

**Performance Audit 14-07:
Citywide Utility Usage**

July 2015

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

July 24, 2015

To: Mayor Andy Berke
City Council Members

Subject: Citywide Utility Usage (Report #14-07)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of Citywide Utility Usage. Our audit identified instances where the City paid utility bills belonging to other entities, instances where the City paid incorrect utility bill amounts and utility invoices which improperly included sales tax.

In order to address the noted areas, we have recommended actions to continue to maintain and review the list of valid utility accounts; establish a written process for opening or closing accounts; set up additional master accounts; and utilize seasonal billing opportunities. Management has already implemented corrective actions to substantially address the recommendations. Responsibility for oversight of citywide utility expenditures was only recently transferred to the General Services Department. We have noted exceptional enhancements to the monitoring process by the Department during our audit.

We thank the management and staff of the Finance and Administration and General Service departments, as well as the utility companies for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Travis McDonough, Chief of Staff
Brent Goldberg, Chief Operating Officer
Daisy Madison, Chief Finance Officer
Cary Bohannon, Director General Services

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2014 Audit Agenda. The objectives of this audit were to determine whether adequate controls were in place to process utility payments and to monitor utility expenses.

BACKGROUND

One of the City of Chattanooga's (City) primary tasks is the management, operation and maintenance of facilities and real estate used to provide services for residents and taxpayers. In order to perform this task, the City incurs utility expenses (electricity, water, natural gas and sewer) as a necessary operating expense. Since the utilities are used before the meters (Exhibit 1) are read and billed by the utility company, the City records the expenses into the accounting records through an accrual¹.

Exhibit 1: Electric Meter – City Hall Parking Lot



The primary vendors for utilities are as follows:

- Electricity – Electric Power Board of Chattanooga (EPB)
- Water – Tennessee American Water Company (TAWC)
- Gas – Atlanta Gas Light Company (AGL)
- Sewer – City of Chattanooga

¹A method of accounting that recognizes income when earned and expenses when incurred regardless of when cash is received or disbursed.

Each utility vendor tracks the metered usage (Exhibit 2) by the City and bills the City monthly. The Department of Finance and Administration processes the monthly utility bills for payment. The General Services Department has assigned monitoring utility usage as one of the duties for a recently added fiscal analyst position.

Exhibit 2: Gas Meter – City Hall



Financial Information

In calendar year ending 2014, annual utility expenses were:

- Electricity – \$10,070,775
- Water – \$923,386
- Gas – \$629,763
- Sewer – \$546,140

FINDINGS AND RECOMMENDATIONS

Valid Utility Accounts

The *City Code*² and the *Internal Control and Compliance Manual for Tennessee Municipalities*³ indicate disbursements should be supported by adequate documentation that has been examined for correctness and

² *Chattanooga City Code*: Sections 2-250 and 2-559.

³ *Internal Control and Compliance Manual for Tennessee Municipalities* (June 2010): Title 5, Chapter 19, Sections 1, 2 and 6.

properly approved. Keeping a current, thorough and detailed checklist of valid utility accounts is necessary for utility account authentication purposes. The General Services Department is currently maintaining this list. Without adequate systems and controls in place to maintain a list of valid utility accounts, there is a risk of paying utility bills that do not belong to the City.

Until recently, there wasn't a concerted effort to establish a formal process to identify valid utility accounts. To address this issue, the General Services Department has assigned monitoring of utility usage as one of the duties for a recently added fiscal analyst position.

During our work, we identified instances where the City paid utility bills belonging to other entities. Facts observed, including audit test results are as follows:

- Since there isn't a citywide written utility policy, there is no citywide written process for opening or closing utility accounts. There are instances when property has been transferred to other entities and the City has continued to pay the utilities.
- Utility account descriptions and addresses do not always provide an accurate depiction of the actual use and location of a utility meter (Exhibit 3). These discrepancies make it difficult to identify accounts where utility services are no longer required.

Exhibit 3: Water Meter – East 10th Street



Note: Address on billing is 10th Street, while building address is Lindsay Street.

- EPB provides master/group billing accounts for the City's individual accounts, but this method is not utilized for water and gas utility accounts. The purpose of grouping accounts into master accounts is to simplify and provide control of the bill payment process for a large volume of utility bills. This method is not intended to circumvent the review and approval of individual utility bills. However, it increases the effectiveness and efficiency of review.

- Results from reviewing utility accounts revealed the following issues:
 - a. The service address on 15 out of 105 accounts sampled did not correspond to the physical address or did not provide a clear description of the actual location.
 - b. A review of utility accounts (population of 613 accounts) identified 34 locations used or owned by others. The monthly billing for each of these accounts ranged from \$3 to \$854 totaling approximately \$7,100 per month (over \$80,000 per year).

Recommendation 1:

We recommend the General Services Department continue to maintain and review the list of valid utility accounts including the verification of accurate addresses and location descriptions. The list should be coordinated with the Finance Department employees who process utility payments. We also recommend the General Services Department review and approve all bills prior to payment to ensure errors are detected prior to payment.

***Auditee Response:** We concur with the audit finding and recommendation. Corrective action has already been initiated on most bills paid in error.*

Recommendation 2:

We recommend the General Services Department establish a written process for opening or closing utility accounts. The process should include general access controls, such as username and password, to prevent unauthorized access to the City's utility accounts. The City should also designate, to the utility companies, specific representatives with authority to open and close City accounts.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 3:

We recommend the Finance Department work with the utility companies to set up additional master/group billing accounts for water and gas utility services.

***Auditee Response:** We concur with the audit finding and recommendation. The Finance Department has made previous attempts to obtain master billings. We will work with the water and gas companies to do so when they have the capability.*

Monthly Billing Information

The *City Code*² and the *Internal Control and Compliance Manual for Tennessee Municipalities*³ indicate disbursements should be supported by adequate documentation (not based on a statement only) that has been examined for correctness and properly approved. Without adequate systems and controls in place to review billing information prior to processing the monthly utility payments, there is an increased risk of utility payment errors.

We found accounts payable personnel have relied on summary bill statements to process utility payments. These statements are incomplete as to detail charges. As a result of relying on summary bills to process utility payments the City has overpaid utility bills.

During our audit, we identified instances where the City paid incorrect utility bill amounts. Facts observed during our review of utility accounts (population of 613 accounts) are as follows:

- A review of utility accounts identified 78 accounts with zero consumption. The monthly billing for each of these accounts ranged from \$16 to \$395 totaling approximately \$4,300 per month (over \$50,000 per year). The majority of these are seasonal and should be closed when not in use.
- A review of utility accounts identified 35 accounts charged incorrect rates due to the use of an incorrect rate schedule. The monthly overbilling for each of these accounts ranged from \$1 to \$25 totaling approximately \$260 per month (over \$3,000 per year). For example, the current monthly service charge (for a 3 inch meter) was the Commercial rate of \$298.98 instead of the correct Other Public Authority rate of \$273.88.
- A review of utility accounts identified 44 utility accounts which improperly included sales tax. The amount of sales tax ranged from \$2 to \$45, totaling approximately \$400 per month or \$4,800 a year. A municipality within Tennessee is exempt from sales tax⁴.

Recommendation 4:

We recommend the General Services Department make arrangements with all utility service providers to furnish meaningful, detailed monthly bills.

Auditee Response: *We concur with the audit finding and recommendation.*

⁴ *Tennessee State Sales and Use Tax Rules: Section 1320-5-1-.55(1).*

Recommendation 5:

We recommend the General Services Department thoroughly review the monthly utility bill details before processing payment.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 6:

We recommend the General Services Department utilize seasonal opportunities to discontinue utility accounts when possible to avoid ongoing monthly charges. The electric and water vendors disconnect the meters at no cost and only charge \$10 to \$15 to reconnect.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 7:

We recommend the General Services Department pursue reimbursements for the amounts paid in error.

***Auditee Response:** We concur with the audit finding and recommendation. We have already collected some amounts paid in error.*

APPENDIX A: SCOPE, METHODOLOGY & STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers utilities expenditures from January 1, 2014 to December 31, 2014. The scope did not include street lights, the mesh network or the low-income energy assistance program. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Finance Department, General Services Department and the utility companies. Original records as well as copies were used as evidence and verified through physical examination.

To determine whether adequate controls were in place to process utility payments and to monitor utility expenses, we reviewed City policies and procedures and interviewed management and staff involved in the utility payment process. We also compared the utility accounts to property owned or leased by the City and sampled utility accounts to verify the utility bills pertain to the City. Additionally, we verified utility bill calculations, verified whether taxes were charged, and analyzed utility expenses.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data. We assessed the reliability of the data and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from November 2014 to June 18, 2015 in accordance with generally accepted government auditing standards. Those standards require that 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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