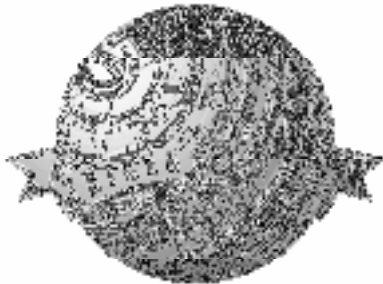


MANAGEMENT AUDIT REPORT
OF
UTILITY BILLING PROCESS
REPORT NO. 07-108



City of Albuquerque
Office of Internal Audit and Investigations

Utility Billing Process
Report No. 07-108
Executive Summary

Background The Public Service Company of New Mexico (PNM) provides electric and natural gas services for City of Albuquerque (City) operations. FY 2007 PNM charges totaled approximately \$16 million. There are approximately 2,730 PNM electric accounts and 84 natural gas (gas) accounts billed on a monthly basis. The Department of Municipal Development (DMD) operates the utility billing process.

Objective: Does the City have a documented utility billing process that is governed by appropriate and effective guidelines?

- DMD does not have written policies and procedures of the utility billing process.
- Administrative Instruction 6-7: Utilities Clearinghouse is outdated and not followed by DMD.

Recommendations:

- DMD should establish written procedures for the monthly utility billing process.
- The CAO should review and update Administrative Instruction 6-7.

Objective: Is the City paying for utility services that are not related to official business?

- DMD does not have a list of City utility service accounts. The City was not listed as the owner of the premises for 182 utility service accounts, representing \$119,032 in monthly charges.
- One gas and one electric account had been billed in error at a higher residential rate.

Recommendations:

- DMD should work with City departments to compile a list of utility service accounts. DMD should compare the list of utility service accounts to the monthly bill to confirm that billed services belong to the City.
- DMD should review billing rates every month for accuracy.

Objective: Is the City paying excessive fees for inactive utility service accounts?

- DMD does not review charges billed on inactive accounts.

Recommendations:

- DMD should verify that charges posted to inactive accounts are reasonable.

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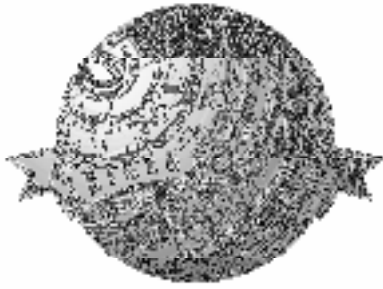
Objective: Are charges being applied to appropriate departments?

- DMD does not require or retain written documentation of account set up.
- Monthly PNM bills are not reconciled to the g/l. Fifteen electric accounts with monthly charges totaling \$31,065 could not be traced to the g/l activity number indicated on the PNM bill.

Recommendations:

- DMD should require and retain written documentation of account set up including department authorization, g/l account and activity numbers.
- DMD should provide departments with the necessary billing information to reconcile to the g/l. The CAO should ensure City departments reconcile monthly PNM account charges to the g/l.

Management responses are included in the audit report.



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

November 28, 2007

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Management Audit
Utility Billing Process
07-108

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) conducted a management audit of the utility billing process operated by the Department of Municipal Development (DMD). The audit was included in the Fiscal Year (FY) 2007 approved audit plan.

The Public Service Company of New Mexico (PNM) provides electric and natural gas services for City of Albuquerque (City) operations. PNM charges totaled approximately \$16 million for FY 2007. There are approximately 2,730 PNM electric accounts and 84 natural gas (gas) accounts billed monthly. In an effort to use alternative sources of energy that are more environmental friendly, the City began purchasing Sky Blue energy (wind powered electricity) in November 2006. Currently, approximately 1,070 electric accounts are partially Sky Blue accounts.

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Does the City have a documented utility billing process that is governed by appropriate and effective guidelines?
- Is the City paying for utility services that are not related to official City business?
- Is the City paying excessive fees for inactive utility service accounts?
- Are charges being applied to the appropriate City department?

SCOPE

Our audit did not include an examination of all functions and activities related to the utility billing process. Our scope included PNM electric and gas utility bills for the period July 2006 through March 2007.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, August 6, 2007, and does not reflect events or accounting entries after that date.

The audit was conducted in accordance with Government Auditing Standards.

METHODOLOGY

OIAI:

- Conducted interviews with DMD and Department of Finance and Administrative Services (DFAS) staff.
- Reviewed Administrative Instruction 6-7: Utilities Clearinghouse.
- Used statistical sampling with 90 percent reliability to determine sample sizes for test work.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. DMD SHOULD WORK WITH CITY DEPARTMENTS TO COMPILE A COMPREHENSIVE LIST OF CITY UTILITY SERVICE ACCOUNTS.

DMD does not have a comprehensive list of City utility service accounts. OIAI sampled PNM electric and gas charges from the months of August and September 2006 and January 2007 to determine if the accounts belong to the City. The Geographic Information System (GIS) was used to verify the addresses. The GIS system provides ownership information for a particular property address.

OIAI noted the following:

- 129 accounts, representing \$75,235 in monthly charges, did not have an owner listed.
- 53 accounts, representing \$43,797 in monthly charges, listed someone other than the City as owner.

This could amount to \$1,428,387, on an annual basis, of utility expense paid for properties that can not be positively identified as owned by the City.

Administrative Instruction No. 2-3 requires strong financial practices to include internal controls safeguarding City assets against loss from unauthorized use or disposition. Safeguarding City assets should include verification that utility service charges are valid City expenses.

Without a list of City utility service accounts to compare to monthly billings, DMD cannot verify that all charges billed are the responsibility of the City. As a result, the City could pay for services that are not related to official business.

RECOMMENDATION

DMD should work with City departments to compile a list of utility service accounts. The list should be updated when accounts are added or deleted.

DMD should compare the list of utility services to the monthly bill to confirm that they belong to the City. Any discrepancies should be researched.

RESPONSE FROM DMD

“DMD concurs and will work with City departments to compile a comprehensive list of utility service accounts and to review the monthly billings to confirm that they belong to the City.”

2. DMD SHOULD PROVIDE PNM STATEMENT INFORMATION TO CITY DEPARTMENTS.

OIAI reviewed 116 electric accounts with monthly charges totaling \$72,421 to determine if they were posted to the g/l account indicated on the PNM bill. Fifteen electric accounts with monthly charges totaling \$31,065 (42 %) could not be traced to the g/l account indicated on the PNM bill. One hundred one of the electric accounts tested could be traced to the g/l.

DMD and DFAS informed OIAI that their departments do not reconcile the monthly PNM bill to the g/l. DMD believes that it is the responsibility of individual City departments to perform reconciliation duties.

City departments need a copy of their monthly PNM charges to perform reconciliations. PNM statements are forwarded to DFAS for storage and are not distributed to departments. However, monthly charges are available to view online at the PNM website.

If utility bills are not reconciled to the g/l on a monthly basis, departments may be charged for utility services that are not their responsibility. This could also result in inaccurate year-end data that departments use for future budget decisions.

GFOA states that “decisions can be only as good as the information on which they are based.” It further defines characteristics of good accounting data to include its reliability and explains that information is reliable if it is verifiable.

RECOMMENDATION

DMD should provide departments the necessary PNM statement information to reconcile charges to the g/l on a monthly basis. DMD should either distribute monthly utility statements to City departments or provide the required information to set up an account on the PNM website for viewing online billing information.

The CAO should ensure that City departments reconcile monthly PNM account charges to the g/l.

RESPONSE FROM DMD

“DMD concurs and will provide City departments monthly spreadsheets that will contain PNM statement information so that they may reconcile charges to the general ledger. DMD will also assist departments so that they may set up and view their accounts on the PNM website.”

RESPONSE FROM THE CAO

“The CAO concurs and monthly reconciliations by the departments will be included in the updated Administrative Instruction 6-7.”

3. THE CAO SHOULD UPDATE ADMINISTRATIVE INSTRUCTION 6-7: UTILITIES CLEARINGHOUSE.

DMD personnel informed OIAI that they do not follow Administrative Instruction 6-7 because it is outdated. It was established in 1992 and refers to the Parks and General Services Department, which is no longer in existence. DMD does not have written policies and procedures to manage the utility billing process.

In order to promote consistency and accountability, the GFOA recommends that every government document its policies and procedures. Procedures should be evaluated annually and readily available to all employees. Without clear guidelines there may be inconsistencies in account set up and the account and activity numbers charged.

RECOMMENDATION

The CAO should update Administrative Instruction 6-7.

DMD should establish written policies and procedures for the monthly utility billing process.

RESPONSE FROM THE CAO

“DMD concurs and will establish written policies and procedures for the monthly utility billing process.”

RESPONSE FROM DMD

“The CAO concurs and an updated Administrative Instruction 6-7 will be issued before the end of FY/08.”

4. DMD SHOULD REQUIRE WRITTEN DOCUMENTATION WHEN NEW UTILITY ACCOUNTS ARE SET UP.

DMD does not require or retain written documentation of account set up. DMD informed OIAI that City employees and contractors can set up new PNM accounts by phone, no written documentation or department approval is required. If an account is set up without a general ledger (g/l) account and activity number, PNM will contact DMD for that information.

Due to a lack of documentation, OIAI could not:

- Determine what utility service accounts are the responsibilities of individual City departments.
- Verify that departments are charged only for the services that they have actually used.

If documentation of account set up is not obtained, responsibility for utility accounts can not be verified. Utility accounts might be set up by unauthorized individuals and could result in improper use of City assets. Departments may be charged for services they did not receive or that belong to another department.

RECOMMENDATION

DMD should require and retain written documentation of utility account set up, including department authorization, g/l account and activity numbers.

DMD should work with City departments to obtain verification of responsibility for existing utility accounts.

RESPONSE FROM DMD

“DMD concurs and will incorporate these recommendations into its new policies and procedures for the utility billing system.”

5. DMD SHOULD REVIEW BILLING RATES FOR ACCURACY EVERY MONTH.

DMD does not review gas and electric rate codes for accuracy. OIAI reviewed PNM statements for the months of August and September 2006 and January 2007 and noted one gas account and one electric account that were billed at residential rates rather than commercial rates. OIAI contacted PNM to confirm whether the correct rates were charged. The following was determined:

Gas Account

- The City was paying a higher residential gas rate on the account than the lower commercial rate.
- The gas account rate was corrected after it was brought to PNM’s attention by OIAI.

- The account will not be adjusted for prior activity unless it is formally requested by DMD.

Electric Account

- PNM was not certain whether the account should be billed at a commercial or residential rate but believed it was probable that it should be billed at a commercial rate.
- The residential electric rate is higher than the commercial rate and it would be to the City's benefit to request that PNM review the account for rate accuracy.

Administrative Instruction 2-3 requires City assets to be safeguarded. The City will be overcharged if utility accounts are billed incorrectly at higher rate codes.

RECOMMENDATION

DMD should review billing rates for accuracy every month and research discrepancies with PNM.

RESPONSE FROM DMD

“DMD concurs and will review billing rates on a monthly basis. Discrepancies will be researched and addressed with PNM.”

6. DMD SHOULD VERIFY THE ACCURACY OF CHARGES POSTED TO INACTIVE ACCOUNTS.

DMD personnel informed OIAI that inactive accounts are not monitored.

To avoid costly reconnection fees, the City may place a service on inactive status when it is not in regular use. PNM charges a nominal service fee on inactive accounts. DMD does not review charges billed on inactive accounts because it is not part of their existing process.

Administrative Instruction 2-3 requires adequate internal controls to safeguard City assets. If DMD does not review charges to inactive accounts, errors may go undetected resulting in overpayment.

RECOMMENDATION

DMD should verify that charges posted to inactive accounts are reasonable.

RESPONSE FROM DMD

“DMD concurs and will incorporate this recommendation into its new policies and procedures for the utility billing system.”

CONCLUSION

DMD should document monthly utility billing policies and procedures. It is crucial that DMD, in conjunction with City departments, compile a list of existing utility service accounts and require that new accounts are supported by a written request authorizing service. OIAI believes the above recommendations will ensure that the monthly utility billing process is effective, efficient and accountable only for services attributable to official City business.

We appreciate the assistance and cooperation of DMD as well as all other City personnel contacted during the audit.

Principal Auditor

REVIEWED:

Audit Manager

Internal Auditor

APPROVED:

APPROVED FOR PUBLICATION:

Carmen Kavelman, CPA, CISA, CGAP
Director
Office of Internal Audit & Investigations

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Oversight Committee