

CITY AUDITOR'S REPORT



AUDIT OF UTILITY PAYMENT PROCESS

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EXECUTIVE SUMMARY

This audit was conducted at the request of the Finance Director to determine whether adequate controls were in place to process the City's utility payments and monitor its utility expenses.

The audit report contains four issues and twelve recommendations on improving the City's utility payment process. Details of the issues, including findings, recommendations, and management responses can be found in the respective sections of the report. The following is a summary of the issues.

First, city departments had not adequately monitored their utility expenses due to unclear roles and responsibilities between Finance and the operating departments. As such, various billing errors were not identified and corrected in timely manner. During the audit, at least \$310,000 in utility expenses was found to be accounted for incorrectly due to coding errors. To ensure accountability, Finance should coordinate with the user departments to establish a Utility Oversight Committee for addressing the citywide utility payment process issues.

Second, due to a lack of formal utility policy and procedures, city employees had used different formats in setting up utility accounts in the past. Some service addresses did not clearly identify the specific city facility and department, causing difficulties in determining whether some utility accounts actually belonged to the City. To improve controls over account validity, Finance should coordinate with all city departments to create and maintain a citywide database for all municipal utility accounts.

Third, city departments did not actively review the monthly utility billing information because they were either unaware of its existence or found it difficult to understand and use the current format. Finance should coordinate with the user departments to understand their needs, and make arrangement with the utility service providers to ensure meaningful, timely, and accurate billing information is made available to the user departments for their review.

Fourth, although municipal accounts should be exempt from paying municipal tax, utility companies sometimes mistakenly included the tax in their billing to the City. Over the past two years, the City had overpaid a total of approximately \$34,000 in taxes to NV Energy and Southwest Gas. Finance should establish controls to ensure accounts payable does not pay tax for all municipal utility accounts that are located within the City, and seek refund for the overpayments.

BACKGROUND

The City of North Las Vegas spent an average of \$5.4 million dollars annually on utility expenses, including electricity, water, sewer, garbage, and gas, as shown in the following table:

Annual Utility Expenses	FY 2007- 2008	FY 2008 – 2009
Electricity	\$3.311 million	\$3.449 million
Water, Sewer, Garbage	\$1.709 million	\$1.797 million
Gas	\$0.285 million	\$0.252 million
Total	\$5.305 million	\$5.498 million

Electricity and gas were provided by NV Energy and Southwest Gas, respectively. Water and sewer were serviced internally by the City's Utilities Department, which also billed on behalf of Republic Services for garbage collection. There were approximately 1,400 municipal utility accounts and Finance was responsible for paying the monthly utility bills.

AUDIT OBJECTIVES

This audit was conducted at the request of the Finance Director. The audit objectives were to determine whether adequate controls were in place for the City to process its utility payments and to monitor the utility expenses.

SCOPE AND METHODOLOGY

This audit focused primarily on utility expenses over the past two fiscal years, from July 1, 2007 through June 30, 2009. The audit was performed in accordance with generally accepted governmental auditing standards. Audit procedures included:

- Reviewing utility franchise agreements;
- Interviewing management and staff involved in the utility payment process;
- Reviewing city policies and procedures;
- Analyzing monthly and annual utility charges; and
- Reviewing utility payment transactions.

FINDINGS AND RECOMMENDATIONS

The City Auditor's Office would like to thank Finance and other city employees for their cooperation and assistance during the audit. This audit identified issues management should address to improve controls over the City's utility payment process. These issues are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. BUDGETING AND MONITORING

Criteria

- Utility budget provides funding for an operation's utility expenses, which need to be monitored for budgetary control purposes.

Condition

- For many years, the City's utility expenditures were centrally budgeted and accounted for as citywide general expenses, rather than being allocated to the individual departments.
- In fiscal year 2007, Finance initiated a new process to decentralize the citywide utility budget to the operating departments.
- However, there had been insufficient collaboration between Finance and other city departments to establish clear communication, mutual consensus, formal policy and procedures in budgeting, accounting and monitoring the utility expenses.
- Consequently, employees who were involved in administering utility accounts and expenses were often uncertain of their specific roles and responsibilities in the new process.
- Since accounts payable continued to receive and process the utility bills after the budget decentralization, other departments assumed it was Finance's responsibility to review and monitor their utility expenses.
- In Finance, one accounting technician was responsible for paying the monthly utility bills, as part of her accounts payable duties. However, the employee was uncertain of the required level of review while processing the bills.
- Although Finance was able to catch some obvious billing mistakes, such as municipal tax that should be exempted, accounts payable's cursory review was unable to determine the validity and accuracy of the utility bills.
- After budget decentralization, it was expected that the operating departments would closely monitor their individual utility budgets and energy consumption to improve accountability.

- However, city departments did not always actively monitor their utility expenses and felt that they should not be held accountable for their utility budgets, due to the following reasons:
 - a. Allocation of the citywide utility budget was determined by Finance without operating departments' active involvement and mutual consensus;
 - b. Operating departments did not have sufficient information of their utility accounts to determine whether the allocated annual budget amounts were reasonable;
 - c. Operating departments did not receive monthly utility bills for monitoring their utility expenses; and
 - d. The utility billing information provided by Finance was sometimes incomplete or inaccurate.
- A review of a sample of utility accounts indicated various mistakes, including more than \$310,000 of coding errors over the past two years, as shown below:

User department/facility	Amount	Incorrectly charged to
Three city parks	\$141,313	Public Works Department
One city park	\$26,211	Utilities Department
Police NW Command	\$75,418	Public Works Department
Fire Station #56	\$37,036	Utilities Department
Fire Station #55	\$24,151	Public Works Department
Building Maintenance	\$6,690	Utilities Department
Total	\$310,819	

Cause

- City departments were not actively involved in the process of decentralizing the citywide utility budget to the departmental level.

Effect

- Utility expenses and energy consumption were not actively monitored by the user departments to ensure accuracy and accountability.

Recommendation

1. Finance should coordinate with all city departments to ensure their utility budgets are based on the correct utility accounts, past consumption, and anticipated needs.
2. Finance should collaborate with the key utility stakeholders, including: Accounts Payable, Budget, Building Services, Information Technologies, and the major user departments, for establishing a Utility Oversight Committee to periodically meet and address citywide utility issues, such as: opening, closing, and database for municipal accounts; billing information and accuracy; monitoring of usage; and energy management.

Management's response

1. The General Services, Budget and Accounting divisions will coordinate a meeting with the utility department stakeholders. The meeting will be held by April 15, 2010.

The Accounting Division will insure that all departments are provided the proper utility account information for electricity and gas; the Finance Department and the IT Department have been working to insure that all the required data from NV Energy will be imported into the Oracle system. This project should be completed by September 1, 2010.

The Water and Wastewater Department will provide information on usage for water and sewer by July 31, 2010.

2. Finance and General Services will meet with utility stakeholders, including: Accounts Payable, Budget, Building Services, Information Technology, and the major user departments, for establishing a Utility Oversight Committee. The committee should be tasked with determining the proper business process and should determine the responsibilities of each department in the implementation of the business process. The meeting will be held by April 30, 2010, and the business process and responsibilities of each Department should be established by May 31, 2010.

2. UTILITY ACCOUNTS

Criteria

- Maintaining an accurate, complete, and updated list of all municipal utility accounts is essential for account verification purposes.

Condition

- In June 2009, the City had a total of 1,368 utility accounts in the following three major categories:

Utility Account Category	Number of Accounts
Electricity	1,082
Gas	31
Water, Sewer, Garbage	255
Total	1,368

- The total number of municipal utility accounts fluctuated from month to month due to new city facilities or termination of utility services.
- However, since there was not a citywide utility policy, the operating departments were not required to follow a standardized process for opening new accounts and closing inactive accounts that were no longer needed.
- Furthermore, the service address on some utility accounts did not always provide a clear description of the municipal facility and the operating department.
- Consequently, when Finance received a new utility bill, accounts payable staff had to spend extra time to find out whether the new account belonged to the City and to which department should the payment be posted.
- On the other hand, Finance might continue to pay the monthly fixed charges for inactive accounts that were no longer needed by the operating departments.
- A review of a sample of utility accounts indicated that the following potential errors were not closely scrutinized :
 - a. 48 accounts had service addresses outside of the City of North Las Vegas, but the addresses were often incorrect;
 - b. 36 water accounts were for home owner associations, with an annual cost of approximately \$150,000;
 - c. 28 accounts had zero consumption for an entire year, with an annual cost of approximately \$7,600; and
 - d. One account apparently belonged to the State rather than the City.

- Some city departments (e.g. General Services, Parks and Recreation) maintained a list of city facilities for their departmental use. However, the service addresses as shown on the utility bills did not always match with the official addresses of the city facilities.
- Although most of the City's electricity accounts were for Public Works' Traffic Operations Division, the division had not established a database to identify all the electricity meter locations and the total number of street lights powered by each meter.

Cause

- Inadequate coordination among city departments to establish a formal process for administering the City's utility accounts.

Effect

- Increased risks of paying utility bills that did not belong to the City.

Recommendation

1. The Finance Department should coordinate with all city departments, especially Public Works, Parks and Recreation, and General Services to establish and maintain an accurate database for all municipal utility accounts.
2. Finance should establish controls to ensure Accounts Payable will use the utility account database for validating the City's utility accounts, especially for the new accounts and closed accounts.
3. Finance should coordinate with the major operating departments and establish citywide guidance for all municipal utility accounts, including the following:
 - a. User departments should report their opening and closing of utility accounts in a timely manner for updating the citywide utility account database;
 - b. A standardized format should be used for all service addresses, which should match with the official addresses of the city facilities; and
 - c. A clear description of the city facility and department/division should be included on all utility bills.

Management's response

1. General Services, Budget, and Accounting divisions will coordinate a meeting with the utility department stakeholders. The meeting will be held by April 15, 2010. The Accounting Division will insure that all departments are provided the proper utility account information and provide information on usage as is available.

2. The Accounts Payable Section in the Accounting Division has established a new business process for the establishment of Electric consumption accounts. The Accounts payable section in the Accounting Division will review all billing addresses and make corrections. This process will be presented to the Utility Oversight Committee and implemented by May 31, 2010.

3. The Utility Department indicated that the 36 home owner association accounts were paid for by the City because of developer agreements in place. Finance, Utility and Public Works Departments will review the relevant developer agreements to insure the proper billing of these accounts. The review of the accounts should be completed by August 31, 2010.

4. The Finance Department believes the Utility Oversight Committee should establish citywide guidance for all municipal accounts. The recommendations will be addressed when the Utility Oversight Committee adopts a business process. The business process and responsibilities of each Department will be established by May 31, 2010.

3. BILLING INFORMATION

Criteria

- Employees who are familiar with their facilities and operations are most suitable for reviewing utility billing information of their department.

Condition

- Besides a cursory review by accounts payable while processing the monthly payments, utility billing information was generally not scrutinized by the user departments.
- Finance received the electricity bills electronically from NV Energy and the monthly billing data were converted into the City's format.
- Since October 2007, Finance had uploaded the monthly electricity billing information into a shared folder, which was viewable by city employees.
- However, some city departments were unaware of the existence of the billing information.
- Furthermore, most employees who had accessed the shared folder found it time consuming and difficult to make use of the billing information due to the following reasons:
 - a. The City's format removed the bar graph, as shown on the original NV Energy bills, making it difficult to monitor usage without the consumption history and pattern.

- b. The original billing descriptions (e.g. charges for electric consumption and renewable energy program) had been substituted by generic terms (i.e. general charge 1, general charge 2, etc.) making it impossible to know what the charges were for.
 - c. Although the amount for 'Current Charges' should equal to the 'Total Electricity Service Amount', as shown on the original NV Energy bills, the existing billing information, after conversion, often showed discrepancy between the two amounts.
- Southwest Gas mailed most of the City's gas bills to Finance, except for two accounts whose monthly bills were sent directly to the user department. The additional time routing them back to Finance for payment had occasionally resulted in late charges.
 - Finance began scanning and posting the monthly gas bills on a citywide shared folder in 2008. However, many departments were not aware of the billing information's existence.
 - The City's Utilities Department did not create individual utility bills for its municipal accounts. The monthly charges for water, sewer, and garbage collections were automatically debited from the user departments' accounts.
 - Therefore, city departments were unable to review details of the charges, such as: water consumption history, meter size; sewer, backflow, or other charges; and garbage container size, quantify, and collection frequency.

Cause

- Inadequate controls for reviewing billing accuracy.

Effect

- Increased risk of utility payment errors.

Recommendation

1. Finance should coordinate with the IT Department to ensure all relevant billing data are imported from NV Energy and accurately converted into the City's format.
2. Finance should seek input from all city departments to understand and meet their needs for utility billing information.
3. Finance should request the Utilities Department to create individual monthly bills for its municipal accounts and provide detailed billing information to the user departments.
4. Finance should contact Southwest Gas to arrange electronic billing for the City's gas accounts.

Management's response

1. The Finance Department and the IT Department have been working to insure that all the required data from NV Energy will be imported into the Oracle system. This project should be completed by September 1, 2010.
2. Upon completion of the NV Energy project, Finance, IT and General Services will work with Southwest Gas to receive electronic billing and usage data from the City's gas accounts. We expect that this could be completed by November 1, 2010.
3. The Finance Department believes the Utility Oversight Committee should establish citywide guidance for all municipal accounts. The recommendations will be addressed when the Utility Oversight Committee adopts a business process. The business process and responsibilities of each Department will be established by May 31, 2010.

4. MUNICIPAL TAX (FRANCHISE FEE)

Criteria

- According to the utility franchise agreements, the City is exempt from paying municipal tax (i.e. 5% franchise fee) for its municipal accounts.

Condition

- NV Energy included municipal tax in approximately ten percent of its electricity bills to the City.
- If municipal tax was found on electricity bills that had a North Las Vegas address, Finance would deduct the amount while processing the monthly utility payments.
- However, a review of a sample of 48 out-of-city accounts indicated that 32 of them were actually located within the City of North Las Vegas but were incorrectly recorded as outside of North Las Vegas with a "Las Vegas" address.
- It was estimated that the City had overpaid approximately \$18,000 taxes to NV Energy in the past two years.
- Southwest Gas included the 5% franchise fee in approximately two-third of the City's gas accounts, but all the municipal accounts were located within North Las Vegas.
- However, accounts payable did not deduct any of the tax amounts before making the monthly gas payments.
- It was estimated that, over the past two years, Southwest Gas had overbilled the City approximately \$16,000 for franchise fees.

Cause

- Unfamiliar with the utility franchise agreements.

Effect

- Over billing and over-payments of franchise fees for which municipal utility accounts were exempt.

Recommendation

1. Finance should notify NV Energy and Southwest Gas to exclude municipal tax from its utility billing to the City of North Las Vegas.
2. Finance should establish controls to ensure Accounts Payable does not pay municipal tax for all utility accounts that are located within the City of North Las Vegas.
3. Finance should seek refund for the overpayments of municipal taxes.

Management's response

1. Finance is working with the NV Energy and Southwest Gas to exclude municipal tax from its utility billing to the City of North Las Vegas. Southwest Gas has been notified to remove all municipal tax from the billing. The Accounting Division of Finance will insure that all NV Energy billing for accounts with an out of City address will be reviewed to determine if accounts have the proper billing address and that these accounts corrected if necessary and municipal tax removed. This will be accomplished by April 15, 2010.
2. Finance currently reviews all billing and removes the municipal tax on accounts with a North Las Vegas address.
3. The Finance Departments has received credits of the municipal taxes paid for one year on the Southwest Gas Accounts. The Finance Department will request credits for any municipal tax charged on the NV Energy accounts by April 15, 2010.