CITY OF SAN ANTONIO

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August 9, 2016

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Mike Gallagher
Councilman, District 10

SUBJECT: Audit Report of Finance Department Utility Reporting Requirements

Mayor and Council Members:

We are pleased to send you the final report of the Finance Department Utility Reporting Requirements. This audit began in July 2015 and concluded with an exit meeting with department management in March 2016. Management's verbatim response is included in Appendix C of the report. The Finance Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Finance Department

Utility Reporting Requirements

Project No. AU15-011

August 9, 2016

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Finance Department Public Utilities Division's utility reporting requirements. The audit objective and conclusion follow:

Determine if required reporting and payments from City owned utilities are received, monitored, and accurate.

The Public Utilities Division has a standard reporting process in place which includes conducting a monthly variance/trend analysis of revenue payments due to the City. However, the process for ensuring the accuracy of the data provided by CPS and SAWS could be improved. Specifically:

- Reconciliations of CPS & SAWS generated monthly payment statements to financial reports and supporting documentation should be improved. Variances totaling $264,704 for FY2014 were identified during the audit. Note: For CPS, a mitigating control exists in that independent audits are conducted on the revenue payments to ensure that payments to the City are accurate.

- Annual and monthly reviews in place to verify the accuracy of city utility accounts[1] need improvement to ensure that all are owned or controlled by the City, the rate categories are accurate, and usage and consumption amounts are reasonable.

<u>Other Matters</u>

Per a City Ordinance passed in 1992, the City is allowed to receive an amount not to exceed 5% of SAWS' gross revenues. The percentage amount applied is reviewed from time to time by City Council. Currently the City collects a payment of 2.7% from SAWS. For SAWS' FY2014,[2] had the City collected the maximum 5% they could have potentially received an additional $10,924,400 in revenue for that period.

Finance Management agreed with the audit findings and has begun to develop positive action plans to address them. Management's verbatim response is in Appendix C on page 9.

[1] Examples of account types include: general service, extra large power, residential electric, extra large volume gas, public street lights, decorative lights, traffic signal, etc.
[2] SAWS' FY2014 is from January 2014 to December 2014.

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Background

The Finance Department's Public Utilities Division provides regulatory oversight of CPS Energy (CPS) and San Antonio Water System (SAWS). This includes review and analysis of all utility financial transactions with the City for payment revenues reported by the utility companies and expenses incurred for utility services provided.

As owner of CPS and SAWS, the City of San Antonio receives a monthly payment from each of the utility companies. The funds go into the City's General Fund. The payment is based on a percentage of the utility's gross revenues defined per ordinances as total revenues less revenue adjustments. CPS revenue adjustments include utility expenses for specified school districts and hospitals, fuel costs, offsystem sales, and other noncash income. SAWS revenue adjustments include reuse revenue from a contract with CPS, Edwards Aquifer Authority (EAA) Fees, Stormwater Fees, Build America Bonds Subsidy (BABS), and Project Fund Interest Income. Additionally, for both CPS and SAWS the cost of utility expenses (i.e. gas, electric, and water services) for city properties are deducted from the payment due to the City for properties/structures used for municipal purposes.

Per City ordinances,[3] the City is to receive no more than 14% of CPS Energy's gross revenues and no more than 5% of SAWS' gross revenues as payment (the City currently receives 2.7% of SAWS' revenues). The following table illustrates the payment received from CPS and SAWS during their respective 2014 fiscal year:

City Payment Received from CPS and SAWS		
	CPS FY2014	**SAWS FY2014**
Total Revenues	$ 2,658,134,893	$ 505,437,157
Revenue Adjustments	$ (436,516,130)	$ (30,463,248)
Gross Revenues per ordinances	$ 2,221,618,763	$ 474,973,909
Gross Amount Payable (Payment due to the City based on percentage)	$ 311,026,627	$ 12,824,296
City Utility Expenses	$ (28,485,777)	$ (3,447,077)
Total Payment Received	$ 282,540,850	$ 9,377,219

Source: CPS and SAWS financial statements provided by Finance.
CPS' FY2014 is from February 2014 to January 2015. SAWS' FY2014 is from January 2014 to December 2014.

[3] Ordinances 75686 and 2014-05-15-0347

Audit Scope and Methodology

The audit scope included monthly payments made to the City by CPS and SAWS between January 1, 2014 and June 30, 2015.

To obtain an understanding of internal controls related to utility reporting requirements and accounting of the payment revenue process, we conducted interviews and walkthroughs with Finance personnel. Testing criteria included related City ordinances,[4] CPS' 2014 independent audit of gross revenues and required payments to the City, SAWS' 2014 Comprehensive Annual Financial Report (CAFR), SAWS' 2015 Adopted Budget for Stormwater Fees, and CPS' Wastewater Contract and adjustment notification.

Using random samples, we reviewed monthly analysis reports prepared by Finance's Public Utilities Division for revenue variances, justifications and support of those variances. We tested controls for ensuring accurate reporting and monitoring of expenses for utility usage by City departments. Additionally, we conducted a reconciliation of City owned properties to the monthly utility expense reports provided by CPS and SAWS for accuracy and completeness.

We relied on computer-processed data in SAP, the City's accounting system, to review payments received from CPS and SAWS. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this performance audit 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 audit results and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusion based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

[4] Ordinances 55022, 61794, 99907, and 100709

Audit Results and Recommendations

A. Lack of a Formal Reconciliation Process for SAWS Data

The Public Utilities Division should improve its review of the monthly payment statements provided by SAWS. The statements provide the monthly total revenues less revenue adjustments. The revenue adjustments include: Reuse Water Revenue from CPS, EAA Fees billed, Stormwater Fees paid by the City of San Antonio, Build America Bonds Subsidy, and Project Fund Interest Income.

Currently, the Public Utilities Division assumes self reported data on the monthly statement to be accurate. Their review is mainly focused on conducting a trend analysis on the payment amount due to the City each month (also known as the Gross Amount Payable) to ensure that gross revenues reported are appropriate. Their analysis includes review of budget to actual amounts, as well as monthly amounts. Variances identified are primarily attributed to industry factors such as weather and customer growth.

However, they do not perform a formal reconciliation of the Gross Amount Payable to support documents such as SAWS' detailed financial reports. Such a review would assist in ensuring the accuracy of the data used in their analysis mentioned above.

Consequently, we performed reconciliations on both the revenue adjustments and the Gross Amounts Payable and noted the following:

- We reviewed a sample of 5 monthly payment statements and tied the revenue adjustment amounts back to supporting documentation and identified a variance totaling $38,543 for the Edwards Aquifer Authority (EAA) Fees reported for all months sampled.

- For FY2014, we compared the Gross Amount Payable on SAWS' monthly payment statements to SAWS' 2014 CAFR and identified a total variance of $264,704.

As a result of our review, the Public Utilities Division requested support from SAWS to justify the discrepancies mentioned above and the following was identified:

- The $38,543 variance was the result of an underpayment to the EAA. The City payment was potentially overstated by $1,045 (2.7% of $38,543).

- For the Gross Amount Payable variance, SAWS provided a reconciliation worksheet that noted several year-end adjustments that made up the

variance we identified. We verified that the adjustments accurately reflected the variance amount identified in our review.

Without conducting formal reconciliations, the City is at risk of not receiving the appropriate payment amount from SAWS.

Recommendations

The Finance Director should:

- Request support documentation for revenue adjustments made to gross revenue from SAWS on a monthly basis to ensure the accuracy of the City payment due from SAWS.

- Implement a monitoring process that would include identification of variances between SAWS' monthly payment statements to preliminary detailed financial reports.

- Request a copy of an approved City Payment Reconciliation from SAWS and use the document as a source to verify that any variances identified in the review mentioned above reflect adjustments noted on the City Payment Reconciliation document. Questionable adjustments should be followed-up with SAWS.

B. Controls in Place for Monitoring of Utility Fees are Not Effective

Monitoring controls are not effective to ensure the legitimacy of the properties listed on the detailed monthly utility expense reports from CPS and SAWS.[5] The detailed reports include rate categories and other information such as consumption and usage that are used as a basis for fees applied to city owned properties.

Per discussion with the Public Utilities Division, their monitoring control is that they send monthly utility expense reports from CPS and SAWS to each City department's fiscal personnel. Each department is to review the utility expense reports to ensure that all accounts are legitimate and the amount billed appears reasonable. Of the five Department Fiscal Administrators interviewed, all stated that they do not review the monthly CPS and SAWS utility expense reports for the purpose of validating the accuracy of the account information. Instead, their review is primarily focused on variance analysis with regard to spending and consumption.

[5] The cost of the utility expenses (gas, electric, and water services) used for municipal purposes deducted from the City's monthly revenue payment.

Additionally, each year as part of the budget process, the Public Utilities Division sends an email to all department directors and assistant directors requesting detailed information on all activities that will impact their department's usage of utility services (i.e. an increase or decrease of electricity, natural gas, water, waste water and chilled water in the next fiscal year). The Public Utilities Division requests that the departments respond to them regardless if updates to property information are needed.

We conducted a reconciliation between the Public Utilities Division's monthly utility expense reports and a property listing obtained from the Risk Management department to ensure that the properties listed on the expense reports are controlled by the City. Additionally, we requested support that would show that departments are responding to the annual request sent by the Public Utilities Division.

Based on our reviews we noted the following:

- A standard monitoring process for verifying the validity of City leased or owned properties, usage, consumption and their respective rate categories does not exist.

- Our reconciliation mentioned above identified several discrepancies with property addresses between the two reports used for our review. Consequently, for a population of 1,603 accounts that the City is billed for (excluding light poles, decorative lights, and traffic signals) we identified approximately 756 property addresses that were listed on the monthly utility expense reports, but were not on the report obtained from Risk Management. We randomly selected 10 accounts with differences and conducted site visits. Our site visits revealed that 4 out of 10 accounts were no longer controlled by the City, but were still included on the City's monthly utility expense reports. Total expenses incurred for these 4 accounts in FY 2015 was approximately $11,784 (refer to Appendix A). Furthermore, since we do not know when ownership and/or control of the accounts were transferred, we are unable to determine the extent of the utility expenses incorrectly incurred by the City beyond one year.

Without adequately monitoring the utilities' detailed expense information, the City is at risk of incurring expenses for invalid accounts which are ultimately deducted from the revenue owed to the City.

Recommendations

The Finance Director should:

Establish guidelines outlining a standard review process to ensure that utility expenses are valid. At a minimum, conduct the following on a quarterly basis for a sample of properties:

- Perform an analysis of monthly utility consumption for each account to ensure that monthly usage reported is reasonable.

- Ensure that assigned rate categories are appropriate based on account type.

- Conduct a comparison of the account addresses listed on the monthly utility expense reports to those listed as city owned properties on the list maintained by the Risk Management department.

Guidelines should be communicated to key personnel at the department level responsible for monitoring utility expenses. Additionally, as part of the guidelines, request that approved department reviews are sent via email to the Public Utilities Division to serve as support of review. All questionable properties identified should be researched. Furthermore, the Public Utilities Division should contact the appropriate utility and take necessary action for non-city controlled accounts.

Appendix A – Table of Invalid Utility Expenses Incurred

Utility Accounts Identified as No Longer Controlled by the City									
Month	**Account 1**		**Account 2**		**Account 3**		**Account 4**		**Total Expenses Incurred**
	CPS	**SAWS**	**CPS**	**SAWS**	**CPS**	**SAWS**	**CPS**	**SAWS**	
Oct 2014	No CPS Account	$ 345	$ 12	No SAWS Account	$ 109	$ 41	Property Sold December 2014		$ 507
Nov 2014		288	12		73	41			414
Dec 2014		339	12		53	41			445
Jan 2015		301	12		56	43	279	59	750
Feb 2015		227	12		49	47	192	68	595
Mar 2015		127	12		50	44	187	61	481
Apr 2015		273	12		57	42	227	61	672
May 2015		302	12		72	44	271	61	762
Jun 2015		325	12		93	44	428	61	963
Jul 2015		1,061	12		131	42	503	61	1,810
Aug 2015		1,666	12		176	42	503	61	2,460
Sep 2015		1,230	12		157	42	423	61	1,925
Total per Utility	**N/A**	**$ 6,484**	**$ 144**	**N/A**	**$ 1,076**	**$ 513**	**$ 3,013**	**$ 554**	**$11,784**

Appendix B – Staff Acknowledgement

Sandra Paiz, CFE, Audit Manager
Reina Sandoval, Auditor in Charge
Christopher Moreno, CFE, Auditor

Appendix C – Management Response

CITY OF SAN ANTONIO

P.O. Box 839966
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July 21, 2016

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Finance's Utility Reporting Requirements Audit

The Finance Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	**Lack of a Formal Reconciliation Process for SAWS Data** The Finance Director should: 1. Request support documentation for revenue adjustments made to gross revenue from SAWS on a monthly basis to ensure the accuracy of the City payment due from SAWS. 2. Implement a monitoring process that would include identification of variances between SAWS' monthly payment statements to preliminary detailed financial reports.	4	Accept	Jeff Pullin Public Utilities Administrator	3/28/16

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	3. Request a copy of an approved City Payment Reconciliation from SAWS and use the document as a source to verify that any variances identified in the review mentioned above reflect adjustments noted on the City Payment Reconciliation document. Questionable adjustments should be followed-up with SAWS.				

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Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: SAWS Monthly City Payment Review - The City of San Antonio receives 2.7% of gross revenues from SAWS on a monthly basis as required by SAWS Bond Ordinances. In order to verify that these revenues are accurate; City staff will perform the following measures. City Staff will monitor monthly reports and utilize available SAWS monthly and annual reports to reconcile the City payment provided on an annual basis. City Staff will work with SAWS staff to identify and note all variances that may arise. City staff has requested additional monthly support for all SAWS revenue adjustment amounts. SAWS staff has agreed to provide additional information as follows: 1. Reuse Water Revenue from CPS Energy – This is a long term contract that effective until 2030. SAWS provides the updated contract document when changes to pricing occurs. SAWS has provided the City with the most recent update effective January 1, 2016. 2. EAA Fees billed – The EAA Fees are reviewed as part of an annual comprehensive cost of service EAA Fee review. This review establishes the rate to be in effect for the next 12-month period. In addition, SAWS has agreed to provide additional support for the monthly EAA pass through amount. 3. Storm Water Fees – The Storm Water Fees represent an annual agreement with the City for storm water service provided by SAWS. The budgeted annual amount is then divided by 12 months and appears on each monthly statement. 4. Build America Bond Subsidy – SAWS has agreed to provide the statement that sets out the adjustment with every City payment statement. This amount was set at financial close for the bonds and is laid out in the debt service schedule. This amount has been reduced from the original subsidy due to sequestration and is updated every six months. 5. Project Fund Interest Income – This is the interest earned from bond proceeds. SAWS has agreed to provide City Staff with the calculation for this amount on a monthly basis going forward. This information has been provided upon the City's request going back to October 1, 2015 for the City's current fiscal year.				
2	**Controls in Place for Monitoring of Utility Fees are Not Effective** The Finance Director should: Establish guidelines outlining a standard review process to ensure that utility expenses are valid. At a minimum, conduct the following on a quarterly basis for a sample of	6	Accept	Jeff Pullin Public Utilities Administrator	3/28/2016

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Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	properties: • Perform an analysis of monthly utility consumption for each account to ensure that monthly usage reported is reasonable. • Ensure that assigned rate categories are appropriate based on account type. • Conduct a comparison of the account addresses listed on the monthly utility expense reports to those listed as city owned properties on the list maintained by the Risk Management department. Guidelines should be communicated to key personnel at the department level responsible for monitoring utility expenses. Additionally, as part of the guidelines, request that approved department reviews are sent via email to the Public Utilities Division to serve as support of review. All questionable properties identified should be researched. Furthermore, the Public Utilities Division should contact the appropriate utility and take necessary action for non-city controlled accounts.				

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Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
	Action plan: **Monthly Utility Account Review Process** – The City receives a monthly bill from CPS for its electric and gas service accounts; and from SAWS for its water and sewer accounts. These amounts are deducted from the payments made to the City on a monthly basis. In order to verify that these amounts are accurate, City staff will perform the following measures. 1. On a monthly basis each department with CPSE and SAWS utility accounts will perform the review process shown below for each account. a. Each account address must be confirmed as belonging to a facility, building or structure the department currently owns, rents or leases, in order to conduct business or provide services. b. The monthly consumption (KWH, CCF, Gallons) will be compared to the monthly consumption for the same account for the prior month and also compared to the same month in the previous fiscal year. This will be done to determine if there has been a substantial change in consumption that is not expected or readily explainable. c. The monthly expense will be compared to the monthly expense for the same account for the prior month and also compared to the same month in the previous fiscal year. This will be done to determine if there has been a substantial change in expense that is not expected or readily explainable. d. The rate category used by CPS Energy and SAWS will be compared to the category for the prior month to ensure that it has not been changed without a valid reason. A department with a question about rate categories should contact the Office of Public Utilities (OPU). e. Any unexplainable or questionable changes will be documented and e-mailed to the OPU. The OPU will investigate the changes and contact the department for additional information if necessary. 2. The City has 3,156 utility accounts including CPS and SAWS accounts. The majority of departments will complete account verification within 6 months, by November of 2016. The OPU will work with departments that have large numbers of accounts such as TCI (1,548 accounts), Parks (763 accounts), Downtown Operations (319 accounts) and others, to complete account verification beyond the 6 month timeline. Each department will verify that each utility account being billed to their department is for a facility that is owned or leased by the department, and that the account is being charged to the correct cost center. After completing the verification of all accounts, each department will on a monthly basis, select a random number of accounts and verify that each account being billed is for a facility that is owned or leased by the department. 3. City Staff will perform an annual review of the facility rate classes and will monitor changes to that baseline on a monthly basis to ensure that the correct tariff is being applied.				

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We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Troy Elliott, CPA
Director
Finance Department

7/21/16
Date

Ben Gorzell Jr., CPA
Chief Financial Officer
City Manager's Office

7/21/16
Date

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