

Audit

Follow Up

As of March 31, 2006



“Electric Revenues”

(Report #0602, Issued November 15, 2005)

Report #0619

June 26, 2006

Summary

The applicable City departments have completed each of the 11 action plan steps that were initially due for completion as of March 31, 2006. Two additional action plan steps that were due subsequent to that date have also 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. To date, the Utility Business and Customer Services (UBCS) Utility Accounting and Utility Customer Services Divisions, as well as the Electric Control Center, have been responsive in addressing these issues as steps have been taken to:

- Modify applicable software programming so that certain larger

service points (i.e., demand service points) are included in the periodic determinations of unbilled consumption;

- Identify accounts where tax exemptions recorded in the PeopleSoft CIS have expired for the purpose of ensuring that the customers are notified that new exemptions are required before the tax exempt status can be continued;
- Identify and review older “temporary” service points to determine if they should be reclassified to a “permanent” status and the related customers billed using an appropriate permanent rate structure;
- Correct the City limit designations for 75 service points identified by the audit as likely misclassified;
- Track and monitor General Services Demand service points where the applicable customers are billed using a lower non-demand rate structure;
- Correct the records used in the semiannual energy cost recovery (ECRC) rates so that the \$1.2 million understatement identified by the audit will be properly considered and recovered by future ECRC rates;
- Refund and/or retroactively bill customers for errors identified in the audit in regard to the application of non-consumption fees;
- Revise applicable City ordinances so that fees can be charged customers for disconnecting services because of nonpayment, regardless of whether or

not the customer subsequently has the services restored; and

- Modify the PeopleSoft CIS so that meter test dates and results can be efficiently tracked in that system for monitoring and managerial oversight purposes.

other miscellaneous activities are properly charged; and

- Controls and processes pertaining to electric meter inventory and maintenance are adequate.

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.

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

Report #0619

This is our first follow up on action plan steps identified in audit report #0602. The purpose of this initial follow up is to report on the status in completing the recommended action plan steps due for completion by March 31, 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-eight action plan steps were developed to address the identified issues. Of those 28 steps, 11 were initially due for completion as of March 31, 2006. Table 1 provides a summary of those 11 action steps

and their current status, as well as a summary and status of two additional steps not due as of March 31, 2006, but nonetheless completed as of that date.

**Table 1
Action Plan Steps from Report #0602 initially due (or completed) as of March 31, 2006, and Current Status**

Action Plan Steps	Current Status
Ensure consumption is correctly and accurately billed	
UBCS - Utility Accounting	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> ✓ Modifications were made to the software programming so that demand service points are included in the identification of service points where consumption occurs that is not billed.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> ✓ Utility Accounting created and dispatched system field activities/orders to have the power turned off at the three area lights. As of the end of our follow up fieldwork, those activities/orders had been completed. Utility Accounting found that it was not possible to make a reasonable determination as to the current or former customer's intent in regard to the area lights. Accordingly, a management decision was made to not back-bill any of the customers.
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> ✓ Utility Accounting established system queries to identify: <ul style="list-style-type: none"> - Service agreements that had a tax exemption expire and no new tax exemption was received and activated, and - Premises with tax exemptions applied to some but not all service agreements. Those queries are periodically run to assist Utility Accounting staff in identifying service agreements that are either incorrectly taxed because of lack of timely action by City staff or because customers do not provide the required evidence of their tax exempt status. For those service agreements, Utility Accounting either corrects the tax exempt status in the billing system (when appropriate) or notifies the customers through written letter of the need to provide appropriate evidence of their continued tax exempt status.
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> ✓ Utility Accounting established a system query that identifies temporary service points that are more than five years old. Utility Accounting records show that this query has been run and appropriate actions taken based on the results. For example, when the query was run in November 2005, ten temporary service points

<p>refund customers that were incorrectly billed due to the service point misclassification in accordance with City policy.</p>	<p>more than five years old were identified. For each of those 10 service points, meter shop staff investigated the circumstances and determined that the service points were “permanent” in nature. Utility Accounting reclassified those service points and the related service agreements so that the correct billing rate structures would be applied.</p>
<ul style="list-style-type: none"> • 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 incorrectly applied taxes and surcharges. 	<p>✓ Utility Accounting corrected the City limit designations for 66 of the 75 service points. For the remaining nine service points, further research by or at the direction of Utility Accounting (site visits and review of County records) showed that the City limit designations as recorded in the system were the most appropriate under the circumstances. For the 66 service points that were corrected, Utility Accounting retroactively corrected prior billings when appropriate based on City policy and management judgment.</p>
<ul style="list-style-type: none"> • 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. 	<p>✓ The six service points were researched by Utility Accounting and ISS and the following determinations and corrections were made:</p> <ul style="list-style-type: none"> - For three service points, the City limit designations were found to be correct as recorded in the PeopleSoft CIS but the recorded physical addresses were incorrect. Those addresses were corrected in that system as a result. - For two service points, the PeopleSoft CIS City limit designations were corrected when found to be incorrect. - For one service point, the Electric GIS City limit designation was corrected when found to be incorrect.
<p>UBCS - Utility Customer Services</p>	
<ul style="list-style-type: none"> • 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. 	<p>✓ Utility Customer Services has an established process to identify and track General Services Demand customers that are billed at lower non-demand rates. The monthly bills for each of those customers are “intercepted” prior to mailing and reviewed by assigned staff to ensure that the incurred consumption justifies continuation of billing at the non-demand rates (i.e., below 25 kilowatts). If not justified, the customers are billed at the demand rates.</p>

Ensure accurate determinations of over/under recoveries of energy costs when establishing semiannual ECRC rates	
Electric Control Center	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> ✓ Management established a process whereby applicable records (i.e., fuel oil spreadsheets reflecting inventory quantities and costs as well as transactions) are forwarded to and reviewed by staff in Accounting Services and Energy Services. The reviews performed should detect the type error noted in the initial audit.
UBCS - Utility Accounting	
<ul style="list-style-type: none"> Make appropriate adjustments so that the subsequent semiannual ECRC determination properly considers the understated costs of \$1.2 million. 	<ul style="list-style-type: none"> ✓ Electric Control Center staff corrected the reported fuel oil inventory values for the identified error and submitted corrected reports to Utility Accounting for the months of January through March 2005. Based on the corrected reports, Utility Accounting made a one-time cumulative adjustment of \$629,6214 on the April 2005 monthly report. Future monthly reports (April 2005 and subsequent months) will not need to be corrected as the fuel oil inventory was corrected for the audit-identified error of \$1,298,391 before those monthly reports were prepared.
Ensure correct application of non-consumption fees	
Utility Business and Customer Services (UBCS)	
<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> ✓ For the 18 instances noted in the audit report where non-consumption fees had been incorrectly applied, our follow up review showed that appropriate corrective actions had been taken in accordance with City policy: <ul style="list-style-type: none"> - For the eight instances where accounts were overcharged, either refund checks were generated and issued to the customers or the customers' accounts were credited for the overcharges. - Because of the City's back-bill policy, none of the 10 accounts that were undercharged were retroactively back-billed as more than 12 months had elapsed since the billing errors occurred.
<ul style="list-style-type: none"> Management will address with staff the instances of incorrect non-consumption fee application identified in the audit report, and 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"> ✓ Utility Customer Services and Utility Accounting management asserted that the importance of identifying and applying correct non-consumption fees was addressed with and emphasized to applicable staff.
<ul style="list-style-type: none"> Efforts will be continued to include functionality in the updated version of PeopleSoft CIS that provides for reconnection fees to be based on 	<ul style="list-style-type: none"> ✓ This issue was resolved through an alternative action. Specifically, Utility Services proposed a revision to Section 21-33 of the City of

<p>the reconnect activity instead of the disconnect activity.</p>	<p>Tallahassee General Code (codified City ordinances) that provides for the applicable fees to be assessed based on the “disconnect” activity instead of the “reconnect” activity. The City Commission approved that proposal. Accordingly, whether or not a customer has gas services restored after being disconnected for nonpayment has no bearing on the fee charged.</p>
<p>Ensure effective and efficient meter management practices</p>	
<p>UBCS - Utility Accounting</p>	
<ul style="list-style-type: none"> • Complete appropriate modification 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. 	<ul style="list-style-type: none"> ✓ Revisions were made to the PeopleSoft CIS to allow meter test dates and results to be recorded in system fields that can be efficiently queried for monitoring and managerial oversight purposes.

Table Legend:

- Issue addressed in the original audit

- ✓ Issue addressed and resolved

Conclusion

As of the end of our audit fieldwork in May 2006, the applicable City departments had completed each of the 11 action plan steps initially due for completion as of March 31, 2006, as well as two additional action plan steps due to be completed subsequent to that date.

Other significant actions remaining to be completed subsequent to March 31, 2006, include:

- Enhancing existing PeopleSoft CIS queries to assist staff in the detection of inappropriate billing set-ups, such as instances where premises type and service points type do not match and instances where customer type does not match the assigned rate structure;
- Providing designated Power Engineering staff with system permissions and training necessary to allow them to properly and efficiently manage activities 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;
- Enhancing and using the PeopleSoft CIS to more efficiently manage electric meters;
- Locating and accounting for electric meters not found on audit or with incorrect statuses reflected in the PeopleSoft CIS; and
- Providing for periodic accounting and reconciliations of meters and meter seals 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 and Utility Customer Services Divisions, as well as the Electric Control Center.

Appointed Official Response

City Manager:

I am pleased that all action items have been completed satisfactorily. The audit and follow ups provided an opportunity to strengthen internal control and maximize revenues.

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).

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