



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

13-14 Colorado Springs Utilities Billing Audit

September 2013



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Purpose

The purpose of this audit was to evaluate whether Colorado Springs Utilities was billing customers accurately and timely for their utility usage while adequately safeguarding resources. We also reviewed whether Colorado Springs Utilities, as an entity, was abiding by the internal policies and procedures established for these processes.

Highlights

We concluded overall, billing was performed in an accurate and timely manner, assets were adequately safeguarded, and the policies and procedures established for billing and safeguarding of resources were being followed.

The primary function of Customer Billing was to provide timely and accurate billing statements for residential, commercial and industrial customers. Our review focused on controls and policy compliance in areas within the billing process that we considered higher risk, including:

- adjustments and corrections
- error control reports
- billing timeliness
- billing transactions recorded to lost revenue
- assignment of rates

The City Auditor's Office issued the previous Billing audit in October 2009. Changes and improvements have been noted since our prior report, including:

- Compared to less than 70% in 2009, more than 89.97% of all control reports were resolved within 24 hours in 2012.

(Continued on page 2)

Recommendations

1. Refund or adjustment requests billed through the Billing Request Database should require approval by the requestor's supervisor.
2. Business Account Management should ensure special contracts are renewed timely. A billing policy should be developed that defines the rate to be used when a contract has not been formally renewed.
3. Account Managers should review the initial billing contract entry by the Billing Section to ensure compliance with contract terms.

Opportunity for Improvement

1. A new scorecard metric should be considered to include all sources of lost revenue in Section scorecards.

Management Response

Colorado Springs Utilities management generally agreed with the observations presented. See detailed responses in the attached report.

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(Highlights continued from page 1)

- Since 2009, the number of estimated bills has trended downward. In the period from October 2011 through September 2012, only .05% of total bill segments were estimated. The majority of Colorado Springs Utilities meters now utilize automated meter reading technology (AMR), which has helped to minimize the use of estimates.
- Colorado Springs Utilities implemented improved reporting from the AMR system that would identify meter errors and minimize billing error correction.
- The amount of unbilled or lost revenue recorded to a database declined by 14% from 2011 to 2012.



Office of the City Auditor

Colorado Springs Utilities Billing Audit

Date: September 4, 2013

To: President King, President Pro-Tem Bennett, and Members of City Council

Re: 13-14 Colorado Springs Utilities Billing Audit

We conducted an audit of the Colorado Springs Utilities Billing process for the period January 1, 2012, to December 31, 2012, and reviewed certain activities through March 2013.

The purpose of this audit was to evaluate whether Colorado Springs Utilities was billing customers accurately and timely for their utility usage while adequately safeguarding resources. We also evaluated whether Colorado Springs Utilities, as an entity, was abiding by the internal policies and procedures established for these processes. Our scope included review of system accesses to the Billing system and related financial data.

We concluded overall, billing was handled in an accurate and timely manner, assets were adequately safeguarded, and the policies and procedures established for billing and safeguarding of resources were being followed. During the course of our audit we did observe three areas where we believe internal controls could be strengthened as well as, one opportunity for improvement. These are listed in the attached report.

As always, feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Denny Nester".

Denny Nester, MBA, CPA, CIA, CGFM, CFE, CGAP
City Auditor

Cc: Jerry Forte, Chief Executive Officer
Bill Cherrier, Chief Planning and Financial Officer
Carl Cruz, Chief Customer and Corporate Services Officer
Kathleen Solano, General Manager, Customer Revenue and Service Department
Kate Hume, Manager, Customer Service Center
Barbara Rabideau, Interim Manager, Customer Billing
Charise Swanson, Manager, Compliance and Risk Mitigation Services
Karen Yunker, Manager, Business Account Management
Dave Maier, Manager, Enterprise Risk Management
Patricia Van Meter, Lead Analyst, Enterprise Risk Management



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REPORT DETAILS

PURPOSE AND SCOPE

The purpose of our audit was to evaluate whether Colorado Springs Utilities was billing customers accurately and timely for their utility usage while adequately safeguarding resources. We also evaluated whether Colorado Springs Utilities, as an entity, was abiding by the internal policies and procedures established for these processes. Our review covered the period January 1, 2012, to December 31, 2012, and certain activities through March 2013.

Our review focused on controls and policy compliance in areas within the billing process that we considered higher risk. These included:

- Reviewed to ensure adjustments and corrections to bills, including refunds, had proper oversight and only authorized employees could perform these transactions.
- Tested the error control reports to determine they were worked timely and errors were properly addressed.
- Reviewed the procedures to work accounts that had not billed in 45 days to ensure accounts were billed timely.
- Performed testing of billing transactions recorded to the lost revenue database to determine compliance with policy. We also reviewed to determine if reasonable explanations existed and proper approvals were obtained.
- Reviewed processes and controls to assignment of rates. Tested customer rate changes processed through the billing request database to ensure the changes were properly supported. Limited testing of large commercial customer accounts was performed to determine if qualifications were met for the assigned rate.

Our scope included review of system accesses to the Customer Billing System and related financial data.

BACKGROUND, CHANGES AND IMPROVEMENTS

Background

The focus of our review was the Customer Billing Section, one of five sections which comprise the Customer Revenue and Services Department in the Customer & Corporate Service Division at Colorado Springs Utilities. The other sections of the department included Customer Revenue, Customer Solutions, Business Account Management, and the Customer Service Center. Our 2013 Audit Plan also includes an audit of Credit and Collections functions within the Customer Revenue Section of the Customer Revenue and Service Department.

The primary function of Customer Billing Section was to provide timely and accurate billing statements for residential, commercial and industrial customers. The section is responsible for billing more than



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\$847 million annually for nearly 250,000 customers. The Billing Section is also responsible for the billing of non-core and non-metered contracts for approximately \$31 million annually. Per Colorado Springs Utilities 2012 Financial Statements the following Revenues were billed in 2012:

Service	Revenues (\$ in Thousands)
Electric	407,247
Gas	205,060
Water	169,152
Wastewater	66,092

Improvements

Customer Billing is one of the significant business cycles audited by the City Auditor's Office on a recurring basis. The last audit of this business cycle covered the period January 1 through December 31, 2008, and was issued October 14, 2009. The Customer Billing System had been implemented in September 2007. Additionally, during that time period, significant quality issues were experienced related to the ongoing migration to Automated Meter Reading (AMR) for Gas, Electric, and Water Services. Our previous report noted replacement of the customer billing system along with the transition to AMR proved to be a significant undertaking. We noted in our current review, significant improvements had been made since 2009 in billing accuracy and timeliness.

Key findings from our prior Billing Audit had been addressed. Some of the improvements we noted were:

- Compared to less than 70% in 2009, more than 89.97% of all control reports were resolved within 24 hours in 2012.
- Since 2009, the number of estimated bills has trended downward. In the period from October 2011 through September 2012, only .05% of total bill segments were estimated. The majority of Colorado Springs Utilities meters now utilize automated meter reading technology (AMR), which has helped to minimize the use of estimates.
- Colorado Springs Utilities implemented improved reporting from the AMR system that would identify meter errors and minimize billing error correction.
- The amount of unbilled or lost revenue recorded to a database declined by 14% from 2011 to 2012.

Policy Changes

Under-billing policy –When Colorado Springs Utilities determined that a customer had been under-billed for previous periods, policy prescribed how many prior periods could be billed to the customer. The



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policy for residential customers was revised in January 2012 to state that the customer could be billed up to a maximum of two months. Previously, residential customers could be billed back to the date of occurrence without limitation. The policy which allowed commercial customers to be back billed up to twelve months did not change.

Significant Meter Failure Discount Policy – In July 2012, Colorado Springs Utilities obtained City Council approval for a Significant Meter Failure discount policy. A significant meter failure results in an increase of at least 50% to the customer’s total monthly bill. The discount was designed to phase in the impact of future corrected meter reads. Under this policy, Colorado Springs Utilities may elect to waive the charges for the allowable period up to one year, and reduce the customer’s bill for a period going forward by up to 30% for up to the next twelve months. The amount of the discount was recorded to the lost revenue database.

Water Leak Adjustment Policy – Per approval of the City Council in 2011, a new Water Leak Adjustment Pilot Program was designed to assist customers with high bills due to unintentional water leaks. A maximum of two adjustments could be made in a three-year period. In 2012, the amount not billed to customers and recorded to lost revenue was \$341,741.

COMMENDABLE PRACTICES

Colorado Springs Utilities Billing Section completed the majority of all billing corrections and cancelations within two months of the Waldo Canyon fire with minimal customer disruption. With the mandatory evacuation, 14,000 customers were credited for water consumption, which may have been used for fire suppression. Additionally, 4,200 gas customers were credited for daily charges during the average 11 day shut off period and 1,200 electric customers were credited daily charges for the one to five day outage periods. For the approximately 350 customers who lost their homes, the Billing Section brought all balances to zero so no final bill would be charged.

CONCLUSION

We conclude that overall, billing was handled in an accurate and timely manner, assets were adequately safeguarded, and the policies and procedures established for billing and safeguarding of resources were being followed. We have identified three areas where internal controls could continue to be strengthened. We also noted one area where an opportunity for potential improvement in billing policies or practices existed. These areas are listed on the pages that follow.



OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 –BILLING REQUEST DATABASE REFUNDS AND ADJUSTMENTS DID NOT REQUIRE APPROVAL BY THE USER DEPARTMENT SUPERVISOR

- Employees with access to the billing request database could submit a request for a refund or adjustment request, without approval from their supervisor.
- The absence of supervisory review created a risk that refunds or adjustment requests were not authorized, or in accordance with policy and good business practices.

The billing request database was used by Colorado Springs Utilities Departments to bill for non-core services. Refunds and adjustments for non-core or special contract billings are also processed through the database rather than the Customer Billing System. Under the procedures in place, the Billing Section Supervisor reviewed the reasonableness of documentation submitted by the requestor before the request was processed.

We noted an audit trail existed, which tracked the transaction flow from initiation to completion of the request. However, this would not prevent submittal of refund or adjustment requests without supervisory approval.

AUDITOR'S RECOMMENDATION

Colorado Springs Utilities should require a formal approval on the documentation submitted to the Billing Section by the requestor's supervisor.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with the recommendation. We have prioritized the development of an additional layer of approval required for billing requests, including refunds and adjustments, submitted through the Billing Request Database. This change/addition will provide the appropriate safeguards to ensure the requestor's supervisor is aware of all billing request submittals and approves the request. Appropriate policies and process documents will also be updated to reflect this change. It is the goal of the business to have this item completed and in place by September 30, 2013.



OBSERVATION 2 – NO POLICY EXISTED FOR BILLING A CUSTOMER WHEN A SPECIAL CONTRACT WAS NOT RENEWED TIMELY

- A large customer was billed for gas services for January through mid- March 2013 without a signed contract.
- No policy existed to provide guidance to the Billing Section when a customer had not selected a tariff in the absence of a signed contract.

The Account Managers in the Business Account Management Section interfaced with customers with special contracts and were responsible for submitting contract changes and updates to the Billing Section.

The previous rate, *Firm and Interruptible Transportation Contract Service* to the Military was changed to *Firm and Interruptible Sales Service* with the 2013 Rate case filing effective January 1, 2013. Over the next two and one half months, the customer indicated a preference for a special contract that specified the indexed rate. However, the customer did not submit a signed contract related to the tariff option - selection of the Standard Gas cost tariff (which included a Gas Commodity Adjustment or GCA) or the Indexed Gas cost tariff.

As a result, billing to this large customer for service for January and February was delayed and Colorado Springs Utilities billed the customer for the indexed rate for gas service without a signed contract. The contract was subsequently signed in mid-March 2013. No policy existed to provide guidance as to the appropriate rate to use in absence of the signed contract.

AUDITOR'S RECOMMENDATION

Colorado Springs Utilities should develop a billing policy that defines the rate schedule that should be utilized for billing purposes when a contract has not been formally renewed.

Business Account Management should ensure that contracts are renewed when they expire to ensure timely billing.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with the recommendation. This was a unique situation which occurred as efforts were being made to simplify customer rates. During this timeframe we also experienced a change in account managers. We agree that both Utilities and the customer have ownership in executing contracts in a timely manner. While the customer is the official signatory on documents such as contracts and modifications, there is a lengthy approval process required for contract approvals. As such, the paperwork processing was delayed while a decision was being considered.

Colorado Springs Utilities will prepare a written policy to detail our practice for contract renewals. We will also provide written communication to customers informing them that if a new contract is not



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signed by a certain date following the expiration of an existing contract, the customer agrees to defer to the rate noted in the communication. This will remain the practice for all contract rate options until a new contract is signed by the customer. It is the goal of the business to complete these tasks and have a detailed, written process in place by September 30, 2013.



OBSERVATION 3 – THE SPECIAL CONTRACT TERMS IN THE BILLING SYSTEM WERE NOT REVIEWED BY THE ACCOUNT MANAGERS

- There were no procedures which required the Account Managers to review the initial contract set up in the billing system to verify special contract terms.
- Incorrect understanding of contract terms resulted in refunds of \$43,320 for two accounts.

The Account Managers in the Business Account Management Section were responsible for interfacing with special contract customers. Account Managers submitted special contracts to the Billing Section for set up in the customer billing system. In our test of bill corrections, we noted two corrections to special contract billing components. These resulted from incorrect understanding of contract terms.

AUDITOR'S RECOMMENDATION

Account Managers in the Business Account Management Section should review the initial billing contract set-up made by the Billing Section to ensure compliance with contract terms.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with the recommendation. The present process is that bills are reviewed for correctness by the Customer Billing Supervisor and the Billing Specialist Senior who is assigned to the account(s). Moving forward, the appropriate Billing Specialist Senior will present the special contract billing to the assigned Account Manager prior to the invoice/refund going out. This will allow the Account Manager to review and approve the special contract terms in advance. An email/sign off approval will also be required before the billing is generated. It is the goal of the business to have this process documented and in place by September 30, 2013.



OPPORTUNITIES FOR IMPROVEMENT

OPPORTUNITY 1 – CONSIDER A NEW METRIC TO INCLUDE ALL SOURCES OF LOST REVENUE IN SECTION SCORECARDS

- Colorado Springs Utilities tracked revenue lost under circumstances in which a customer was not billed for utility service.
- The meter to bill cycle scorecard performance metric included lost revenue related to meter errors, but did not include losses from non-meter procedural errors.

Lost revenue was generated from meter issues, customer service and field activity procedural errors, water leak adjustments, and significant meter failure discounts. Lost revenue was a typical utility business expense. The Billing Section produced a lost revenue key indicator report for management, which was limited to instances over \$500 for residential and over \$1,000 for commercial accounts. Total lost revenue represented less than .1% of operating revenue and was \$687,185 in 2012 and \$798,445 in 2011.

Lost revenue due to meter errors was one component of a shared scorecard metric utilized by the Customer Field and Measurement Services, Customer Billing, and Customer Service Center Sections to measure accuracy in the meter to bill cycle. Revenue losses related to non-meter related errors such as procedural errors were tracked in the lost revenue database, but were not included in this metric. In many cases, these individual amounts were not significant, but inclusion in a new scorecard metric would ensure accountability for all unbilled revenue.

AUDITOR'S RECOMMENDATION

Management should consider a scorecard metric for Customer Revenue and Services Department Sections that will measure the total amount of lost revenue from any source.

COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with the recommendation. At present, Colorado Springs Utilities is assembling a team that will develop a process to clearly define lost revenue and to identify an appropriate unbilled revenue methodology/accrual method. This team will be comprised of members from each of the following areas: Customer Billing, Customer Revenue, Accounting and Customer Field Measurement. Once this process is clearly defined, we will create a new scorecard metric that measures commodity available at the City Gate versus billed units through the Customer Billing System. This will help us capture true lost revenue data. It is the goal of the business to have this process documented and in place by December 31, 2013.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

About our Office

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

Audit Standards

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.

The audit included interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.