



Audit of CIS Utility Adjustments

We concluded the non-consumption utility adjustments selected for testing were authorized and accurate. However, supporting documentation was not always available to allow for validation of non-consumption adjustments or a recalculation of adjustment amounts. Upon our audit inquiries, such documentation was obtained by Customer Service staff and provided for our review. We identified several other opportunities to strengthen controls and made recommendations accordingly.

T. Bert Fletcher, CPA, CGMA
City Auditor

HIGHLIGHTS

Highlights of City Auditor Report #1804, a report to the City Commission and City management

WHY THIS AUDIT WAS DONE

As part of the customer utility billing process, Customer Service staff within the Customer Operations Department (Customer Operations) routinely make adjustments (additions and waivers of standard service fees) to customer utility accounts that are not directly related to a customer's utility usage. The primary purpose of our audit was to determine the adequacy of controls relating to the processing of these non-consumption utility adjustments in the PeopleSoft Customer Information System (CIS).

The scope of our audit included a review of non-consumption utility adjustments processed in CIS by Customer Service employees between June 1, 2015, and May 31, 2017.

The objectives of this audit were to determine whether: 1) non-consumption utility adjustments were authorized, accurate, and properly supported in accordance with applicable policies and procedures; and 2) adequate controls were in place and properly functioning to prevent and detect intentional and unintentional adjustment errors.

WHAT WE CONCLUDED

Our audit disclosed that, in a significant number of instances, supporting documentation was not available to allow for validation of non-consumption adjustments or a recalculation of adjustment amounts. However, upon our audit inquiries, such documentation was obtained by Customer Service staff and provided for our review for all tested transactions. After reviewing this supplemental information, we concluded the non-consumption utility adjustments selected for testing were authorized and accurate.

While our audit disclosed no instances of improper adjustments, we identified several opportunities for improvement and made recommendations to strengthen controls over the adjustment process to help mitigate the risk of adjustment errors. Specifically, these issues related to: (1) the lack of adequate documentation to support non-consumption utility adjustments, (2) the risk that utility services could be activated for a customer without the corresponding assessment of applicable connection fees and deposits, (3) the need for an enhanced utility adjustment review process, (4) outdated policies related to utility deposits and late payment fees, and (5) security permissions for employees who process utility adjustments that are not sufficiently restrictive.

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WHAT WE RECOMMENDED

To enhance and strengthen Customer Operations' existing adjustment process:

- We recommend management reinforce to staff the importance of providing adequate documented justification for all adjustments; and implement their plan to periodically generate a report in CIS that allows management to determine whether employees are providing appropriate documentation for adjustments, and to counsel noncompliant staff as applicable. We also recommend Customer Operations update the adjustment procedures to address all circumstances in which employees must provide supporting documentation, and the manner in which that support should be recorded and documented.
- We recommend management periodically review newly established utility accounts for which no service activation charges were applied for the purpose of ensuring the omission of those charges was appropriate and adequately supported. We also recommend that Customer Operations modify existing procedures to require that staff provide adequate documentation in CIS explaining and justifying the decision to waive a connection fee or deposit.
- To strengthen existing controls, we recommend that Customer Operations implement their proposal to develop a standard documented adjustment review methodology and a standard timeframe for completion of those reviews, require supervisors to document their review of utility adjustments, assign to a qualified employee external to Customer Service the responsibility for an independent review of utility adjustments, and require the Chief Customer Officer or his/her designee to review adjustments made by supervisors. In addition, we recommend Customer Operations update its written adjustment procedures to require supervisors to document such adjustment reviews.
- We recommend the *Utility Deposit Policy* and the *Late Payment Fee Policy* be updated to reflect current practices.
- We recommend Customer Operations management periodically review the security permissions of employees and restrict permissions to those required for the performance of the employees' duties.

We wish to acknowledge and thank the management and staff of the Customer Operations Department for their cooperation and assistance during this audit.

Audit of CIS Utility Adjustments



Report #1804
December 18, 2017



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T. Bert Fletcher, CPA, CGMA
City Auditor

Report #1804

December 18, 2017

Executive Summary

*Customer Service
processed over 185,000
non-consumption
adjustments totaling
nearly \$21 million for the
two-year period audited.*

*We evaluated controls
over the adjustment
process and conducted
tests to determine whether
adjustments were
properly applied and
supported.*

The Customer Operations Department (Customer Operations) currently provides utility service to nearly 140,000 residential and commercial customers. As part of the customer utility billing process, Customer Service staff within the department routinely make adjustments (additions and waivers of standard service fees) to customer utility accounts that are not directly related to a customer's utility usage. These non-consumption-based utility adjustments include 60 adjustment types, such as those for connection fees, deposits, late payment charges, and disconnection fees. Customer Service employees processed over 185,000 non-consumption adjustments between June 1, 2015, and May 31, 2017, with a total dollar value approximating \$21 million.

The objectives of this audit were to determine whether: 1) non-consumption utility adjustments were authorized, accurate, and properly supported in accordance with applicable policies and procedures; and 2) adequate controls were in place and properly functioning to prevent and detect intentional and unintentional adjustment errors. To satisfy these objectives, we evaluated controls over the adjustment process and conducted tests and performed analytical procedures to determine whether adjustments were properly applied and supported. The scope of our audit included a review of non-consumption utility adjustments processed in the PeopleSoft Customer Information System (CIS) by Customer Service employees between June 1, 2015, and May 31, 2017.

We concluded the non-consumption utility adjustments selected for testing were authorized and accurate.

Our focus was to determine the adequacy of controls relating to the adjustment process. Our audit disclosed that, in a significant number of instances, supporting documentation was not always available to allow for validation of non-consumption adjustments or a recalculation of adjustment amounts. However, upon our audit inquiries, such documentation was obtained by Customer Service staff and provided for our review for all tested transactions. After reviewing this supplemental information, we concluded the non-consumption utility adjustments selected for testing were authorized and accurate.

We identified several opportunities for improvement and made recommendations to strengthen controls over the adjustment process.

While our audit disclosed no instances of improper adjustments, we identified several opportunities for improvement and made recommendations to strengthen controls over the adjustment process to help mitigate the risk of adjustment errors. Specifically, we determined:

- We were unable to determine the validity for 70% of the adjustments examined (i.e., adjustments applied at the time of utility service activation and those applied subsequently) due to the unavailability of adequate supporting documentation in CIS. Customer Operations adjustment procedures require that Customer Service staff provide clear and concise notations in CIS to explain any adjustments to customer accounts. Moreover, certain adjustments require supporting documentation in addition to notations in CIS. For example, deposit amounts for commercial entities, which can be substantial, must be manually calculated by staff and then entered into CIS. Sufficient documentation was not always available to explain the basis and/or methodology for deposit calculations without further explanation from Customer Service staff. The absence of supporting documentation makes it difficult to make a determination as to the validity of adjustments. Notwithstanding the lack of supporting documentation, we were able to validate the adjustments upon further inquiry and/or receipt of documentation from Customer Service staff. We recommend

We were initially unable to determine the validity for 70% of adjustments examined due to the unavailability of supporting documentation.

management reinforce to staff the importance of providing adequate documented justification for all adjustments. We also recommend Customer Operations management implement their plan to periodically generate a report in CIS that allows management to determine whether employees are providing appropriate documentation for adjustments, and to counsel noncompliant staff as applicable. Furthermore, Customer Operations management should update the adjustment procedures to address all circumstances in which employees must provide supporting documentation, and the manner in which that support should be recorded and documented.

Customer Service staff could start utility service for a customer without assessing associated service activation fees.

- Applicable service activation fees (connection fees and deposits) were properly applied to customer accounts for all utility accounts we examined. However, our analysis of the utility account activation process (i.e., establishment of utility service for a customer) disclosed Customer Service staff could start (intentionally or unintentionally) utility service for a customer without assessing associated service activation fees. To mitigate this risk, we recommend that Customer Operations management periodically review newly established utility accounts for which no service activation charges were applied to ensure the omission of those charges was appropriate and adequately supported.

In the majority of instances, the reason for waiving connection fees and deposits was not adequately documented in CIS.

Our audit disclosed that, in the majority of cases, the reason for waiving service activation fees was not adequately documented in CIS. In those instances, further explanation and/or documentation had to be obtained from Customer Service staff to justify those adjustments. Accordingly, we recommend that Customer Operations modify existing procedures to require that staff provide in CIS adequate documentation explaining and justifying the decision to waive a connection fee or deposit.

We noted supervisors conduct only a high-level review of utility adjustments, and that the supervisory review is not documented.

- Customer Operations implemented a monitoring process in which a report of utility adjustments is reviewed on a bi-weekly basis by all supervisors. Though a commendable practice, we noted that supervisors conduct only a high-level review of those utility adjustments (i.e., “spot-checking” for irregularities in both the quantity and type of adjustments made by employees), and that the supervisory review is not documented. Given the considerable volume of adjustments processed by Customer Service staff and the large number of employees with the capability to make adjustments in CIS, it is vital that Customer Operations management provide sufficient oversight over the adjustment process to mitigate the risk of intentional and unintentional adjustment errors. To strengthen existing controls, we recommend that Customer Operations implement their proposal to develop a standard written adjustment review methodology and timeframe for completion of those reviews, require supervisors to document (sign/date stamp) their review of utility adjustments, assign to a qualified employee external to Customer Service the responsibility for an independent review of utility adjustments, and require the Chief Customer Officer (or designee) to review adjustments made by supervisors. We also recommend that Customer Operations update its written adjustment procedures to require supervisors to document such review of adjustments.

Two policies related to utility deposits and late payment fee waivers need to be updated to reflect current practices.

- Two City policies regarding utility deposits and late payment fee waivers should be updated to reflect current practices. First, with regard to utility deposits, the City’s *Utility Deposit Policy*, as currently written, provides that residential deposits may be waived or refunded if a customer's utility account shows two consecutive years of good payment history (i.e., no service disconnections due to non-payment); and that commercial deposits may be discounted for customers with an established account in good standing for five years. However, in actual practice, Customer Operations requires both residential and commercial customers to maintain a good payment history for a

period of three years. We recommend that Customer Operations update the *Utility Deposit Policy* to reflect current practices regarding the period for which customers must demonstrate good payment history.

Secondly, with regard to the *Late Payment Fee Policy*, commercial late fees are to be approved by the Chief Customer Officer or the City Manager. However, in practice, the authority to waive commercial late fees has been delegated to Customer Service staff, who must obtain approval from the Customer Account Management Supervisor prior to waiving those fees. As proposed by Customer Operations management, we recommend that Customer Operations revise the *Late Payment Fee Policy* to authorize the Manager of Customer Operations to approve commercial late payment fee waivers up to \$2,500, and the Chief Customer Officer (or designee) to approve late payment fee waivers over \$2,500. We also recommend that the aforementioned policy be updated to require that late payment fee waivers be granted only to existing commercial customers who have maintained a good utility payment history with the City for three years (“Premier Customers”).

Security permissions for the processing of CIS adjustments are not sufficiently restrictive.

- Security permissions for the processing of CIS adjustments are not sufficiently restrictive. A significant number (42) of Customer Operations employees had security permissions to make utility adjustments within CIS. Moreover, all of these employees had the same permission levels to make adjustments (i.e., each of these employees has the capability to make adjustments of any type without a limit as to the amount of the adjustment). In addition, two of the 42 employees had security permissions within CIS to make adjustments, which were not within the scope of their duties and responsibilities. To enhance controls over the adjustment process, we recommend Customer Operations management periodically review the security permissions of employees and restrict permissions to those required for the performance of the employees’ duties.

We wish to acknowledge and thank Customer Operations staff and management for their full cooperation and assistance throughout this audit.

Audit of CIS Utility Adjustments



T. Bert Fletcher, CPA, CGMA
City Auditor

Report #1804

December 18, 2017

Background

The City currently provides utility services to approximately 13,000 commercial customers and 126,000 residential customers.

A non-consumption adjustment is any utility service fee that is added to or removed from a customer's account.

Examples of non-consumption adjustments are utility service connection fees and disconnection fees, deposits, and late payment charges.

Utility Service Fees and Adjustments

According to City of Tallahassee (City) management, the City currently provides utility services to approximately 139,000 customers (13,000 commercial customers and 126,000 residential customers). Utility service billings for these customers are generated by the City's Customer Operations Department (Customer Operations) through the use of the PeopleSoft Customer Information System (CIS). The billings include consumption charges, which are based on customer usage of metered utility services (electric, gas, and water), assessments relating to non-metered utility services (fire, stormwater, refuse, and sewer), and non-consumption charges.

Generally, consumption charges are calculated in CIS through the application of the appropriate utility service unit rate to the metered usage during the service period, while non-metered utility service charges are primarily assessed based upon fixed monthly fee amounts.

Non-consumption charges are the result of utility service account adjustments (that are not directly related to a customer's utility usage), some of which are system-generated by CIS and some of which are entered into CIS by Customer Operations personnel. Customer Operations characterizes a non-consumption adjustment as any utility service fee that is added to or removed from a customer's account. These non-consumption adjustments are used to record the customer's obligation to pay various non-

consumption-based fees. Such adjustments may include, for example, utility service connection fees, deposits, late payment charges, collection agency fees, and disconnection fees. Non-consumption adjustments may also be made by Customer Operations to adjust account balances and to cancel or waive the obligation to pay particular non-consumption fees/charges. Examples of fees/charges that may sometimes be waived include deposits, late payment charges, and disconnection fees.

A consumption adjustment is a correction to a customer's consumption billing, such as changes to usage, usage rates, or taxes for metered bill segments.

In addition to the non-consumption adjustments, Customer Operations also may generate within CIS adjustments to billings based on consumption. Consumption-based adjustments are made to correct errors in recorded consumption, unit rates, or taxes for metered utility service segments (i.e., electric, gas, or water). An example of a situation warranting a consumption-based adjustment to a customer's account is an incorrect meter reading. Our audit did not include a review of consumption adjustments.

Non-Consumption Adjustments

Customer Service processed a total of 185,509 non-consumption adjustments totaling nearly \$21 million for the period audited.

The focus of this audit was the examination of non-consumption CIS utility adjustments processed by Customer Operations customer service staff (Customer Service) during the period June 1, 2015, through May 31, 2017. For this two-year period, Customer Service employees processed a total of 185,509 non-consumption adjustments, with 93,775 adjustments processed during Year 1 (June 1, 2015, through May 31, 2016) and 91,734 adjustments processed during Year 2 (June 1, 2016, through May 31, 2017). The dollar value of all non-consumption adjustments totaled \$9,863,320 for Year 1 (\$6,127,444 in fees and \$3,735,876 in canceled fees/waivers) and \$10,754,246 for Year 2 (\$6,469,611 in fees and \$4,284,635 in canceled fees/waivers). Table 1 below shows the total dollar volume of non-consumption adjustments processed by Customer Service employees as compared to total consumption billings both years. Our analysis shows non-consumption

Non-consumption adjustments comprised approximately 2% to 3% of total consumption billings.

adjustments represent a small percentage (2% to 3%) of total consumption billings for the two-year period audited.

Table 1
Adjustments as Compared with Consumption Billings for Years 1 & 2

	Non-Consumption Adjustments		Total Consumption Billings	Percentage of Adjustments to Consumption Billings
	Count	Total Dollar Volume		
Year 1	93,775	\$9,863,320	\$434,446,982	2.3%
Year 2	91,734	\$10,754,246	\$424,587,802	2.5%
Totals	185,509	\$20,617,566	\$859,034,784	2.4%

Customer Service processed 60 different non-consumption adjustment types for the period reviewed.

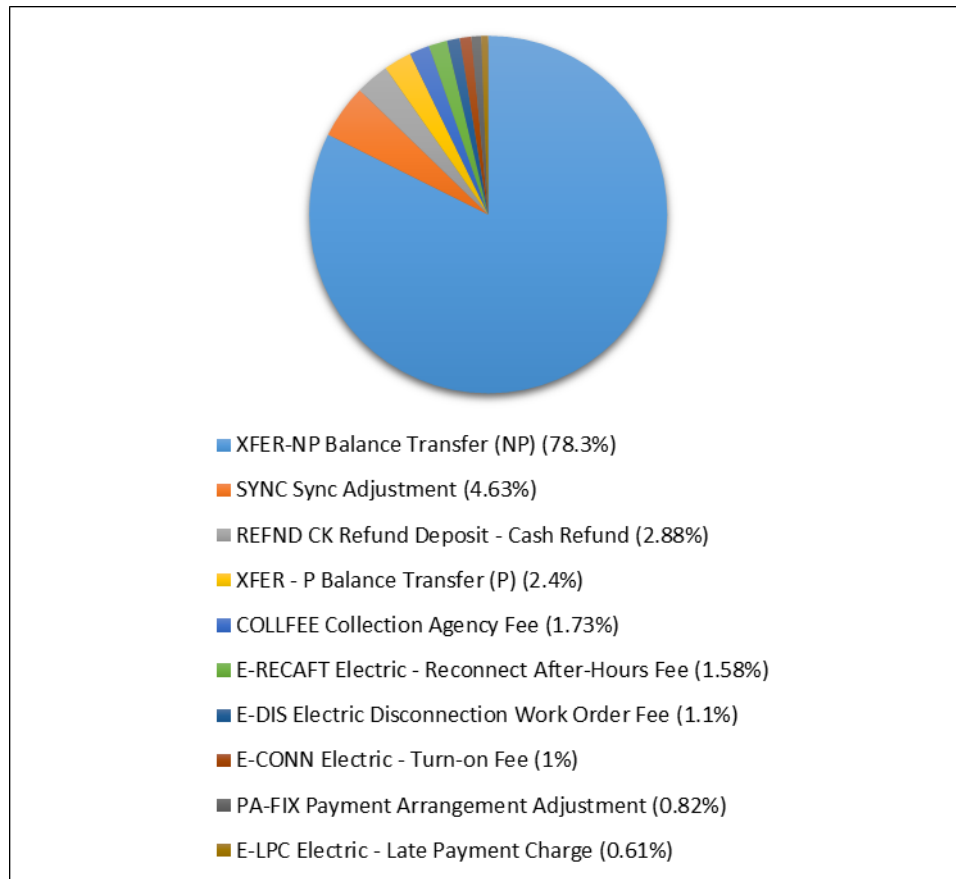
Non-consumption-based adjustments are processed primarily by Customer Operations Department customer service staff (Customer Service). Representing a wide variety of adjustment types, Customer Service processed 60 unique non-consumption adjustment types for the period audited as shown in Table 2.

Table 2
Non-Consumption Utility Adjustments Processed by Customer Service
June 1, 2015 – May 31, 2017

Adjustment Type	Description of Adjustment	Adjustment Type	Description of Adjustment
BFIX	Budget Billing Adjustment	G-DPRESF	Gas Deposit - Residential
BOFF	Budget Billing Adjustment - Off	G-LPC	Gas - Late Payment Charge
BON	Budget Billing Adjustment - On	G-PLNORM	Gas - Light Pilot Light
CH4CHADJ	Change for Change Charity Adjustment	G-RECAFT	Gas - Reconnect After-Hours Fee
CH4CHTRA	Change for Change Charity Adjustment	G-REFDI	Gas Deposit Refund - Interest
CHARITY	Charity Adjustment	H-LPC	Stormwater - Late Payment Charge
CHTRNADJ	Charity Payoff Balance Correction	MANUALCK	Manual Refund Check
COFEEADJ	Collection Agency Fee Adjustment	PA-FIX	Payment Arrangement Adjustment
COLLFEE	Collection Agency Fee	R-LPC	Refuse - Late Payment Charge
CREXTFEE	Credit for External Fees	REFND CK	Refund Deposit - Cash Refund
CURBALAD	Current Balance Adjustment	REFND DP	Deposit Refund
E-ALCONN	Electric-Area Light Connection Fee	S-LPC	Sewer - Late Payment Charge
E-ALCUTN	Electric- Area Light Cut-in Fee	SPVRADJ	Supervisor Adjustment
E-CONN	Electric - Turn-on Fee	SYNC	Sync Adjustment
E-CUTIN	Electric - Cut-in Fee	W-CONN	Water - Turn-On Fee
E-DEPADJ	Electric Deposit Adjustment - Residential	W-CONNHD	Water - Hydrant Turn-on Fee
E-DIS	Electric Disconnection Work Order Fee	W-DEPADJ	Water Deposit Adjustment - Residential
E-DPADNP	Electric - Deposit Adjustment	W-DIS	Water Disconnection Work Order Fee
E-DPCOMF	Electric Deposit - Commercial	W-DPADNP	Water Deposit Adjustment
E-DPRESF	Electric Deposit - Residential	W-DPRESF	Water Deposit - Residential
E-LPC	Electric - Late Payment Charge	W-HYDFEE	Water - Hydrant Service Relocation Fee
E-RECAFT	Electric - Reconnect After-Hours Fee	W-LPC	Water - Late Payment Charge
E-REFDI	Electric Deposit Refund - Interest	W-RECA	Water - Reconnect After-Hours Fee
E-SPSERV	Electric - Service Cut at Pole Fee (Line Drop)	W-REFDI	Water Deposit Refund - Interest
F-LPC	Fire - Late Payment Charge	WO DOWN	Small Balance Write-Off
F-R-CNTY	County Fire Fee Adjustment - Residential	WO SYNC	Sync Current Balance with Payoff Balance
FIREWO	County Fire Fee Write-Off	WRITEOFF	Debt Write-Off
G-CONN	Gas - Turn-On Fee	XBAP	Weather Relief Assistance Program Adjustment
G-DIS	Gas Disconnection Work Order Fee	XFER-NP	Balance Transfer - No Print
G-DPADNP	Gas Deposit Adjustment	XFER - P	Balance Transfer - Print

Diagram 1 below shows the ten most commonly applied Customer Service non-consumption adjustments by type for the two-year period reviewed. A description of these and other significant adjustment types that are used when utility services are activated follows Diagram 1.

Diagram 1
Ten Most Common Adjustment Types Processed by Customer Service
(by number of adjustments)
June 1, 2015 – May 31, 2017



Common Non-Consumption Adjustment Types

A description of the ten most common non-consumption adjustment types, as shown in Diagram 1, follows:

Balance transfer adjustments – no print are used to move customer balances between different billing segments within the same account. These adjustments represented over 78% of the total number of adjustments processed over the two-year period.

- As illustrated in the diagram, the most commonly processed adjustment type was the **balance transfer - no print (NP)** adjustment. These adjustments accounted for over 78% of the total number of adjustments processed over the two-year period covered by our audit. The balance transfer – no print adjustment (X-FER – NP) is used to move customer balances (e.g., credits) between different billing segments (e.g., electric, gas, or water

line items) within the same account. The “NP” (no print) indicates the adjustment will not be displayed on the customer’s monthly statement because the overall account balance is not changed. Balance transfer NP adjustments are commonly added to collect unpaid debt on closed customer account segments. For example, a Customer Service employee might make within a customer account a balance transfer NP adjustment to transfer a debt owed on a closed water billing segment to another active billing segment. A balance transfer NP adjustment might also be made to distribute a credit from one billing segment to other billing segments carrying a balance due.

Sync adjustments, the second most common adjustment type, accounted for nearly 5% of the total number of adjustments processed for the two-year period.

Sync adjustments are used to synchronize a customer’s current balance and total account (payoff) balance.

- The second most common adjustment type processed by Customer Service was the **sync** adjustment. Sync adjustments accounted for nearly 5% of the total number of adjustments processed for the two-year period. A sync adjustment is generally used to synchronize (“true up”) a customer’s current balance (monthly billed amount) and total account (payoff) balance to enable a customer to pay the correct amount owed or to defer a credit account balance amount. Sync adjustments are generally completed systematically in CIS. A sync adjustment might be applied (canceled), for example, to refund a utility deposit to an established customer who provides a letter of credit from a previous utility confirming good payment history (in accordance with City policy). In this instance, Customer Service staff would cancel the deposit billing segment (a “placeholder” in the customer’s account for the deposit which accrues with interest) triggering CIS to transfer the deposit credit from the payoff balance and apply it to the current balance owed by the customer.
- The **cash refund** adjustment (REFND CK) is primarily used to initiate a refund of a credit remaining on a closed account.
- The **balance transfer – print** adjustment (XFER-P) is used to transfer a customer’s balance from one account to another. (The transfer adjustment displays on a customer’s bill statement since the customer’s overall balance is changed for both accounts.)

A collection agency fee adjustment is typically used to cancel a collection agency fee when a customer's outstanding balance can be collected internally.

The electric disconnection adjustment may be used to waive a disconnect fee, as a one-time courtesy to the customer, when a customer's electric service is disconnected for non-payment.

This adjustment is typically used to transfer an outstanding balance remaining on a closed account to an active account.

- The **collection agency fee** adjustment (COLLFEE) is typically used to cancel a collection agency fee (generated systematically in CIS) when it is determined a customer's outstanding balance can be collected internally without being sent to a collection agency.
- The **electric after-hours fee** adjustment (E-RECAFT) is used to apply a fee of \$30 to reconnect electric service after normal business hours following the disconnection of a customer's service for non-payment.
- The **electric disconnection** adjustment (E-DIS) is commonly used to waive a disconnect fee when a customer's electric service is disconnected for non-payment. Disconnect fees may be waived as a one-time courtesy, to correct an employee error (e.g., payment applied to the wrong account and disconnection fee charged), or to resolve a situation in which a disconnection fee was charged when a customer makes a payment online that is not timely reflected on the customer's account before service disconnection.
- The **electric connection (turn-on) fee** adjustment (E-CONN) is used to cancel (waive) a fee to turn-on a customer's electric service. Connection fee adjustments may be canceled if, for example, a customer requests connection for the wrong premises (e.g., a tenant erroneously requests service for the incorrect apartment unit) or if a customer decides they no longer need service at a premises (e.g., because plans to move to that new premises changed).
- The **payment arrangement** adjustment (PA-FIX) is used to move a designated amount from a customer's current obligation to allow the balance to be paid in installments as part of a pre-approved payment arrangement.

The late payment charge adjustment is used to waive late charges assessed to commercial utility customers.

- The **electric late payment charge** adjustment (E-LPC) is used to waive late charges assessed to commercial utility customers under certain circumstances.

Utility Service Activation-Related Adjustments

Customer Service staff apply applicable connection and deposit adjustments when utility services are activated for a customer.

At service activation for residential and commercial customers, Customer Service staff are to process an adjustment to assess a connection fee and an adjustment to assess a deposit (unless the deposit is waived) for each of the three metered utility services (electric, gas, and water) started. For both residential and commercial customers, the connection fee is \$18.50 for each metered service that is activated, unless there is no meter for a service. If a meter must be installed, the required connection “cut-in” fee is \$35.00.

For residential customers, the deposit requirement for each metered service is a standard fixed fee. Table 3 below shows the deposits assessed to residential customers for each metered service or combination thereof.

**Table 3
Residential Deposits**

Utility Service	Deposit Amount Required
Electric Only	\$160.00
Gas Only	\$60.00
Water Only	\$50.00
Electric & Water	\$210.00
Electric, Water, and Gas	\$270.00

Deposits for residential customers may be waived at the time services are requested if the customer furnishes a letter of credit from another utility confirming an account in good standing.

Residential deposits may be waived at the time services are requested provided the customer furnishes a letter of credit from another utility demonstrating at least three consecutive years of service with an account in good standing (i.e., no service disconnections for non-payment or returned payments). Established procedures also provide that a residential customer will receive a deposit refund after three years if the customer’s account shows three consecutive years of payment history without a disconnection

of service for non-payment, or when the account is closed (if there is a credit balance remaining on the account).

Commercial deposits are not standard fixed fee amounts and are typically calculated based on historical consumption at the premises where service is to be activated.

Commercial customers may be eligible for a reduced deposit amount if they qualify for the “Premier Customer” designation.

Deposit requirements for commercial customers are not standard fixed fee amounts, and the methodology used to compute these deposits varies depending on the premises type. In most cases, historical consumption at the premises where service is requested is used as the basis for determining the deposit amount for commercial customers. For new construction, due to a lack of historical consumption on which to base a deposit amount, deposit amounts are calculated based on the square footage of heated and cooled space. In contrast to deposits for residential customers, deposits may not be waived at the time of activation for commercial customers. However, commercial customers are eligible for a reduced deposit amount equal to one month’s average consumption if they qualify for the “Premier Customer” designation. Commercial customers can attain Premier Customer status provided they have an existing utility account that has been established for a period of three or more years, for which the most recent three-year period does not reflect any disconnections for non-payment and the most recent 12-month period shows no more than two late payment fee penalties.

Customer Operations Department

Customer Operations (Call Center/Walk-in Center), Customer Account Management, and Customer Solutions/e-Commerce divisions provide customer service to customers.

As indicated in the preceding paragraphs, Customer Operations Department staff are responsible for the processing of utility service account adjustments. Headed by the Chief Customer Officer, Customer Operations currently has over 130 employees in six divisions. These six divisions include Customer Operations (Call Center/Front Counter Operations or “Walk-in Center”), Customer Operations Training, Customer Solutions/e-Commerce, Customer Account Management, Energy Audits & Mail Room Distribution, and Business Systems & Customer Loans. Three of these six divisions, Customer Operations, Customer Account Management, and Customer Solutions/e-Commerce, consist of employees who regularly provide customer service to customers that make utility service requests and inquiries either in-person, over the phone,

Customer Service employees start, stop, or transfer utility services for customers, and certain employees are authorized to process non-consumption adjustments to customer utility accounts.

through the internet, or through the City's DigiTally application. Employees in these three divisions are collectively referred to as Customer Service.

Among the many duties they perform, Customer Service employees start, stop, or transfer utility services for customers, and certain employees are authorized to process non-consumption adjustments to customer utility accounts as necessary. Customer Account Management division staff process the majority of these non-consumption adjustments.

Scope, Objectives, and Methodology

The primary focus of our audit was to determine the adequacy of the processes and controls relating to certain utility adjustments to residential and commercial customer accounts.

The primary purpose of our audit was to determine the adequacy of the processes and controls relating to certain utility adjustments (e.g., additions and waivers of standard service fees) to residential and commercial customer accounts by Customer Service employees in the Customer Operations Department (Customer Operations). The scope of our audit included a review of non-consumption utility adjustments processed in the PeopleSoft Customer Information System (CIS) by Customer Service employees between June 1, 2015, and May 31, 2017. As shown in Table 1 on page 9 of the report, during that two-year period, over 185,000 adjustments were processed, with a total value approximating \$21 million.

Our specific audit objectives were to determine whether: 1) non-consumption utility adjustments were authorized, accurate, and properly supported in accordance with applicable Customer Operations policies and procedures; and 2) adequate controls were in place and properly functioning to prevent and detect intentional or unintentional adjustment errors. To satisfy those objectives, we performed various audit procedures including, but not limited to:

- Identifying and reviewing Customer Operations' internal policies and procedures to obtain an understanding of the guidelines governing the processing of utility adjustments in CIS.
- Identifying and reviewing City policies and procedures relating to the assessment of utility fees, including but not limited to the

We performed various audit procedures to achieve our objectives.

Utility Deposit Policy (Administrative Policy No. 128) and the *Late Payment Fee Policy* (Administrative Policy No. 132).

- Interviewing management and staff within Customer Operations to obtain an understanding of the process for making utility adjustments to customer accounts.
- Interviewing Customer Operations management and staff to determine the extent to which employees responsible for processing utility adjustments have been trained in making utility adjustments.
- Observing Customer Operations employees to obtain an understanding of the process used to establish utility service for customers and apply associated service activation fees and other adjustments to customer accounts.
- Reviewing applicable utility service fee schedules.
- Conducting tests to determine whether adjustments were properly made and whether related controls were in place and operating effectively. These tests included:
 - Verifying whether connection fees and deposits were properly added to customer accounts when customers established utility service.
 - For any deposit and connection fees that were waived when utility services were activated, determining whether the fee waivers were authorized, accurate, and supported by appropriate documentation.
 - Manually recalculating commercial deposits to verify the deposit amounts were properly calculated in accordance with applicable policies and procedures.
 - Verifying that other utility adjustments were authorized and accurate and supported by appropriate documentation in CIS and/or OnBase (the City's electronic document management system).
 - Verifying that a Customer Service supervisor reviewed adjustments to ensure they were authorized and accurate, and properly supported as required by procedures.
 - Verifying that Customer Service employees who made adjustments in CIS were authorized to do so.

We conducted tests to determine whether adjustments were properly applied; as well as tests to determine if controls relative to the adjustment process were in place and operating properly and effectively.

We tested a random and judgmental sample of over 100 adjustments made to residential and commercial accounts.

- Verifying that CIS access for Customer Operations staff was properly restricted to authorized personnel.
- Employing various data analytics tools (e.g., ACL) to examine adjustment data for anomalies, trends, and other measures.

Our audit procedures included testing a random sample of 85 non-consumption adjustments and an additional judgmental sample of 16 other non-consumption adjustments (101 total adjustments) made to residential and commercial customer utility accounts. The adjustments tested included a variety of residential and commercial business types as well as a wide range of adjustment types (e.g., late payment charge and after-hours reconnection fee adjustments).

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

Audit Results, Issues, and Recommendations

Our audit consisted of a review and evaluation of the processes and controls relating to the assessment of utility adjustments by Customer Service employees in the Customer Operations Department. We performed various audit procedures to answer the following questions:

- Were non-consumption adjustments authorized, accurate, and properly supported in accordance with applicable City and Customer Operations' policies and procedures?
- Were adequate controls in place and properly functioning to prevent and detect intentional and unintentional adjustment errors?

We concluded the non-consumption utility adjustments selected for testing were authorized and accurate, though supporting documentation was not initially available.

Our audit disclosed that supporting documentation was not always readily available (i.e., lack of notations in CIS or documentation in OnBase) to allow validation of the non-consumption adjustments or a recalculation of adjustment amounts. However, upon subsequent audit inquiries, such documentation was obtained by Customer Service staff and provided for our review for all tested transactions. After reviewing this supplemental information, we concluded the non-consumption utility adjustments selected for testing were authorized and accurate.

We identified a number of practices that Customer Operations has implemented to enhance oversight over the adjustment process.

We identified a number of practices that Customer Operations has implemented to enhance oversight over the processing of non-consumption adjustments. These control strengths include:

- Customer Operations has created a comprehensive adjustment procedures manual, the *PeopleSoft Training Guide—Adjustment Unit Procedures*, for use as an operating manual/guide for employees who process adjustments.
- On a bi-weekly basis, Customer Operations supervisors review a summary report of utility adjustments to monitor those adjustments for errors and irregularities.
- The recording of certain adjustment types (e.g., penalty fees) and adjustment amounts (system-default values) is automated within CIS.
- Customer Operations procedures require that all employees who process adjustments document the reason for each adjustment in CIS.
- Customer Operations management requires all employees to acknowledge and sign the *Annual Critical Policies Certification* each year. This policy prohibits the unauthorized use of City funds and resources by City employees and the use of such funds for the benefit of any party.
- Employees who process utility adjustments receive extensive training on CIS functionality and the utility adjustment process upon hire, in addition to ongoing adjustment training as required.

Customer Operations supervisors monitor utility adjustments on a bi-weekly basis.

Applicable Customer Service staff receive ongoing training on the processing of utility adjustments in CIS.

- Supervisors regularly emphasize to employees the importance of adhering to adjustment policies and procedures.

We identified several opportunities for improvement to further strengthen internal controls over the adjustment process.

As part of our audit, we identified several opportunities for improvement to further strengthen internal controls over the adjustment process. These opportunities are described below under Issue Nos. 1 through 5.

Question No. 1: Were non-consumption adjustments authorized, accurate, and properly supported in accordance with applicable City and Customer Operations' policies and procedures?

As discussed below in **Issue No. 1** and **Issue No. 2**, our audit disclosed that supporting explanations and documentation were not always readily available to allow validation of the non-consumption adjustments or a recalculation of adjustment amounts. However, upon our audit inquiries, documentation was obtained by Customer Service staff and provided for our review for all tested transactions. After reviewing this supplementary information, we concluded the non-consumption utility adjustments that we tested were authorized and accurate.

We were initially unable to determine the validity for 70% of the adjustments examined due to the unavailability of supporting documentation.

Issue No. 1: As part of our audit, we selected 71 non-consumption adjustments (55 random and 16 judgmental) for testing. Ultimately, our audit disclosed that 100% of the tested adjustments tested were authorized and accurate. However, for 50 of the 71 adjustments examined (70%), we initially found that the information available in or referenced by CIS was insufficient to allow for a determination of the validity of the adjustment.

There was not always sufficient documentation to explain the basis and/or methodology for calculating commercial deposit amounts.

Upon requests for further information, Customer Service staff located and supplied additional support which allowed us to determine the appropriateness of all tested adjustments. Examples of the additional information required and provided included letters of credit from a previous utility (to confirm a good payment history and justify the waiver of the payment of deposits) and worksheets

showing the staff calculation of the amount of commercial deposits required. (As noted in the Background section of the report, the deposit amount for commercial customers is based on historical consumption or square footage).

Customer Operations' adjustment procedures require that Customer Service staff provide clear and concise annotation in CIS to justify adjustments.

The Customer Operations' *PeopleSoft CIS Training Guide – Adjustment Unit Procedures* (Guide) requires that Customer Service staff provide clear and concise annotation in CIS to explain any adjustments that are added or canceled. However, there is currently no written procedural guidance requiring that the CIS annotation be supported by additional documentation (e.g., letters of credit) when necessary to adequately support the validity or amount of an adjustment. The absence of supporting documentation makes it difficult to make a determination as to the validity of adjustments.

The absence of supporting documentation makes it difficult to make a determination as to the validity of adjustments.

When this matter was brought to the attention of Customer Operations management, management acknowledged that required supporting documentation may not consistently be added in CIS and/or in OnBase, particularly for commercial deposit calculations. To address the issue of inadequate supporting documentation, management stated that a report could be generated on a periodic basis to show which staff are not adding required supporting documentation (i.e., CIS notations) for adjustments; thereby allowing management to counsel appropriate staff as to the documentation requirements for certain utility adjustments. **We recommend** Customer Operations management implement their plan to periodically generate a report in CIS that allows management to determine whether employees are providing appropriate documentation for adjustments. **We also recommend** management emphasize to employees the importance of providing justification for all adjustments. Furthermore, **we recommend** that Customer Operations management update the Guide to describe the circumstances in which employees must provide supporting documentation for adjustments, and the manner in which that support must be recorded and documented.

Our review of the adjustment process showed Customer Service staff could start utility services for a customer without assessing associated service activation fees.

We reviewed selected customer utility accounts to ensure applicable service activation fees were applied when service was started.

Our analysis indicated that 39% of total service activation fees had been waived; however, there are legitimate reasons why such fees may be waived.

Issue No. 2: In most instances, when a metered utility service is activated for a customer, non-consumption adjustments are to be manually entered into CIS by Customer Service staff to assess service activation fees (connection fees and deposits). Our review of the adjustment process showed Customer Service staff could start utility services for a customer without assessing associated service activation fees (intentionally or unintentionally). As part of our audit, we obtained a listing of each electric, gas, and water utility account with service established between June 1, 2015, and May 31, 2017, and analyzed those accounts to determine whether corresponding non-consumption adjustments had been recorded to assess service activation fees (i.e., connection and/or deposits). We found that a total of 416,856 service activations for electric, gas, or water utility service had been recorded during this period. Relative to these activations, 254,319 adjustments had been recorded to assess connection fees or deposits. For the remaining 162,537 activations (39% of total service activations), our analysis indicated that the service activation fee adjustments had not been recorded and, as a result, the connection fee or deposit had, in essence, been waived.

In response to our inquiry on this matter, Customer Operations staff informed us that, although applicable connection fees and deposits should be assessed for most accounts, there are a number of legitimate reasons why a service activation fee may be waived and, as a consequence, not charged. For example, a deposit is not required when a customer has a prior good payment history with the City (i.e., no service disconnections for non-payment for three consecutive years) or when a customer provides an acceptable letter of credit from a former utility company confirming a previous account in good standing. Connection fees may also be waived for other reasons. For example, these fees are waived when a customer converts from a standard electric service plan to a “time of use” electric service plan (an alternate plan in which customers pay a variable utility rate at certain times). Notwithstanding those explanations, in those instances in which the connection fee or

deposit is waived, CIS records should contain a clear explanation and justification for the waiver.

Our audit disclosed that, for the majority of the accounts tested, the reason for waiving the connection fee or deposit could not be determined without obtaining further explanation and documentation from Customer Service staff.

To address the risk of inappropriately waived fees, we randomly selected 30 account activations for which adjustments to apply a connection fee or deposit had not been recorded. For each account, we reviewed CIS records to determine the justification for the waiver. Our audit disclosed that, for 22 of the 30 accounts (73%), the reason for waiving the connection fee or deposit could not be determined without obtaining further explanation and documentation from Customer Service staff. Specifically, in these instances, the waiver of the connection fee or deposit was neither justified nor explained in CIS. As indicated in **Issue No. 1**, we noted that the Customer Operations’ *PeopleSoft CIS Training Guide – Adjustment Unit Procedures* require that staff provide clear and concise notation in CIS to explain adjustments. However, those procedures do not require that an explanation be documented in CIS to support the rationale for waiving (canceling) a connection fee or deposit. **We recommend** Customer Operations modify existing procedures to require that staff provide in CIS adequate documentation explaining and justifying the decision to waive a connection fee or deposit. **We also recommend** Customer Operations management periodically review newly established utility accounts for which no service activation charges were applied to ensure the omission of those charges was appropriate and adequately explained in CIS.

Customer Operations’ adjustment procedures require that staff provide clear and concise notation in CIS to explain adjustments.

Question No. 2: Were adequate controls in place and properly functioning to prevent and detect intentional and unintentional adjustment errors?

We performed tests to determine whether controls over the adjustment process are in place and properly functioning to prevent and detect adjustment errors.

As indicated in the Scope, Objectives, and Methodology section of this report, we obtained an understanding of the controls over the adjustment process. In doing so, we reviewed Customer Operations policies and procedures relating to adjustments, observed Customer Service employees making adjustments in CIS, and interviewed Customer Operations management and staff. We also conducted

tests to determine whether controls over the adjustment process were in place and properly functioning such that they would prevent and detect adjustment errors (intentional and unintentional). As previously addressed, Customer Operations has instituted controls over the utility adjustment process which include the high-level monitoring of adjustments on a routine basis, the systematic application of certain adjustment types and amounts to customer accounts, the adoption of written policies and procedures, and ongoing training of employees. Notwithstanding the presence of these controls, we identified three areas for improvement and made recommendations that could strengthen existing controls over the adjustment process to further mitigate the risk of adjustment errors.

We identified areas for improvement and made recommendations that could strengthen existing controls over the adjustment process.

Management Oversight

Issue No. 3: For the two-year period reviewed, Customer Service employees processed an average of nearly 1,800 adjustments a week, with an average weekly dollar volume approximating \$198,000. Given the significance of the adjustment activity, and the fact that 42 Customer Operations employees had the capability to make adjustments in CIS during the period reviewed, it is vital that Customer Operations management provide sufficient oversight over the adjustment process to mitigate the risk of intentional and unintentional adjustment errors.

For the period reviewed, Customer Service staff processed an average of nearly 1,800 adjustments a week, with an average weekly dollar volume approximating \$198,000.

Customer Service supervisors review a report of utility adjustments on a bi-weekly basis to identify any erroneous or irregular adjustments.

Customer Operations management informed us that all Customer Service supervisors with employees who process adjustments are to review a report of utility adjustments on a bi-weekly basis. This report allows supervisors to monitor employee adjustments for potential issues relating to errors or irregularities in both the quantity and the type of adjustments made by employees. Examples of circumstances requiring additional supervisory scrutiny include:

- The report identifies an employee who made an uncharacteristically high number of adjustments over the two-week period.

- The report identifies an employee who made an adjustment type falling outside of his or her usual scope of responsibility. For example, payment arrangement (installment plan) adjustments are generally permitted only for residential customers. Thus, a supervisor should determine why an employee, whose primary duties are to process commercial adjustments, would have made a payment arrangement adjustment for a residential customer.

We noted supervisors conduct only a high-level review of utility adjustments, and that the supervisory review is not documented.

We commend Customer Operations for implementing a process to facilitate the monitoring of utility adjustments. However, we determined that supervisors conduct only a high-level review of the adjustments (i.e., “spot-checking” for irregular adjustments), the supervisory review is not documented, and written guidelines specifying the methodology for the reviews had not been developed. A stronger review process may increase the effectiveness of the supervisory reviews.

Customer Operations does not currently have a process in place for reviewing adjustments made by supervisors.

In a related matter, our audit also disclosed that supervisors have the ability to make adjustments in CIS and did, in a few instances, make adjustments during the period reviewed. Management informed us that Customer Operations does not currently have a process in place providing for the review of the adjustments made by supervisors.

Customer Operations management proposed the development of an enhanced process for reviewing utility adjustments.

We brought these matters to the attention of Customer Operations management. In response to these matters, Customer Operations management proposed the development of written adjustment review guidelines specifying the methodology and a timeframe for the completion of the reviews. In addition, management proposed that supervisors be required to sign-off on and date applicable records to demonstrate the reviews were completed. Furthermore, because supervisors have varying levels of expertise and institutional knowledge of adjustments, management proposed re-instituting the practice of assigning a qualified employee, in a position not involved in the adjustment process, the responsibility for performing periodic (e.g., monthly), independent reviews of adjustments. Management also proposed that the Chief Customer Officer (or designee) conduct reviews of adjustments made by

supervisors. **We recommend** that Customer Operations implement each of these proposed enhanced controls over the adjustment process, to include developing a standard written adjustment review methodology and timeframe for completion of those reviews (e.g., biweekly), requiring supervisors to document (sign/date stamp) their review of utility adjustments, assigning to a qualified employee external to Customer Service the responsibility for an independent review of utility adjustments, and requiring the Chief Customer Officer (or designee) to review the adjustments made by supervisors. **We also recommend** that Customer Operations update its adjustment procedures to require supervisors to document such reviews of adjustments.

Policies and Procedures

Issue No 4: The assessment (and waiving of) of certain utility fees (adjustments) is governed by City policy. Our audit work disclosed that two City policies related to utility deposits and late payment fee waivers need to be updated. With regard to utility deposits, Administrative Procedure (APP) 128, *Utility Deposit Policy*, provides that residential deposits may be waived or refunded if a customer's account shows two consecutive years of good payment history (i.e., no service disconnections due to non-payment) and that commercial deposits may be discounted for certain customers (described below). Specifically, the *Utility Deposit Policy*, as currently written, provides for the following:

- Residential deposit refunds – Deposit refunds for residential customers will be credited, with interest, to an account with *two* consecutive years of payment history without an ordered disconnection of service for non-payment.
- Residential deposit waivers – Deposit waivers may be granted to residential customers provided an applicant furnishes a letter of credit from another utility confirming a payment history of *two* or more consecutive years with no disconnections due to delinquent payment or returned payments within that same period.

Our audit work disclosed certain City policies related to utility deposits and late payment fee waivers need to be updated.

- Commercial deposit discounts – A commercial customer with an existing account that has been established for a period of *five* or more years, for which the most recent *five*-year payment history does not reflect any disconnection of service for nonpayment and the most recent 12-month account history does not reflect more than two late payment penalties, is designated a “Premier Customer.” Premier Customers are eligible for a reduced deposit amount of one month's average consumption for utility services at established rates. (Premier Customers are not eligible for deposit waivers, only deposit reductions.)

The Utility Deposit Policy should be amended to reflect changes in the period for which customers must demonstrate good payment history.

We were informed by Customer Operations management, however, that practices regarding utility deposits have changed. Currently, to receive a deposit refund or waiver, residential customers must maintain *three* (rather than two) years of good payment history. Also, commercial Premier Customers must have an established account in good standing for *three* (rather than five) years to receive a discounted deposit. The most recent revision of the policy by the City Commission occurred in 2011, and the policy has not since been updated to reflect current practices. **We recommend** that Customer Operations update the *Utility Deposit Policy* to reflect current practices regarding the required minimum number of years in which customers must demonstrate good payment history in order to receive a deposit refund or waiver.

Commercial late payment fee waivers were neither approved by the City Manager nor the Chief Customer Officer, contrary to requirements in the Late Payment Fee Policy.

With regard to late payment fees, APP 132, *Late Payment Fee Policy*, provides that the City Manager or designee (Chief Customer Officer) may rescind (waive) a late payment fee for a commercial customer when it appears the situation warrants such action. Our audit testing showed that, contrary to those policy provisions, commercial late payment fee waivers were neither approved by the City Manager nor the Chief Customer Officer. Customer Operations management informed us that, in practice, the authority to waive commercial late payment fees has been delegated to customer service staff who must obtain approval from the Customer Account Management Supervisor prior to waiving a commercial late payment fee. According to management, the majority of late

The Late Payment Fee Policy should be revised to require that approval authority for late payment fee waivers be assigned to appropriate management based on the amount of the proposed waiver.

payment fee waiver requests are denied if a customer does not have Premier Customer status. Further discussion with Customer Operation management resulted in management suggesting that the policy be revised to require the approval authority for late payment fee waivers be assigned based on the amount of the proposed waiver. Specifically, it was suggested that the Customer Account Management Supervisor be authorized to approve all commercial late payment fee waivers up to \$2,500, and the Chief Customer Officer (or designee) be authorized to approve any late payment fee waivers over \$2,500. **We recommend** that Customer Operations revise the *Late Payment Fee Policy* to authorize the Manager of Customer Operations to approve commercial late payment fee waivers up to \$2,500, and the Chief Customer Officer (or designee) to approve late payment fee waivers over \$2,500. **We also recommend** that the aforementioned policy be updated to require that late payment fee waivers be granted only to Premier Customers.

Information Technology Controls

Security permissions for the processing of CIS adjustments are not sufficiently restrictive.

Issue No. 5: We determined security permissions for the processing of CIS adjustments are not sufficiently restrictive. At the time of the audit, we noted there were 42 Customer Operations employees with CIS security permissions that allowed them to make adjustments. We were informed by Customer Operations staff that all 42 of these employees have the same permission levels to make adjustments. That is, each of these employees has the capability within CIS to make adjustments of any type without a limit as to the amount of the adjustment. Furthermore, our audit testing showed that two of the 42 employees had security permissions within CIS that allowed them to make adjustments although the scope of their duties did not require them to make adjustments.

Forty-two Customer Operations employees had the same permission levels to make adjustments in CIS.

To enhance controls over the adjustment process, **we recommend** Customer Operations management periodically review the CIS security permissions of employees and restrict permissions to those required for the performance of the employees' duties.

Conclusion

We concluded that, overall, Customer Operations effectively administered the processing of non-consumption adjustments and that non-consumption adjustments were authorized and accurate for the period covered by our audit.

Customer Service employees processed over 185,000 non-consumption utility adjustments, totaling nearly \$21 million, between June 1, 2015, and May 31, 2017. The objectives of this audit were to determine whether: 1) non-consumption utility adjustments were authorized, accurate, and properly supported in accordance with applicable Customer Operations policies and procedures; and 2) adequate controls were in place and properly functioning to prevent and detect intentional and unintentional adjustment errors.

We concluded that, overall, Customer Operations effectively administered the processing of non-consumption adjustments and that non-consumption utility adjustments were authorized and accurate for the period covered by our audit. However, we identified five areas for which improvements should be made to strengthen controls over the adjustment process to help mitigate the risk of adjustment errors and fraud. We recommended that management:

- Implement their plan to periodically generate a report in CIS that allows for a determination as to whether employees are providing appropriate documentation for adjustments; and update adjustment procedures to address all circumstances in which employees must provide supporting documentation, and the manner in which that support should be recorded and documented;
- Periodically review newly established utility accounts for which no service activation charges were applied to ensure the omission of those charges was appropriate and adequately explained in CIS; and modify existing adjustment procedures to require that staff provide in CIS adequate documentation explaining and justifying the decision to waive a connection fee or deposit;
- Implement their proposal to develop a standard written adjustment review methodology and timeframe for completion of those reviews, require supervisors to document their review of utility adjustments, assign a qualified employee external to

We made recommendations to strengthen controls over the adjustment process to help mitigate the risk of intentional and unintentional adjustment errors.

Customer Service the responsibility for an independent review of adjustments, and require the Chief Customer Officer (or designee) to review adjustments made by supervisors; and update written adjustment procedures to require supervisors to document such review of adjustments;

- Update the *Utility Deposit Policy* to reflect current practices regarding the period for which customers must demonstrate good payment history; and the *Late Payment Fee Policy* to authorize the Manager of Customer Operations to approve commercial late payment fee waivers up to \$2,500, and the Chief Customer Officer (or designee) to approve late payment fee waivers over \$2,500; and
- Periodically review the security permissions of employees and restrict permissions to those required for the performance of the employees' duties.

We wish to acknowledge and thank Customer Operations staff and management for their full cooperation and assistance throughout this audit.

***Appointed
Official's
Response***

Interim City Manager:

We appreciate the City Auditor's work reviewing utility billing adjustments. Each year the City bills approximately \$430 million for utility services it provides. Consistent with the large volume of utility billings and account transactions that are created each year, the audit found that during a two-year period approximately 185,000 adjustments totaling \$21 million were processed. I am pleased that the adjustments tested were concluded to be authorized and accurate. I am also appreciative of the recommendations that will strengthen the adjustment creation and review process. While no adjustments were found to be unauthorized, I am confident that the completion of the Management Action Plan will result in improved controls and help avoid improper or unauthorized transactions in the future. I would like to thank the City Auditor and his staff for their professional review and analysis of this matter.

Appendix A Management Action Plan

Action Steps	Responsible Employee	Target Date
A. Objective: <i>Ensure non-consumption adjustments are authorized, accurate, and properly supported in accordance with applicable City and Customer Operations' policies and procedures.</i>		
1) Customer Operations management will implement their plan to periodically generate a report in CIS for the purpose of determining whether employees are providing appropriate documentation for adjustments.	Rhonda Reaves-Smith	1/31/2018
2) Management will emphasize to Customer Service staff the importance of providing justification for all adjustments.	Rhonda Reaves-Smith	12/15/2017
3) Customer Operations adjustment procedures will be updated to describe the circumstances in which employees must provide supporting documentation for adjustments, and the manner in which that support must be recorded and documented.	Rhonda Reaves-Smith	4/30/2018
4) In conjunction with the above-mentioned step, existing Customer Operations adjustment procedures will be modified to require that staff provide in CIS adequate documentation explaining and justifying a decision to waive a connection fee or deposit.	Rhonda Reaves-Smith	4/30/2018
5) Customer Operations management will periodically review newly established utility accounts for which no service activation charges were applied to ensure the omission of those charges was appropriate and adequately explained in CIS.	Rhonda Reaves-Smith	4/30/2018
B. Objective: <i>Ensure adequate controls are in place to prevent and detect intentional and unintentional adjustment errors.</i>		
1) Customer Operations will develop a standard written adjustment review methodology and timeframe for completion of those reviews (e.g., biweekly), require supervisors to document (sign/date stamp) their review of utility adjustments, assign a qualified employee external to Customer Service the responsibility for an independent review of utility adjustments, and require the Chief Customer Officer (or designee) to review adjustments made by supervisors.	James Barnes/ Rhonda Reaves-Smith	9/30/2018

Action Steps	Responsible Employee	Target Date
2) Customer Operations adjustment procedures will be updated to require supervisors to document their review of adjustments (as outlined in the above-mentioned step).	Rhonda Reaves-Smith	7/31/2018
3) The <i>Utility Deposit Policy</i> will be updated to reflect current practices regarding the minimum number of years for which customers must demonstrate good payment history to receive a deposit refund or waiver.	James Barnes/ Rhonda Reaves-Smith	4/30/2018
4) The <i>Late Payment Fee Policy</i> will be revised to authorize the Manager of Customer Operations to approve commercial late payment fee waivers up to \$2,500, and the Chief Customer Officer (or designee) to approve late payment fee waivers over \$2,500.	James Barnes/ Rhonda Reaves-Smith	4/30/2018
5) Customer Operations management will periodically review the CIS security permissions of employees and restrict permissions to those required for the performance of the employees' duties.	Rhonda Reaves-Smith	9/30/2018