

Final Audit Follow-Up

As of March 31, 2008



Electric Revenues

(Report #0602, Issued November 15, 2005)

Report #0813

June 30, 2008

Summary

Twenty-seven of the 29 action plan steps developed to address the issues identified in audit report #0602 have been completed or resolved as of March 31, 2008. Actions have been initiated but not completed for the two remaining steps. Responsibility for following up to ensure completion of those two steps is turned over to City utility management.

In audit report #0602, we concluded that, overall, electric consumption and related activities were properly billed. We also identified issues that indicated the need to better manage operations, activities, and records impacting electric consumption and related revenues. 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.

Twenty-nine action plan steps were developed to address the identified issues. In our three previous follow ups on this audit, we reported that 21 of those 29 steps had been successfully completed. For this fourth and final follow up engagement, we found that:

- Six of the remaining 8 action plan steps were no longer applicable, as the City's current meters are scheduled to be replaced

with new "smart" meters pursuant to the recently approved Automated Meter Infrastructure Project.

- Actions were initiated but not completed for the other two steps, which are intended to make operations more efficient for non-metered service points (i.e., area lights and cable) and to ensure accurate reflection of system data for those service points. Those two incomplete action steps are turned over to City utility management to ensure completion.

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

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

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 #0813

This is our fourth and final follow-up on action plan steps identified in audit report #0602. In our first three follow-ups, we reported on the progress and status of efforts to implement action plan steps due as of March 31, 2006, September 30, 2006, and March 31, 2007. The purpose of this fourth and final follow-up is to report on the status of efforts in completing the remaining action plan steps, each due for completion subsequent to March 31, 2007.

Most of those remaining action plan steps pertained 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 PeopleSoft CIS to more efficiently manage the existing electric meters. Those steps were not due for completion until July 2008. Accordingly, as reported in our last follow-up report (#0714, addressing action plan steps due as of March 31, 2007), our initial intent

was to defer this fourth and final follow-up engagement until after July 31, 2008. However, the City's recent decision to transition to an automated meter reading process will result in the replacement of all existing electric meters with new "smart" meters. As a result, those action plan steps are no longer applicable (i.e., there is no need to update the PeopleSoft CIS for existing meters that are to be replaced in the near future). Accordingly, a determination was made to complete this final follow-up engagement to reflect the status of all remaining action plan steps as of March 31, 2008.

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 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. As of March 31, 2008, 27 of those steps had been completed or otherwise resolved, and progress had been made

on the two remaining steps. Table 1 provides a summary of those 29 action steps due for completion and their current status.

**Table 1
Action Plan Steps from Report #0602 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"> ✓ Completed in a 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. 	<ul style="list-style-type: none"> ✓ Completed in a 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. 	<ul style="list-style-type: none"> ✓ Completed in a 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 classification. When appropriate, back-bill or refund customers that were incorrectly billed due to the service point misclassification in accordance with City policy. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<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.”) 	<ul style="list-style-type: none"> ✓ Completed in a prior period.

<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 in a 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 in a 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 in a 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 in a prior period.</p>
<p>Power Engineering</p>	
<ul style="list-style-type: none"> Staff responsible for responding to requests for turning area lights on and off will be provided access to and permissions in PeopleSoft CIS allowing them to initiate and complete system field activities/orders. That staff will obtain training in using PeopleSoft CIS in completing their job assignments. 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. 	<p>➔ As of the date of our follow up fieldwork in May 2008, Power Engineering staff had obtained the necessary access and permissions. However, that staff was still relying on Utility Accounting staff to initiate and complete PeopleSoft CIS field activities/orders in regard to area lights. Electric Utility management indicated that it recently instructed that staff to obtain the necessary training and, upon completion of that training, to commence creation and completion of PeopleSoft CIS field activities/orders relating to area lights. We recommend that the Electric Utility follow through with these planned actions. This issue is turned over to management to ensure completion.</p>
<p>Electric Utility and UBCS Management</p>	
<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. 	<p>✓ Completed in a prior period.</p>

Enhance use of the PeopleSoft CIS as a tool to provide accountability and monitor activities	
Power Engineering	
<ul style="list-style-type: none"> Upon receipt of the applicable access and permissions, staff will change the status of non-metered service points (cable and area lights) from “connected” to “disconnected” in the PeopleSoft CIS when services at those service points are terminated and the cable amps and lamp photoelectric eyes removed. The status of current “connected” service points where the services are not on and the cable and amps and photoelectric eyes removed will be changed to “disconnected.” 	<p>➔ Designated Electric Administration and Power Engineering staff have now been provided access to and permissions in PeopleSoft CIS. However, as of our audit follow-up fieldwork date in May 2008, we determined that the status of “area light” and “cable” service points were not always changed from “connected” to “disconnected” when services at those service points are terminated and the photoelectric eyes and cable amps removed. We recommend that applicable staff correct the designations (connected or disconnected) of those area light and cable service points that are incorrectly reflected in the PeopleSoft CIS.</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. 	<p>✓ Completed in a prior period.</p>
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. 	<p>✓ Completed in a prior period.</p>
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. 	<p>✓ Completed in a prior period.</p>
<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. 	<p>✓ Completed in a prior period.</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 in a 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>✓ Completed in a prior period.</p>

Ensure meters accurately measure consumption	
Electric Meter Shop	
<ul style="list-style-type: none"> • Upon completion of other applicable action plan steps relating to meter management practices, the PeopleSoft CIS will be used to identify and select meters for testing based on age and length of service since last tested. Goals will be established that provide for all meters to be tested at least once every 25 years. 	<ul style="list-style-type: none"> ◆ Completion of this step for purposes of the initial audit is no longer applicable due to the City’s current “Automated Meter Infrastructure (AMI)” project whereby all City electric meters are in the process of being replaced with a new automated metering system. However, City utility management does plan on entering and tracking various attributes (test dates and results, model number and type, acquisition and installation dates, etc.) of the new automated meters in the PeopleSoft CIS (as noted in the status of the following action steps). Management indicates that it plans on using the PeopleSoft CIS to identify and select AMI meters for testing based on those attributes (e.g., age of meter, date last tested, model type, prior test results).
Ensure effective and efficient meter management practices	
UBCS - Utility Accounting	
<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. 	<ul style="list-style-type: none"> √ Completed in a prior period.
<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. 	<ul style="list-style-type: none"> √ Completed in a prior period.
Electric Meter Shop	
<ul style="list-style-type: none"> • Meter test dates and results will be tracked in the PeopleSoft CIS. System fields that can be efficiently queried will be used for this purpose. 	<ul style="list-style-type: none"> ◆ Completion of this step for purposes of the initial audit is no longer applicable due to the City’s current “Automated Meter Infrastructure” project whereby all City electric meters are in the process of being replaced with a new automated metering system. City utility management does, however, plan on using the PeopleSoft CIS to track meter test dates and results for the new automated meters.
<ul style="list-style-type: none"> • Correct acquisition dates for all electric meters will be recorded in the PeopleSoft CIS (including correction of incorrect dates currently recorded in that system). 	<ul style="list-style-type: none"> ◆ Completion of this step for purposes of the initial audit is no longer applicable due to the City’s current “Automated Meter Infrastructure” project whereby all City electric meters are in the process of being replaced with a new automated metering system. City utility management does, however, plan on ensuring that accurate acquisition dates are entered into the PeopleSoft CIS for the new automated meters.

<ul style="list-style-type: none"> • Model types will be recorded in the PeopleSoft CIS for all active meters. 	<ul style="list-style-type: none"> ◆ Completion of this step for purposes of the initial audit is no longer applicable due to the City’s current “Automated Meter Infrastructure” project whereby all City electric meters are in the process of being replaced with a new automated metering system. City utility management does, however, plan on ensuring that accurate model types are entered into the PeopleSoft CIS for the new automated meters.
<ul style="list-style-type: none"> • Upon completion of the preceding steps, the manual card system will no longer be used to track meter test (or other) activity. However, the manual card system will be retained and used as a historical reference for prior meter test data not entered into the PeopleSoft CIS. 	<ul style="list-style-type: none"> ◆ Completion of this step for purposes of the initial audit is no longer applicable due to the City’s current “Automated Meter Infrastructure” project whereby all City electric meters are in the process of being replaced with a new automated metering system. Retention of the manual card system will no longer be necessary once all of those (i.e., non-automated) meters are replaced.
<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. 	<ul style="list-style-type: none"> √ Completed in a prior period.
<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. 	<ul style="list-style-type: none"> √ Completed in a prior period.
<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.” 	<ul style="list-style-type: none"> √ Completed in a prior period.
<ul style="list-style-type: none"> • Periodic (annual) reconciliations will be conducted of (1) meters acquired and issued to the Electric Meter Shop by the Municipal Supply Center to meters recorded in the PeopleSoft CIS and (2) meters on hand in the Electric Meter Shop and other locations to uninstalled meters per PeopleSoft CIS. Differences will be researched and resolved. 	<ul style="list-style-type: none"> ◆ Completion of this step for purposes of the audit and follow up is no longer applicable due to the City’s current “Automated Meter Infrastructure (AMI)” project whereby all City electric meters are in the process of being replaced with a new automated metering system. City utility management does, however, plan on conducting periodic reconciliations of automated meters acquired under the AMI project in the manner described by the action plan step.

Table Legend:

- Issue addressed in the original audit
- ◆ Action plan step no longer necessary due to Automated Metering Infrastructure Project

- √ Issue addressed and resolved
- ➔ Issue turned over to management for final completion

Conclusion

Twenty-seven of the 29 action plan steps identified for audit report #0602 had been completed or otherwise resolved as of March 31, 2008. Steps have been taken that will allow the successful completion of the two remaining action plan steps.

Those two steps pertain to (1) initiation/completion of system field activities/orders by designated Electric Utility Administration and Power Engineering staff and (2) correcting the status of non-metered service points in the PeopleSoft CIS. Those two action steps are turned over to City utility management to ensure completion.

As noted, several action plan steps relating to improving management of existing meters were determined to no longer be applicable, as the City’s current meters are being replaced by new “smart meters” pursuant to the recently approved Automated Meter Infrastructure Project. Notwithstanding that those action steps are no longer applicable to current non-automated meters, we strongly encourage management to apply the stated meter management practices (e.g., recording and tracking test dates and results and various meter attribute data in the PeopleSoft CIS, and using that data to ensure proper and timely testing of meters as well as ensuring all meters are accounted for) to the new automated (smart) meters. Management asserted that it does intend to apply those meter management practices to the automated meters.

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:

I am pleased with the results of this audit follow-up. The original audit identified 29 action steps, of which 27 are completed. The two remaining action steps are nearing completion. I would like to thank the Office of the City Auditor, Utility Business and Customer Services, and the Electric Utility staff for their efforts in developing and implementing improvements that address the opportunities identified in this audit to improve procedures, strengthen internal controls, and optimize revenues.

Copies of this audit follow-up #0813 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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