customer Services (UCS) staffs are currently implementing a process whereby separate field activities and orders will be created and dispatched for gas taps and meter sets. Under the process, Growth Management will notify UCS of approved piping inspections. Based on those approved inspections, UCS will create the Gas service points in the PeopleSoft CIS and create and dispatch a field activity/order to the Gas Utility for the gas tap. That field activity/order will be completed in the PeopleSoft CIS when the tap is done. When the contractors are ready for the meter set (may be several months later), they will inform Growth Management. Growth Management will then notify UCS, who will create the meter set field activity/order, which will be dispatched to the Gas meter shop. Gas meter shop staff will complete that meter set field activity/order in the PeopleSoft CIS once they install the meter at the service point. This process, once fully implemented, should be more efficient. Complete implementation is planned by February 2005. An interim modified version of the described process (which still provides for separate field activities/orders for the taps and sets) was being implemented at the end of our follow up fieldwork in December 2004.
• Enhance the PeopleSoft CIS to credit customers for the $20 reconnect fee in the event that their gas services are not restored after being disconnected for nonpayment.	◊ Utility Accounting staff indicated that they attempted to change the PeopleSoft CIS to automatically credit applicable customer accounts when a $20 reconnect fee was charged based on a disconnect activity for nonpayment, and the customer did not have the gas services subsequently restored. However, Utility Accounting determined the system was not able to perform that function as desired. However, the current version of PeopleSoft CIS is scheduled to be updated in Fall 2005. Utility Accounting anticipates that the updated version will provide the desired functionality.
• Periodically run the existing query that identifies consumption at service points for which there are no active service agreements (i.e., unbilled consumption) and take appropriate actions based on the results.	✓ With the assistance of Information Systems Services (ISS), Utility Accounting generates a daily report that identifies all active gas service points where there is no corresponding active service agreement (i.e., indicative that consumption may be occurring but no customer to be billed). That report is assigned on a rotating basis to six billing specialists who perform the necessary research. Resolution involves either: (1) initiating a service agreement in the event that there is a customer and consumption is occurring or (2) inactivating the gas service at the service point (i.e., turning the gas off)

	and/or in the PeopleSoft CIS.
• Develop and use additional queries to identify improper billing arrangements. Queries, similar to those developed as part of this audit, will be used (e.g., queries that identified instances where customers were billed incorrect fees and taxes because of misclassifications.)	✓ Utility Accounting has developed and is running and working (i.e., researching and resolving questionable items) queries to identify improper billing arrangements. Examples of these include queries that identify: - Instances where premises are coded residential but service points are coded commercial, and vice versa. - Instances where a premises has some service points coded residential and others coded commercial. - Service points with billing "multipliers" coded in the PeopleSoft CIS.
• For those instances identified in this audit where customers were billed incorrect rates and taxes, make corrections to the status in the PeopleSoft CIS and refund or back-bill customers as applicable.	✓ The status of applicable customers was corrected by the end of our follow up fieldwork in December 2004. Customers were refunded as applicable. Due to management's executive decision regarding back billing under-billed customers for errors occurring during the conversion period to the new PeopleSoft CIS system, none of the applicable customers were back billed. Amounts not back billed for the four applicable customers were not significant.
Utility Customer Services	
• Revenue Specialists will use the PeopleSoft CIS field activity/order process to request reviews and investigations.	✓ Revenue Specialists now use the PeopleSoft CIS instead of e-mails to request actions, including reviews and investigations.
Ensure meters accurately measure consumption	
Gas Utility	
• Document and evaluate the meter testing/change-out program to provide for scheduled testing (or replacement) of all active meters on a cyclic basis. The testing/change out goals and objectives should be reasonable. (NOTE: A consultant hired by the Gas Utility to test meters for large customers confirmed the need for periodic testing and maintenance of meters. The consultant found that 4 of 19 meters tested were inaccurate [i.e., operating outside a tolerance limit of plus or minus two percent] in the determination of consumption for large customers.)	✓ Subsequent to September 30, 2004, the Gas Utility finalized its Policy on Meter Testing and Change Out Program (formal policy was revised effective 1/5/05). The policy provides for the following: - Regular flow meters (i.e., less than 1,400 standard cubic feet) will be changed out every ten years. During the period February through early December 2004, staff had changed out 895 of these meters. Interim goals are to change out at least 1,000 per year, with the final goal of changing out approximately 10% (approximately 2,400) of these meters each year. Achieving the final goal is contingent upon sufficient resources and trained staff. - High flow meters (greater than 1,400 standard cubic feet) will be tested every five years. Meters for the "interruptible customers" (larger commercial customers with contracts for City gas) will be tested annually. Our review showed that 29 of those high flow and interruptible customers had been tested during the period August through October 2004. (NOTE: For high flow meters, we determined that corrective actions were generally taken when appropriate based on test results. For example, six of the 29 meters tested were replaced or adjusted.

	However, we noted three instances where corrective actions were not timely. In one instance, meter test results showed that a customer had been over-billed because the meter and billing setup was not correct. [We calculated the over-billing to approximately $9,000.] Although the Gas Utility made immediate adjustments to the setup such that future billings were correct, no actions were taken to credit the customer for the over-billing as of the end of our audit fieldwork, approximately three months after the error had been detected. In two additional instances, we noted that meters had not been timely replaced when test results showed the meters were not accurately measuring consumption. We recommend that the Gas Utility ensure that timely corrective actions are taken in future circumstances.)
• Maintain records to document the scheduling and testing/change-out of meters in accordance with the established program.	◊ As of the end of our follow up fieldwork, the Gas Utility was in the process of finalizing records necessary to document the scheduling and testing/change outs of meters. Specifically, they were finalizing: - A process for identifying within the PeopleSoft CIS the regular flow meters that are changed out. While manual records were available to demonstrate the change outs, the Gas Utility was establishing a unique code to enable identification of change outs within the system. Establishment of that unique code will greatly enhance management's ability to track and review the success of the change out program. - Identification of all high flow meters. Our initial inquiry and review disclosed that the initial listing of high flow meters was incomplete. As of the end of our follow up fieldwork, the Gas Utility, with the assistance of Utility Accounting, was in the process of finalizing a complete listing of high flow meters. A complete listing is necessary for the Gas Utility to ensure that all high flow meters are tested every five years. We recommend that the Gas Utility continue these efforts to ensure accurate and complete records for the meter testing/change out program.

Table Legend:

• Issue addressed in the original audit ✓ Issue addressed and resolved ◊ On-going activities

Conclusion

As of the end of our audit fieldwork in early January 2005, the applicable City departments had completed 15 of the 18 action plan steps due for completion as of September 30, 2004. Progress was being made in the completion of the three remaining action steps that were due as of September 30, 2004. Those three steps included: (1) revising the process so that separate system field activities/orders are created for the gas taps and the related meter sets, (2) revising the system so that customers that do not have gas services restored after being disconnected for nonpayment are not incorrectly charged reconnect fees, and (3) establishing accurate and complete records for the meter testing and change out program.

Significant actions remaining to be completed subsequent to September 30, 2004, include:

- Training to various staff responsible for creating, processing, and finalizing PeopleSoft CIS field activities and orders;
- Establishing and using system queries to identify and resolve field activities and orders

that (1) remain in pending status beyond a reasonable time and (2) are not properly, logically, and consistently finalized;

- Research and refund or charge customers identified in the initial audit report that were improperly charged or not charged connection and light pilot fees;
- Make the fee determination process for light pilot field activities/orders more efficient through system automation or other alternative methods;
- Conduct semiannual reconciliations of un-installed meters per the PeopleSoft CIS to meters in the shop inventory and meters reflected in the PeopleSoft Financials System as a means to ensure accurate accountings of un-installed meters; and
- Train meter shop staff in using the PeopleSoft CIS for tracking and accounting for the status of all gas meters and, thereby, eliminate the manual card system.

We appreciate the cooperation and assistance of the Gas Utility, Utility Accounting, and Utility Customer Services provided in this Audit Follow Up.

Appointed Official Response

City Manager:

I am pleased with the results of this cooperative effort. The level of compliance with the Action Plan reflects Management's commitment to internal control and improved efficiency and effectiveness. I also commend the commitment of the audit staff for gaining an understanding of the complex business and technical aspects of the gas operations. We look forward to future follow-ups for items to be implemented after September 30, 2004.

Copies of this Audit Follow Up or audit report #0409 may be obtained from the City Auditor's web site (http://talgov.com/citytlh/auditing/index.html), 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).

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