

Audit

Follow Up

As of March 31, 2007



Electric Revenues

(Report #0602, Issued November 15, 2005)

Report #0714

May 17, 2007

Summary

The Electric Utility and Utility Business and Customer Services have completed 21 of the 22 action plan steps that were due for completion as of March 31, 2007. Actions due and completed during the six-month period ending March 31, 2007, included steps that enhanced accountability over electric meters, formalized fees for new service points, and helped ensure meter seals are used only for authorized purposes.

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 also 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, staff of Utility Business and Customer Services (UBCS) and the

Electric Utility completed five of the six action steps that were due for completion. The five completed actions included:

- Formalizing the standard \$35 fee charged for new service points by recommending revision to City Ordinance 21-253 (City Commission approved revision);
- Tracking meter seals issued and expected usage of those seals (based on activity recorded in the PeopleSoft CIS) as a means to help determine that those seals are used only for authorized purposes;
- Updating the PeopleSoft CIS to properly reflect the status of 643 uninstalled meters that were not recorded in that system at the time of the initial audit;
- Finding and/or accounting for 585 meters not located during the initial audit; and
- Assigning responsibility for ensuring that City limit designations recorded in the PeopleSoft CIS are supported by the City limit designations reflected in the Electric Utility Geographical Information System (GIS).

The remaining action plan step (due but not yet completed) involves having staff that perform activities pertaining to Area Lights (e.g., turning them on and off based on customer requests) create and complete PeopleSoft CIS field activities/orders based on their actions.

Scope, Objectives, and Methodology

The initial audit and subsequent follow up engagements 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 #0714

This is our third follow up on action plan steps identified in audit report #0602. In our first two follow ups, we reported on the progress and status of efforts to implement action plan steps due as of March 31, 2006, and September 30, 2006. The purpose of this third follow up is to report on the status of efforts in completing the action plan steps due for completion by March 31, 2007. To obtain information, we conducted interviews with key staff, made observations, and reviewed relevant documentation.

Subsequent Follow Up

The majority of action steps remaining to be completed for audit report #0602 are not due until July 2008. Those remaining steps pertain primarily to updating the PeopleSoft CIS to reflect meter test dates and results, acquisition dates, and model types for all meters; and then using that enhanced data in PeopleSoft CIS to more efficiently manage electric meters. Management indicated that efforts to complete those steps should be well underway by the due date (July 2008). However, management also indicated that if the City transitions to an automated meter reading process, that all current meters (approximately 120,000) likely would be replaced, thereby making completion of the noted steps no longer necessary. Accordingly, our subsequent follow up for audit report #0602 will not be conducted before July 2008. (At that date the final decision will have been made in regard to use of an automated meter reading process and/or the actions steps will be due.)

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 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. Twenty-two of those 29 steps were due for completion as of March 31, 2007. Table 1 provides a summary of those 22 action steps due for completion and their current status.

**Table 1
Action Plan Steps from Report #0602 initially due (or completed) as of
March 31, 2007, 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. 	✓ Completed during prior period.
<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. 	✓ Completed during prior period.
<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. 	✓ Completed during prior period.
<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 	✓ Completed during prior period.

<p>classification. When appropriate, back-bill or refund customers that were incorrectly billed due to the service point misclassification in accordance with City policy.</p>	
<ul style="list-style-type: none"> 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.”) 	<p>√ Completed during prior period.</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>√ Completed during prior period.</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 GIS. Correct the recorded locations in the two systems as appropriate. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> 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. 	<p>√ Completed during prior period.</p>
<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>√ Completed during prior period.</p>

Power Engineering	
<ul style="list-style-type: none"> Upon receipt of PeopleSoft CIS access and permissions and related training, staff responsible for responding to requests for turning Area Lights on and off will complete (and initiate as needed) the related system field activities/orders. 	<ul style="list-style-type: none"> X As of the date of our follow up field work in April 2007, Power Engineering staff was still relying on Utility Accounting staff to initiate and complete PeopleSoft CIS field activities/orders in regard to Area Lights. As a result of our follow up inquiry, Electric Utility management organized a meeting with Utility Accounting for the purpose of determining actions necessary for Power Engineering staff to properly and successfully initiate and complete applicable field activities/orders. We recommend that the Electric Utility follow through with these planned actions.
Electric Utility and UBCS Management	
<ul style="list-style-type: none"> Determine which City department/unit should develop and periodically run queries that compare City limit designations in the PeopleSoft CIS to the City limit designations in the Electric GIS. Upon completion of the migration of all electric service points into the Electric GIS, assign that responsibility to the appropriate department/unit. 	<ul style="list-style-type: none"> √ Management assigned the responsibility to the Power Engineering Division. Staff has a program that ensures that all new electric service points created in the PeopleSoft CIS are accurately recorded in the Electric GIS through a weekly, automated process. In addition to that program, management plans to develop and run queries to periodically compare City limit designations in the PeopleSoft CIS to designations recorded in the Electric GIS. Such queries should help ensure that City limit designations remain accurate for billing purposes.
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"> √ Completed during prior period.
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"> √ Completed during prior period.
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"> √ Completed during prior period.
<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 	<ul style="list-style-type: none"> √ Completed during prior period.

<p>and applying the correct non-consumption fees based on the activities performed.</p>	
<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 the reconnect activity instead of the disconnect activity. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> • Update the City's official fee schedule to include the \$35 fee charged for new service points located within the City limits. 	<p>√ Based on recommendation by Utility Services, the City Commission modified City Ordinance 21-253 on March 29, 2006, to include the \$35 fee for new service points created within the City limits.</p>
<p>Ensure effective and efficient meter management practices</p>	
<p>UBCS - Utility Accounting</p>	
<ul style="list-style-type: none"> • 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> • 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. 	<p>√ Utility Accounting now tracks meter seals issued to staff and the expected uses of those seals based on actions recorded in the PeopleSoft CIS (meter turn ons and offs, meter exchanges, etc.). That information is tracked and reviewed on a monthly and cumulative basis. Management uses this information to help determine that meter seals are used for only authorized purposes.</p>
<p>Electric Meter Shop</p>	
<ul style="list-style-type: none"> • Track all City electric meters in the PeopleSoft CIS (including all uninstalled meters). This action step will include updating that system as appropriate to reflect the 643 uninstalled meters, which were not reflected in the PeopleSoft CIS at the time of the initial audit. 	<p>√ It is standard practice for all electric meters to be accounted for in the PeopleSoft CIS, including uninstalled meters. For the 643 uninstalled meters reported in the initial audit as located in the Electric Meter Shop but not accounted for in PeopleSoft CIS, meter shop staff have subsequently taken appropriate action. Specifically, 186 of those meters were retired/surplused and the remaining 457 meters were entered into the PeopleSoft CIS as active meters.</p>
<ul style="list-style-type: none"> • Complete efforts to find and/or determine the status of the 585 meters not located during the audit. Based on the results of those efforts, update the status of those meters in the PeopleSoft CIS as appropriate. 	<p>√ The Electric Meter Shop has now accounted for 413 of the 535 meters and added appropriate notations into the PeopleSoft CIS for the remaining 122 meters. Meter Shop staff indicated that efforts to locate and account for those 122 meters will continue as additional information becomes available.</p> <p>In regard to the 413 meters now accounted for, management determined many had been retired and surplused or recently installed at a premise. Others were determined to represent recording errors in the PeopleSoft CIS (e.g., duplicate or inappropriate meter numbers for which there was</p>

	<p>no corresponding meter). For one of the 413 meters found installed at a premise, meter shop staff determined that due to an oversight, the installation had not been recorded in the PeopleSoft CIS. As a result, consumption occurred over a nine-month period without being billed. That unbilled consumption may not have been detected without the meter accounting initiated by the audit. That instance of unbilled consumption demonstrates the importance of conducting periodic accountings for meters recorded in the PeopleSoft CIS as active but uninstalled.</p>
<ul style="list-style-type: none"> 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.” 	<p>√ Completed during prior period.</p>

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 March 31, 2007. When completed, that remaining step should help ensure that Area Light activity (including consumption) is timely and properly recorded in the PeopleSoft CIS.

Other significant actions remaining to be completed subsequent to March 31, 2007, include:

- Updating the PeopleSoft CIS to reflect meter test dates and results, acquisition dates, and model types for all meters;
- Using the “enhanced” PeopleSoft CIS (see preceding bullet) to more efficiently manage electric meters; and
- Providing for periodic accountings and reconciliations of meters as a means to help detect unbilled consumption.

The majority of those remaining actions are not due for completion until July 2008. In

addition, if the City transitions to an automated meter reading process, it is likely that all current electric meters would be replaced. If that occurs, completion of those remaining action steps would no longer be efficient or necessary. Accordingly, the Office of the City Auditor will not conduct the next follow up engagement until after July 2008 and/or the date that the final decision is made regarding the transition to an automated meter reading process.

We appreciate the cooperation and assistance provided in this audit follow up by staff of the UBCS and Electric Utility.

Appointed Official Response

City Manager:

The results reflect management's commitment to internal control. We are pleased with the level of cooperation among the management team to complete the action steps.

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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