

Audit

Follow Up

As of September 30, 2005



“Gas Revenues”

(Report #0409, Issued April 12, 2004)

Report #0603

January 5, 2006

Summary

The applicable City departments have completed 25 of the 27 action plan steps that were developed for this audit, each due for completion no later than September 30, 2005. Efforts are being made by the Gas Utility and Utility Accounting to complete the two remaining steps.

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, Utility Customer Services, and Growth Management have been responsive in addressing the above 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;
- Make the fee determination process for “light pilot” field activities more timely and efficient;
- Establish and document a reasonable and formal meter testing and change out

program; and

- Properly and timely create, process, and finalize PeopleSoft CIS field activities and orders.

Completion of these steps, especially in regard to standardization of measurement methods and establishment of a formal meter testing program for locations operating off elevated delivery pressures, has resulted in the identification of substantial under- and over-billings for several large customers. We estimate that those identified under- and over-billings exceeded \$1 million. The applicable customers have been back-billed and refunded in accordance with City policy.

Remaining actions to be completed include (1) enhancing the PeopleSoft CIS to credit customers when certain reconnect fees are incorrectly charged and (2) periodically reconciling uninstalled meters reflected in the PeopleSoft CIS records to uninstalled meters physically located in the Gas Utility meter shop (or on service trucks) for purposes of detecting unbilled consumption.

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 the 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 billing 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 #0603

This is our third follow up on action plan steps identified in audit report #0409. In our first two follow ups, we reported on the progress and

status of efforts to implement action plan steps due as of September 30, 2004 and as of March 31, 2005. The purpose of this third audit follow up is to report on the progress and status of efforts to complete action plan steps due for completion during the period April 1, 2005, through September 30, 2005. 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-seven action plan steps were developed to address the identified issues. Each of those 27 steps was due for completion no later than September 30, 2005. Table 1 provides a summary of those 27 action plan steps and their current status.

**Table 1
Action Plan Steps from Report #0409 due as of September 30, 2005, and Current Status**

Action Plan Steps	Current Status
Ensure proper consumption measurement and billing for customers operating off elevated pressures	
Utility Accounting	
<ul style="list-style-type: none"> • 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. 	✓ Completed during prior period.
Gas Utility	
<ul style="list-style-type: none"> • 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. 	✓ Completed during prior period.

<ul style="list-style-type: none"> 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> Track and monitor service points operating off elevated pressures using the PeopleSoft CIS or other system. 	<p>√ Completed during prior period.</p>

Enhance use of the PeopleSoft CIS as a tool to provide accountability and monitor activities

Gas Utility

<ul style="list-style-type: none"> Provide additional training to applicable staff to ensure the proper and timely creation, processing, and finalizing of PeopleSoft CIS field activities. Ensure appropriate procedures are developed for that purpose. 	<p>√ Both Gas Utility and Utility Accounting staffs provided training. Our review of field activities created during the nine-month period January through September 2005 showed that (1) field activities are generally being timely processed and finalized (e.g., completed); (2) the CIS is being properly used to schedule and plan work; and (3) the processing and finalization of field activities and related field orders is generally logical, consistent, and appropriate. This is indicative that the training has been effective.</p>
<ul style="list-style-type: none"> Periodically run and review queries to identify PeopleSoft CIS field activities and field orders that (1) remain in pending status beyond a reasonable time and (2) are not properly, 	<p>√ A query was developed and is periodically run by Gas Utility management to identify pending field activities and orders. Management follows up on the query results to ensure proper completion and</p>

<p>logically, and consistently finalized. Take appropriate corrective actions based on the results.</p>	<p>disposition of pending items. Our independent analysis shows this effort has been effective, as 99.8% of the 24,489 field activities created during the nine-month period January through September 2005 were finalized as of the date of our review on November 21, 2005. In addition, our review shows that 98.6% of those field activities and related orders were logically and consistently finalized. (Note: The few instances where field activities and related orders were not logically and properly completed were discussed with management. Management is working with Utility Accounting to develop additional queries to identify such instances in the future so that corrective actions can be taken.)</p>
<ul style="list-style-type: none"> • Research and charge or refund applicable customers for noted instances where connection and light pilot fees were not charged or were incorrectly charged. 	<p>√ Completed during prior period.</p>
<p>Utility Accounting</p>	
<ul style="list-style-type: none"> • Take part in training to ensure staffs in Utility Accounting, Gas Utility, Growth Management, and Utility Customer Services properly and timely create, process, and finalized PeopleSoft CIS field activities. 	<p>√ As noted above, Utility Accounting provided and participated in training that has resulted in PeopleSoft CIS field activities and orders being timely and properly created, processed, and finalized.</p>
<ul style="list-style-type: none"> • 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). 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> • 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. 	<p>√ Completed during prior period.</p>
<ul style="list-style-type: none"> • 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. 	<p>◇ In our initial follow up report (#0517) on the Gas Revenues Audit, we noted that Utility Accounting staff had attempted to change the PeopleSoft CIS to automatically credit applicable customer accounts when a \$20 <u>reconnect</u> fee was charged based on a <u>disconnect</u> activity for nonpayment, and the customer did not have the gas services subsequently restored. As reported, Utility Accounting determined the system was not able to perform that function as desired. The current version of PeopleSoft CIS is currently being</p>

	updated. Utility Accounting responded that it would attempt to obtain the desired functionality in the updated version. We will continue to address the status of this action step in our subsequent follow up reports.
<ul style="list-style-type: none"> 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. 	√ Completed during prior period.
<ul style="list-style-type: none"> 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.) 	√ Completed during prior period.
<ul style="list-style-type: none"> 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. 	√ Completed during prior period.
Utility Customer Services	
<ul style="list-style-type: none"> Revenue Specialists will use the PeopleSoft CIS field activity/order process to request reviews and investigations. 	√ Completed during prior period.
<ul style="list-style-type: none"> Applicable staff will take part in the training provided by Utility Accounting and/or Gas Utility to ensure the proper and timely creation, processing, and finalization of PeopleSoft CIS field activities and orders. 	√ Utility Customer Services staff participated in training that has resulted in PeopleSoft CIS field activities and orders being timely and properly created, processed, and finalized (as noted above).
Growth Management	
<ul style="list-style-type: none"> Staff responsible for creating service points and requesting gas taps and meter sets will take part in the training provided by Utility Accounting and/or Gas Utility to ensure the proper and timely creation, processing, and finalization of PeopleSoft CIS field activities and orders. 	√ Applicable Growth Management staff participated in training that has resulted in PeopleSoft CIS field activities and orders being timely and properly created, processed, and finalized (as noted above).
Eliminate inefficiencies in processing field activities/orders for pilot lights	
Gas Utility	
<ul style="list-style-type: none"> Use automation or alternative methods to make the fee determination process for light pilot field activities/orders more timely and efficient. 	√ Completed during prior period.
Enhance controls for detecting unbilled consumption	
Gas Utility	
<ul style="list-style-type: none"> Conduct semiannual reconciliations of uninstalled meters per PeopleSoft CIS to: (1) uninstalled meters in the meter shop inventory 	◇ Gas Utility staff now perform periodic reconciliations of uninstalled meters reflected in the PeopleSoft Financials System records to

<p>(i.e., warehouse and on trucks) and (2) uninstalled meters reflected in the PeopleSoft Financials System. Research and resolve and differences. Prepare and retain documentation for the semiannual reconciliations and resolution of any differences.</p>	<p>uninstalled meters physically located in the meter shop and on service trucks. However, reconciliations of the uninstalled meters as reflected in the PeopleSoft CIS records to uninstalled meters in the meter shop and on service trucks have not been done to date. When done, those reconciliations will help detect any meters that get inadvertently (or intentionally) installed without the installation reflected in the PeopleSoft CIS billing system. We recommend that the Gas Utility commence those reconciliations.</p>
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Ensure meters accurately measure consumption

Gas Utility

<ul style="list-style-type: none"> 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. 	<p>✓ Completed during prior period.</p>
<ul style="list-style-type: none"> Maintain records to document the scheduling and testing/change-out of meters in accordance with the established program. 	<p>✓ Completed during prior period.</p>

Eliminate inefficiencies in recordkeeping

Gas Utility

<ul style="list-style-type: none"> Train applicable gas meter shop staff in using the PeopleSoft CIS for tracking and accounting for the status of all gas meters. Upon completion of sufficient training and demonstrated understanding by staff, discontinue using the manual card system to account for and track gas meters. Retain the cards for historical reference purposes only (e.g., to show prior meter test dates and results). 	<p>✓ Gas meter shop staff has been trained and are now using the PeopleSoft CIS to account for and track all gas meters. This includes using that system to record meter test dates and results. The manual card system has been retained for historical reference purposes (e.g., earlier meter test dates and results which are not reflected in the PeopleSoft CIS).</p>
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Table Legend:

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

Conclusion

The applicable City departments had completed 25 of the 27 action plan steps developed to rectify the issues identified in initial audit. Completion of several of those steps, especially in regard to standardization of measurement methods and establishment of a formal meter testing program for locations operating off elevated delivery pressures, has resulted in substantial recoveries, reimbursements, and future savings (i.e., several

hundred thousand dollars to date) for both the City and City gas customers. Specifically:

- Meter testing at 5 locations disclosed that consumption was not being properly measured and read; as a result:
 - o Four customers had been under-billed (i.e., total of \$241,394 over the most recent 12-month period) and

- o One customer had been over-billed \$81,245 during the most recent 8-year period.
- For another location, meter testing efforts disclosed where consumption for a large customer was occurring but not billed because the PeopleSoft CIS had not been updated to reflect the installation of the meter and activation of the applicable service point; as a result, the customer had not been billed for consumption.

In each of the above instances, the Gas Utility and Utility Accounting took appropriate actions by correcting the measurement and consumption determinations and back-billing or crediting the applicable customers in accordance with City policy. Current City policy provides customers shall receive refunds (credits) for all previous years where over-billings occurred. For instances where under-billings occurred due to City error, City policy only allows back-billing for the most recent 12-month period, although under-billings may have occurred for several years. For the instances noted above where under-billings occurred, we estimated that under-billed amounts that will not be recovered because of this policy exceed \$1 million.

We commend the Gas Utility and Utility Accounting for their efforts and results upon establishing and completing the applicable action plan steps developed that resulted in these

recoveries and reimbursements (and future savings based on the corrective actions).

The two significant actions remaining to be completed include:

- Enhance the PeopleSoft CIS so that customers that do not have gas services restored after being disconnected for nonpayment are not incorrectly charged reconnect fees; and
- Conduct semiannual reconciliations of uninstalled meters per the PeopleSoft CIS records to meters physically located in the shop inventory as a means to ensure accurate accountings of uninstalled meters (and thereby assist in the detection of unbilled consumption).

We appreciate the cooperation and assistance of the Gas Utility, Utility Accounting, Utility Customer Services, and Growth Management provided in this audit follow up.

Appointed Official Response

City Manager:

I'm pleased with the results of the follow up to the Gas Revenues Audit. The results reflect the organization's commitment to strong internal control. We commend the audit team for their thoroughness and fairness, and management for their willingness to improve upon an already strong and efficient system.

Copies of this Audit Follow Up or audit report #0409 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>), 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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