



**OFFICE OF THE CITY AUDITOR**  
**COLORADO SPRINGS, COLORADO**

**14-01**  
**Colorado Springs**  
**Utilities Credit and**  
**Collection Audit**

**January 2014**



# OFFICE OF THE CITY AUDITOR

## COLORADO SPRINGS, COLORADO

### 14-01 Colorado Springs Utilities Credit and Collection Audit

January 2014

#### **Purpose**

The purpose of this audit was to evaluate whether Colorado Springs Utilities was abiding by the internal policies and procedures established for credit and collection activities while adequately safeguarding resources. An additional audit objective was to determine that credit and collection activities were efficient, effective and consistent with industry best practices.

#### **Highlights**

Overall, we concluded internal controls were adequate to safeguard resources. Credit and collection activities complied with policies and procedures as set forth by management. We noted instances in which changes to Colorado Springs Utilities credit and collection functions could improve efficiency and effectiveness or better align activities with industry best practices.

Colorado Springs Utilities does not charge late fees. Benchmarking by the Office of the City Auditor, as well as, analysis performed by Colorado Springs Utilities, indicated the majority of peer utilities applied late fees. Over 80 percent of Colorado Springs Utilities customers pay their balance within the grace period and would not be affected by a late fee.

Residential customers were charged deposits only when a bankruptcy or legal judgment existed on the account. Colorado Springs Utilities was considering charging deposits to customers with previous bad debts. Approximately 89% of the peer utilities charged deposits for residential customers.

*(Continued on page 2)*

#### **Management Response**

Management was generally in agreement with our recommendations. Responses can be found in the attached report.

#### **Recommendations**

1) Colorado Springs Utilities Customer and Corporate Services should work with Planning and Financial Services to evaluate late fee and deposit policy from an organization wide perspective. Evaluation criteria should include both customer and financial considerations, and practices in place in the large public power industry. Results should be presented to Utilities Board for consideration.

2) Analyze the cost of field activities compared to customer charges to determine if fee adjustment is needed.

3) Complete cost benefit analysis for the remote electronic disconnect project as planned. Based on the results of the cost benefit study, remote electronic disconnect meter funding should be appropriately considered when prioritizing capital resources.

*(Continued on page 2)*

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January 2014

*(Highlights continued from page 1)*

Our benchmarking results for Late Fees and Deposits can be found at Appendix A and B to this report.

Fees related to field activities had not been adjusted recently and may not recover the cost of the field collection efforts.

Remote electronic disconnect meters eliminate the need for field collection visits, reducing costs and improving safety. Limited resources and higher priority technological needs have reduced annual project funding. To date, approximately 5,900 of the 17,250 planned remote electronic disconnect meters were installed. The budget for remote electronic disconnect meters was reduced to \$100,000 in 2013 and project funding for 2014 was uncertain.

*(Recommendations continued from page 1)*

## **Opportunities for Improvement**

- 1) Consider the costs and savings of combining the disconnect notice with the monthly bill.
- 2) Consider whether opportunities exist to increase the coordination between Credit Operations and the Account Managers to ensure timeliness of collection efforts for managed accounts.
- 3) Consider data collection and analysis of field collection activities to ensure optimal use of field resources.



# Office of the City Auditor Public Report

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Date: January 31, 2014

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

Re: 14-01 Colorado Springs Utilities Credit and Collection Audit

The purpose of this audit was to evaluate whether Colorado Springs Utilities was abiding by the internal policies and procedures established for credit and collection activities while adequately safeguarding resources. An additional audit objective was to determine whether credit and collection activities were efficient and effective. We also considered consistency with industry practices.

We reviewed credit and collection related functions performed by Credit Operations and the Customer Service Center that we considered the highest risk areas based on our assessment. Our scope also included field collection activities and review of system accesses to the customer information system and related financial data. Our audit period included information from January 1, 2012, through June 30, 2013.

Overall, we concluded internal controls were adequate to safeguard resources, and credit and collection activities complied with policies and procedures as set forth by management. However, we noted instances in which changes to Colorado Springs Utilities credit and collection functions could improve efficiency and effectiveness or better align activities with industry practices. We identified three observations and three opportunities for improvement. We have listed our recommendations for each 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  
Carl Cruz, Chief Customer and Corporate Services Officer  
Bill Cherrier, Chief Planning and Financial Officer  
Dede Jones, General Manager, Financial Services  
Kathleen Solano, General Manager, Customer Revenue and Services  
Pat Moyer, General Manager, Customer Field and Measurement Services  
Kellie Smith, Manager, Measurement Operations and Systems  
Melissa Richardson, Manager, Customer Revenue  
Chris Hyskell, Manager, Customer Billing

Kate Hume, Manager, Customer Service Center  
Karen Yunker, Manager, Business Account Management  
Charise Swanson, Manager, Compliance and Risk Mitigation Services  
Chris Coutts, Operations Superintendent I, Utilities Services  
Dianne Buchholz, Operations Superintendent I, Customer Response  
Dave Maier, Manager, Enterprise Risk Management  
Patricia Van Meter, Lead Analyst, Enterprise Risk Management  
Rick Griffith, Utilities Division Chief, Office of the City Attorney

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# Office of the City Auditor

## Colorado Springs Utilities Credit and Collection Audit

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## REPORT DETAILS

### PURPOSE AND SCOPE

The purpose of this audit was to evaluate whether Colorado Springs Utilities was abiding by the internal policies and procedures established for credit and collection activities while adequately safeguarding resources. An additional audit objective was to determine whether credit and collection activities were consistent with industry practices.

Our review focused on credit and collection related functions performed by Credit Operations and the Customer Service Center that we considered the highest risk areas based on our assessment. Our scope included field collection activities and review of system accesses to the customer information system and related financial data. Our audit period included information from January 1, 2012, through June 30, 2013.

### BACKGROUND

Colorado Springs Utilities credit and collections practices were governed by the Utility Rules and Regulations (URR), as approved by Colorado Springs City Council. Colorado Springs Utilities policies and procedures further defined aspects of the credit and collection process.

The Office of the City Auditor previously performed an audit of Colorado Springs Utilities cash receipts and collection activities, issued in December 2010. That report noted opportunities for improvement existed in credit policies such as residential deposits, late fees for all customers, and behavioral credit scoring. Colorado Springs Utilities response to the 2010 report stated these opportunities were not implemented due to the economic environment, but have been under consideration.

Our audit procedures included the following:

- Reviewed user accesses to computer systems that could have a financial impact such as payments and adjustments.
- Tested to determine that the accounts receivable aging was performed accurately in the customer information system.
- Confirmed that Colorado Springs Utilities met the performance measure to collect over 80% of amounts billed in the first 30 days after bill generation.
- Reviewed the process to return bad debt to active accounts and determine proper aging.
- Tested net write-off to bad debt as a percentage of sales for accuracy.
- Benchmarked late fee and deposit policies to large public power industry practices.
- Tested one week of field collection activity to determine percentage of accounts receiving field treatment.

#### Overview of credit and collection processes

Although multiple groups within the Colorado Springs Utilities organization participated in administering aspects of the credit and collection process, two work groups within the Customer and Corporate Services Division had

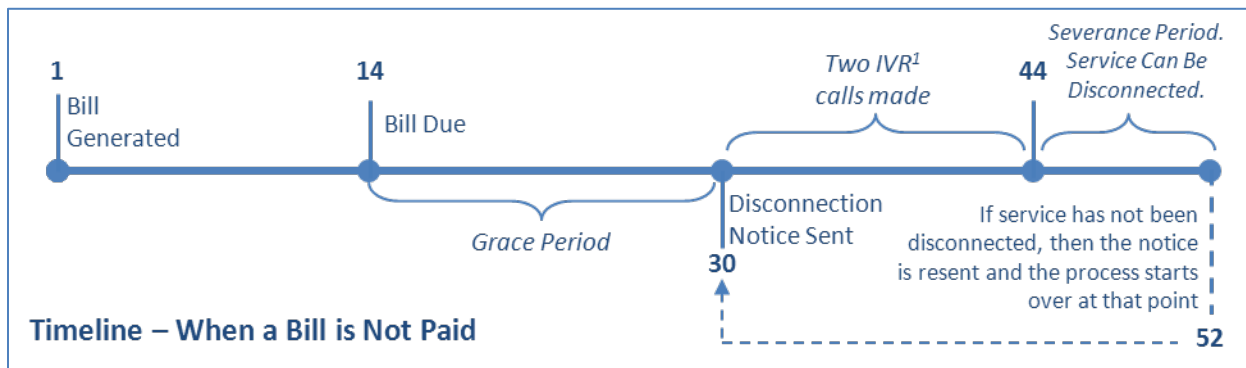


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primary responsibility. These groups were Credit Operations within the Customer Revenue section, and Revenue Protection (Field Collections) within the Customer Field and Measurement Services Department.

The Credit Operations Section was responsible for monitoring credit risks and managing Colorado Springs Utilities credit programs. Other functional responsibilities included deposit management, collections, bankruptcies, payment returns, bad debt write-offs, and customer assistance programs. After internal collection procedures were performed and proved unsuccessful, uncollected balances on final accounts were transferred to collection agencies. In addition, the Business Account Management Section was responsible for the collection of arrears from large strategic business customers. Field collectors and Credit Operations reported to different departments within the division but coordinated efforts to resolve delinquent accounts.

### Colorado Springs Utilities normal collection cycle was as follows:



<sup>1</sup> Interactive Voice Response

### Steps in the Credit Cycle

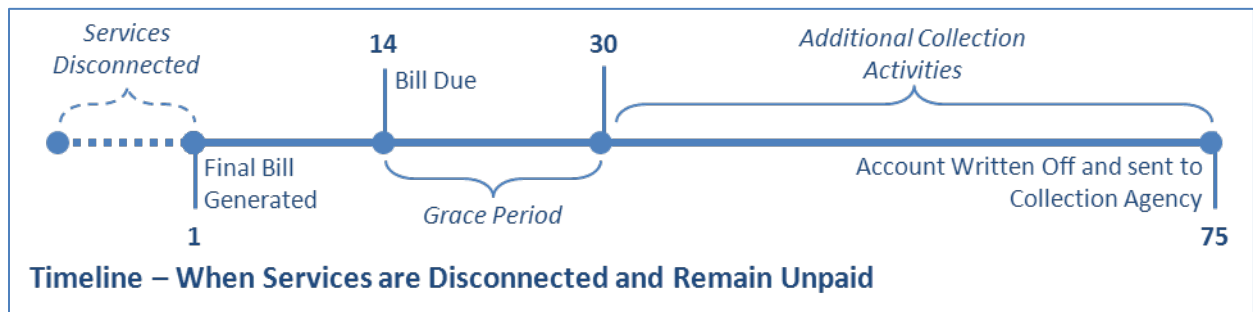
- New Service:** When new service was requested by a customer, the customer service representative was responsible for verifying the customer's identity and identification of any previous bad debts. If a bad debt was found, the balance was transferred to the account with payment due within two weeks of initiating service.
- Deposits:** Residential customers were not charged deposits except in circumstances where a previous bankruptcy, court assignment or judgment resulted in an uncollected balance. However, commercial customers were charged deposits subject to credit criteria.
- Billing:** All residential, commercial, and industrial customers were billed monthly for their utility usage. Bills were due for payment 14 calendar days from the date of issuance. Large and industrial customers could have longer payment due dates.
- Past Due Bills:** If the full payment was not received within 16 days of the bill due date (grace period), a disconnect notice was mailed to the customer. This notice advised customers that the account was subject to termination in 14 calendar days if a payment was not received. In addition, two automated calls were initiated and advised customers of the need to contact Colorado Springs Utilities concerning their overdue balance.





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- Discontinuance of Service:** If still unpaid after 30 days from the due date, 44 calendar days after the bill was generated, accounts were eligible for field visits and possible disconnection of service. Field visits could not be performed for all accounts. Field visits were prioritized by days past due and amount owed. Termination would not occur, per the URR, if the daily high temperature was forecasted to be below 32 degrees or when a valid medical certificate was provided. The field collectors in the Revenue Protection group were responsible for the disconnection and for the reconnection of electric meters when payment was made.
- Pay Extensions:** Employees in the Customer Service Center, Credit Operations and Revenue Protection (Field Collectors) were able to authorize an extension of time to pay if the customer met guidelines. This authorization would stop the severance process. If the customer did not make the agreed upon payment, the account would again be eligible for severance.
- Final Bill:** When all services have been disconnected for nonpayment, ten working days were allowed for the customer to resolve the situation, or make a payment to restore service. A final bill was mailed and due in 14 days.
- Write-Offs to Bad Debt:** After a final bill was outstanding for more than 30 days, the debt could be written off and referred a collection agency.



### Key Performance Measures

Colorado Springs Utilities provided the following key performance measures for credit and collection activities:

**Aged Receivables Collections:** Colorado Springs Utilities internal goal was to receive at least 81% of payments from customers in the first 30 days after generating a bill. Consequently, the goal was to minimize (< 19%) the number of payments received over 31 days. Since 2011, the percentage of customers not paying within 30 days has been approximately 16%.

**Write-Offs to Bad Debt:** Colorado Springs Utilities average account net write-offs to bad debts from 2009 through 2012 was approximately \$3.3 million per year. The write-offs were reduced by the bad debt returned to accounts when the customer returned to the service area.



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Year	Write-Offs net of Bad Debt Returned	Bad Debt Returned to Accounts	Operating Revenue	Net Write-Offs as Percentage of Sales
2009	\$3,322,055	\$1,164,267	\$743,912,818	.45%
2010	\$3,474,971	\$1,264,893	\$801,568,090	.43%
2011	\$3,114,347	\$1,306,345	\$826,641,945	.38%
2012	\$3,377,878	\$1,796,845	\$847,550,779	.40%

Per the Chartwell Inc. industry survey of 29 participating utilities, provided by Colorado Springs Utilities, the average percentage of write-offs to overall revenue for calendar year 2009 was .435%.

### **Options and Assistance offered to Customers**

We noted throughout the collection process, Colorado Springs Utilities offered customers options to assist with bill payment. These options included referrals to agencies offering assistance, as well as pay extensions.

Colorado Springs Utilities has encouraged the use of budget billing to average out seasonal spikes as an option available to customers to manage their utility costs. As of December 2012, 15,067 customers were enrolled in the budget billing program, or approximately 6.6% of all customers.

Colorado Springs Utilities 2013 year-end goal was that 90,000 or 40% of all active accounts would be managed on-line. On-line account management was utilized by 87,820 accounts as of December 31, 2012, to give customers access to billing information and the ability to enter transactions on-line. With the implementation of the 'My Usage' functionality in 2013, customers were able to view daily energy and water consumption to potentially reduce their consumption and lower their bill.

### **COMMENDABLE PRACTICES**

#### **Prior bad debt identification**

Colorado Springs Utilities increased the amount of bad debt returned to active accounts from \$1,164,267 in 2009 to \$1,796,845 in 2012. This increase was related to improved processes in the Customer Service Center to identify prior debt when the customer called to start service. Additionally, processes were changed to reflect prior bad debts as over 90 days past due, resulting in greater collection priority for these accounts.

#### **Low income assistance program**

A technician was stationed in the Colorado Springs Utilities Cascade Service Center cashier lobby during the program term for the federally funded low-income assistance program (LEAP). This increased the likelihood that



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customers followed up on the referral to LEAP and obtained any needed assistance to complete the application. Assistance granted to low income Colorado Springs Utilities customers through the federally funded Low Income Assistance Program (LEAP) was \$3,072,718 for the 2011/2012 heating season.

### **Remote electronic disconnect automation**

Colorado Springs Utilities had installed over 5,000 remote electronic disconnect (RED) meters at the time of our audit. Effective September 2013, Colorado Springs Utilities implemented additional technology to automatically disconnect these meters scheduled for severance due to nonpayment. This new enhancement to the RED program enables the disconnect and reconnect processes to be accomplished systematically without manual intervention. All normal credit and collection processes including customer notification were followed and completed prior to the processing of the disconnect request.

### **Customer satisfaction ratings**

The Customer Revenue section continued to meet and exceed a high customer satisfaction performance indicator as measured by the J.D. Power customer satisfaction rating. J.D. Power measures electric residential and business customers overall satisfaction as compared to other utilities nationally. The rating is generated from surveys of electric customers and is reported quarterly. Colorado Springs Utilities target is to rank in the top 33% ranking of participating utilities or greater. In 2012, Colorado Springs Utilities ranked in the top 13% for residential customers and in the top 2% of business customers.

## **CONCLUSION**

Overall, we concluded internal controls were adequate to safeguard resources. Credit and collection activities complied with policies and procedures as set forth by management. We noted instances in which changes to Colorado Springs Utilities credit and collection functions could improve efficiency and effectiveness or better align activities with industry practices.



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### OBSERVATION 1 - COLORADO SPRINGS UTILITIES LATE FEE AND DEPOSIT POLICIES WERE NOT CONSISTENT WITH LARGE PUBLIC POWER INDUSTRY PRACTICES

- Colorado Springs Utilities did not charge late fees when bills were not paid by the due date, and residential customers were generally not charged deposits.
- Collection costs were recovered from all customers through standard rates, regardless of their payment pattern.
- Late fees provide some opportunity for direct cost recovery of those who do not pay their bill timely.

**Late Fees** - The Office of the City Auditor surveyed the Large Public Power Council (LPPC) members noting that 89% charged late fees for residential customers. See exhibit at Appendix A for more details. Additionally, the American Public Power Association (APPA) 2013 Survey of Customer Service Policies for 439 public power utilities reported that 93.2% of utilities surveyed charged late fees. Approximately 81 percent of Colorado Springs Utilities customers pay their balance within 30 days of bill generation and would not be affected by a late fee.

**Deposits**—We surveyed the LPPC members regarding their residential deposit requirements. Approximately 89% of the LPPC members that provide services to residential customers utilized deposits. Some utilities surveyed did not levy a deposit if the customer enrolled in electronic payment or provided evidence of good payment history with another utility. The surveyed utilities also had procedures in place to return deposits when a given number of on-time payments were made. Two utilities noted they did not require deposits, 13 had a specified deposit requirement, and 4 charged deposits based on criteria such as creditworthiness. See the survey results at Appendix B.

Residential customers were charged deposits only when a bankruptcy or legal judgment existed on the account. The Utility Rules and Regulations allowed charging of a deposit for residential customers if payments were not made timely in a 12 month period. However, this practice was not in place.

We understand Colorado Springs Utilities was considering a procedural change to bill a deposit when the customer had a previous Colorado Springs Utilities bad debt. When a previous bad debt was identified, Colorado Springs Utilities practice was to transfer the balance to the customer's active account and pursue collection through the normal collection cycle. Collection efforts for previous bad debts would be minimized if deposits were collected and applied to unpaid balances.

Some collection expense could be considered a standard cost of doing business. However, as late fees and deposits were not assessed, collection costs were recovered through all customers, regardless of their payment pattern. Collection costs consequently were subsidized by customers who paid balances timely.

Changes to late fee and deposit policies would require changes to current systems and processes, initial customer education efforts, as well as administrative costs. These costs should be evaluated and compared to the benefits of any policy change. Deposit and late fee policies should be considered in financial planning and forecasting, which was the responsibility of the Planning and Financial Division.



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### AUDITOR RECOMMENDATION

Colorado Springs Utilities Customer and Corporate Services should work with Planning and Financial Services to evaluate late fee and deposit policies from an organization-wide perspective.

- Evaluation criteria should include both customer and financial considerations, and consider practices in place in the large public power industry.
- Evaluation results and any proposed policy changes should be presented to the Utilities Board for consideration.

### COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with the City Auditor's recommendation in that evaluation criteria should include both customer and financial considerations, and consider practices in place in the large public power industry. We regularly review our credit and collection practices using these evaluation criteria.

We acknowledge our late fee policy varies from other electric industry practices. Colorado Springs Utilities has regularly reviewed the applicability of late fees (2003, 2006, 2008, and 2010). As part of continuous improvement efforts, Colorado Springs Utilities will again be conducting a multi-year comprehensive assessment of its credit and revenue area practices looking for overarching efficiencies and process enhancements. Late fees will continue to be considered as part of that larger assessment. While management has previously chosen not to implement late fees, other changes have been implemented based on these reviews to include the commendable practice noted in this audit regarding prior bad debt identification. Additionally, changes to Colorado Springs Utilities payment extension policy were made in August 2013 which implemented more stringent approval levels for the granting of payment extensions based on criteria related to customer payment history.

Our deposit policy is in line with other electric industry practices, and if Colorado Springs Utilities had been included in the LPPC survey conducted by the City Auditor's office, we would have answered "yes". As noted by the City Auditor's Office, residential customers may be charged deposits in circumstances where a previous bankruptcy, court assignment or judgment resulted in an uncollected balance and commercial customers are charged deposits subject to credit criteria.

There are several reasons why Colorado Springs Utilities management has chosen not to implement late fees, or expand the residential deposit policy. These reasons are based on the current economic conditions within our community and an acceptable financial metric performance in aged-receivables and write-offs. Additionally, previous analysis demonstrates implementing changes such as late fees and deposits will increase staffing and labor expenses.

It has been management's position to use resources and budget dollars to develop proactive payment and bill management solutions such as Customer Self Service, My Account, My Usage and e-billing, as well as increasing focus on Customer Assistance programs (commendable practice noted for LEAP support) to assist customers in our community pay their utilities bill.



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Colorado Springs Utilities closely monitors revenue metrics and if aged receivables and write-offs move beyond acceptable targets and industry norms, resources will be shifted to mitigate associated risks and information will be presented to the Utilities Board / Finance Committee for feedback and direction.



OBSERVATION 2 - FIELD COLLECTION FEES MAY NOT RECOVER COSTS

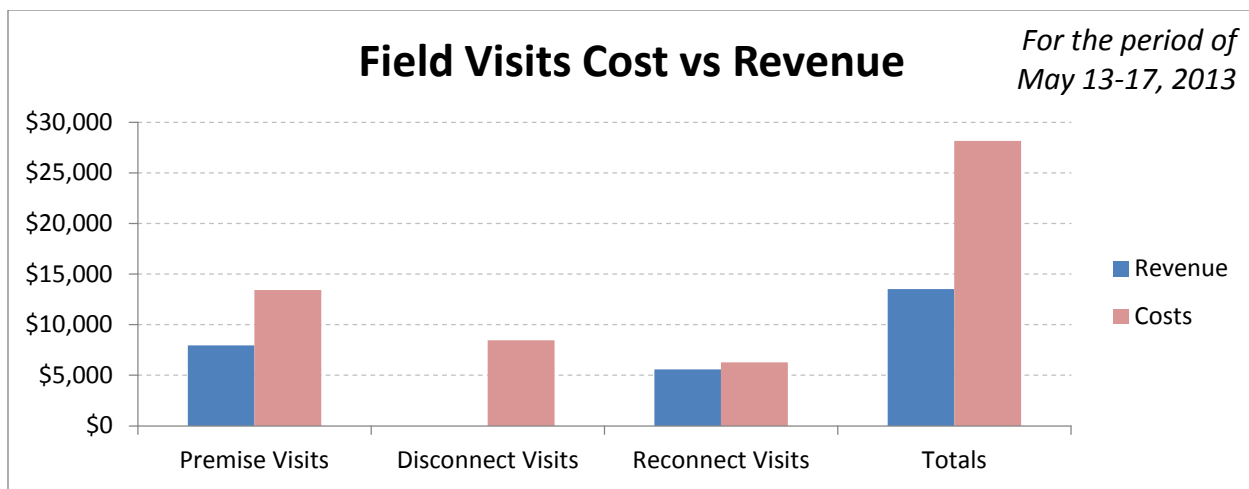
- Fees related to field activities had not been adjusted recently and may not recover the cost of the field collection efforts. The field collection fee was last adjusted in 2003 and the reconnection fee was last adjusted in 1997.

Field activity fees were stipulated in the Utility Rules and Regulations and have remained constant for over 10 years. No fee was assessed when service was disconnected. The following charges were assessed.

- \$20 - assessed when Utilities personnel visited a premise to perform credit and collection activities.
- \$30 - charged when the service was reconnected at the premise

It is our understanding field collection fees were put in place to discourage field visits and were not intended to recover all field activity costs. Colorado Springs Utilities provided the Office of the City Auditor with an estimate of \$33.80 as the cost to perform a field visit. This figure was based on analysis prepared by Colorado Springs Utilities in 2009, and may not reflect current cost.

We reviewed the 396 customer field visits for the period of May 13 through May 17, 2013. Using the standard (\$20 and \$30) charges above and the 2009 estimated cost provided by Colorado Springs Utilities of \$33.80, we calculated the difference between collection costs and collection fee revenue. For the sample we tested, and using the amounts noted, costs exceeded fee revenue in the amount of \$14,723 as detailed in the graphic below. The single week we sampled may not be representative of annual field visits, but indicated further research of costs compared to fees was warranted for consideration of fee increases.



AUDITOR RECOMMENDATION

Analyze the cost of field activities compared to customer charges to determine if fee adjustment is needed. Consider developing policy requirements related to frequency of future customer charge reviews.



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### COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with the City Auditor's recommendation. Field Collections is an essential part of any utility structure; therefore, the labor and overhead expenditures are part of the cost of doing business. The trip fees were not designed to recover the cost of a field visit but to be used as a tool to encourage customers to pay before the disconnect date. Administrative fees will be reevaluated periodically and we anticipate another review as time and resources permit starting in 2015.





**OBSERVATION 3 – FUNDING CONSTRAINTS HAVE SLOWED THE INSTALLATION OF REMOTE DISCONNECT METERS**

- Remote electronic disconnect meters eliminated the need for collection field visits in the majority of cases, reducing costs and improving safety. An updated cost benefit analysis of field collection savings for remote disconnect meter technology was not available.
- To date, approximately 5,260 of the 17,250 remote electronic disconnect meters in the project plan had been installed. Limited resources and higher priority technological needs have reduced project funding.

The remote electronic disconnect meter project plan required installation of 17,250 meters at high risk premise locations through 2018. The project objective was to automate management of nonpaying accounts. This automation should improve efficiency and effectiveness of field collections while enhancing employee safety by reducing field contacts.

Colorado Springs Utilities management indicated limited resources and higher priority technological needs have reduced project funding. The budget for remote disconnect meters was reduced to \$100,000 in 2013 and project funding for 2014 was not yet approved during the timeframe of this audit. Through 2013, approximately 5,900 remote electronic disconnect meters have been purchased. An additional 11,346 meters would need to be purchased at an estimated cost of \$2,625,080 to complete the program, which is approximately \$525,000 per year.

Colorado Springs Utilities Field and Measurement Services indicated some productivity gains have been realized by eliminating multiple visits to customer premises with the deployment of this technology. A cost benefit analysis was performed as part of the original business case. The project plan stated a formal cost benefit analysis would be performed when at least 5,000 meters were installed. With the project reaching the 5,000 meter number milestone this year, Field and Measurement Services plans to evaluate the effectiveness of the program using actual data to date.

**AUDITOR RECOMMENDATION**

Colorado Springs Utilities should complete the cost benefit analysis of the project to date as planned. This cost benefit analysis should consider potential reduction in accounts written off for non-payment, safety considerations, and payment behavior changes with remote disconnect capabilities.

Based on the results of the cost benefit study, remote disconnect meter funding should be appropriately considered when prioritizing limited capital resources.

**COLORADO SPRINGS UTILITIES RESPONSE**

Colorado Springs Utilities partially agrees with the City Auditor's recommendation in that more funding would be beneficial in completing this project. While our budget was reduced for 2013, during this same year, additional funding went into process improvements and automation of our RED program. And for the 2014 operating period, \$335,000 was approved representing 62.6% of the original requested budget of \$535,000. The latest Chartwell study shows only 18% of utilities surveyed reported successful implementation of a remote



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disconnect/reconnect program. CSU is ahead of most utilities in this area. The RED Meter Program, like all programs needing funding, competes with other high priority programs for budget and 100% funding is not guaranteed. CSU Leadership will continue to support the RED Meter program in the future and provide funding as possible, but also recognizes that we have an obligation to balance progress with the needs of the community and our organization.

In addition, the business case and cost benefit for the project identified a positive return. We plan to reanalyze the business case and anticipated costs and benefits when the program is further along to confirm the business case, capture additional efficiencies and weigh this program with others to determine where to fund enhancements. We anticipate this reevaluation to occur starting in the 2015-2016 timeframe when we will be closer to achieving 50% deployment, will have experienced a full year of disconnect and reconnect automation, and will have established a new 5 year AMI (advanced metering infrastructure) plan.



## OPPORTUNITIES FOR IMPROVEMENT

### OPPORTUNITY 1 – CONSIDER THE POTENTIAL COST BENEFIT OF COMBINING DISCONNECT NOTICES WITH BILLING NOTICES

- Disconnect notices for past due accounts were mailed within a few days of the customer's next monthly bill.
- A cost benefit analysis should be performed to determine if savings opportunities exist by including the disconnect notice with the monthly bill.

In 2012, Colorado Springs Utilities generated and mailed approximately 38,000 discontinuance notices and 2,800 "good pay" customer reminder letters monthly to customers who had not paid their utility bill within 30 days. This mailing was completed a few days prior to the generation and mailing of the following month's utility bill. Per the URR, printed disconnect notices were required to be issued 10 days prior to disconnecting services for non-payment. The URR did not stipulate the notice had to be separate from the billing statement.

Additional print and mail expenses incurred to mail 40,800 notices each month could be avoided if the monthly billing mailed out 3 to 5 days later included the disconnection notice. Colorado Springs Utilities indicated the notices cost \$.36 to mail and \$.10 for paper and printing, for an approximate cost of .46 per notice, or \$220,000 annually.

We understand that changes to the billing and collection cycle, as well as customer information system changes, would be necessary if the disconnect notice was included with the monthly billing. Preliminary review by Colorado Springs Utilities indicated this could be a complex change and may not be cost-effective. However, a full cost benefit analysis had not been performed.

### AUDITOR'S RECOMMENDATION

Colorado Springs Utilities should consider the costs and savings of combining the disconnect notice with the monthly bill.

### COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities partially agrees with the City Auditor's recommendation. We continuously look for opportunities to improve and may review this opportunity as time and resources permit. The billing and collection cycles run independently of each other, and customers will not necessarily bill at the same time they are scheduled for credit review.



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### OPPORTUNITY 2 – MANAGED ACCOUNTS INCLUDED TIME AND MATERIAL INVOICES PAST DUE FROM ONE TO THREE YEARS

- In our testing of past due accounts, we noted some time and material billings were past due from one to three years.
- These accounts were determined to represent errors such as duplicate billings or misapplied payments.

The collection process for large accounts was not administered through Credit Operations but was performed by the Account Managers in the Business and Economic Development group within Customer Services. Credit Operations involvement in managed account collection was limited to providing Account Managers with a listing of overdue accounts. Account Managers were responsible for all interaction with large customers, including collection activities. Documentation of customer contacts with large customers was maintained outside of the customer information system utilized by Credit Operations.

#### AUDITOR'S RECOMMENDATION

Colorado Springs Utilities should consider whether opportunities exist to increase the coordination between Credit Operations and the Account Managers to ensure timeliness of collection efforts for managed accounts.

#### COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities agrees with the City Auditor's recommendation. A process has been implemented to coordinate roles and responsibilities of each area to address the timeliness of collection efforts as well as appropriate documentation.

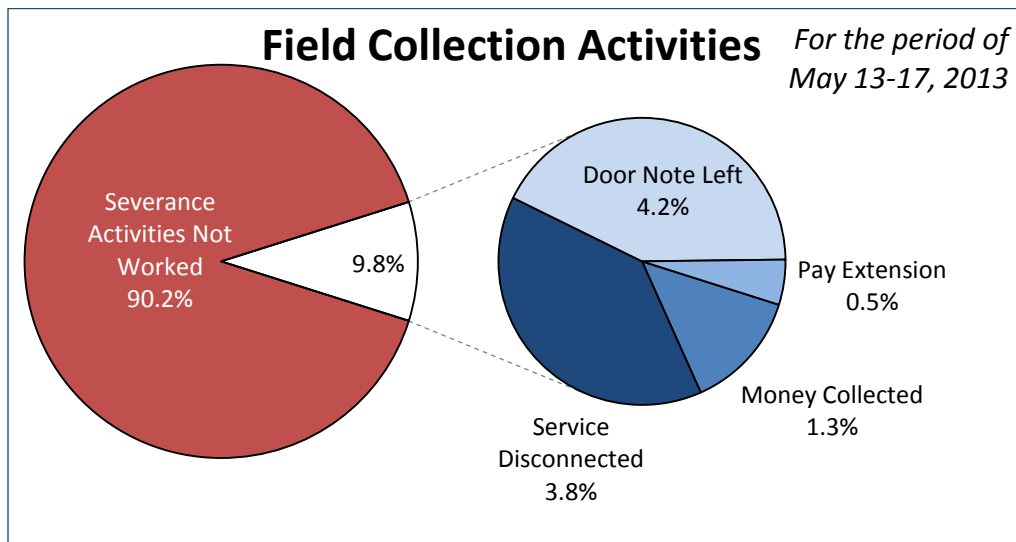


OPPORTUNITY 3 – PERFORM DATA COLLECTION AND ANALYSIS OF FIELD COLLECTION ACTIVITIES

- Field visits were performed for approximately 10% of all eligible past due accounts, which was consistent with averages noted by Colorado Springs Utilities.
- Data should be collected for field collection activities to determine if current procedures result in optimal use of field resources.

We tested field collection activities to determine if they were performed in accordance with policy. Based on discussions with Colorado Springs Utilities staff, we selected the week of May 13-17, 2013, for testing. This week was considered representative because rules prohibiting severance during cold weather were not in effect. We found that field collectors were following procedures in place.

We noted that collectors were not able to work approximately 90% of accounts eligible for field visits, with 9.8% of eligible premises visited. This percentage of eligible work completed was consistent with Colorado Springs Utilities report of 12% of eligible orders worked for 2012. A breakdown of our review of the 9.8% of premises visited for May 13-17 is presented below.



Under the Revenue Protection Section practices, if the account was less than 60 days past due and the customer was not contacted at the premise, a reminder door note or delinquent notice tag was left at the customer's address. This notice was in addition to the mailed delinquent notice and two reminder calls made prior to the field collection visit.

With limited resources, field activities should focus on the highest return on resource usage. Currently, information was not available to identify cause and effect of field activity to determine the best use of resources. For example, 275 door notes were left during the week sampled, but data was not available to determine if this practice was effective in increasing customer payments. We understand that Field and Measurement Services has considered not accepting payments in the field, or stratifying accounts to work those



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of highest risk. However, to date, data has not been collected related to these policy changes under consideration.

### AUDITOR'S RECOMMENDATION

Colorado Springs Utilities should analyze the cost benefit of field collection activities to ensure the most effective use of resources.

Based on this analysis, policy changes for field collection should be considered.

### COLORADO SPRINGS UTILITIES RESPONSE

Colorado Springs Utilities partially agrees with the City Auditor's recommendation. We continuously look for opportunities to improve and will perform another review as time and resources permit. We anticipate this review would be a multi-year effort.

The Revenue Protection section has consistently tracked the collection activity of the Field collectors. The bullets below provide examples of the tracking and performance measures which are used to determine the effectiveness of the collections team, processes and other aspects of collections.

- Average monthly dollars collected
- Job proficiency and accuracy
- Number of collectors and days worked
- Number of disconnects completed
- Number of RED meter disconnects
- Total collection orders worked
- Days past due

Each of these components is compared to previous years. Measures and processes are then adjusted to increase performance. Combined, these and other tracking measures help us determine the effectiveness of our field collection practices.



Office of the City Auditor  
**Colorado Springs Utilities Credit and Collection Audit**

**ATTACHMENTS**

APPENDIX A – RESIDENTIAL LATE FEE BENCHMARKING

	<b>Member of LPPC</b>	<b>Late Fee</b>	<b>Notes</b>
1	Austin Energy	Yes	Late Fee is 5%
2	Chelan County PUD No. 1	Yes	Late Fee is 5%
3	Clark Public Utilities	Yes	Late Fee is 1% with a minimum of \$2.50
4	CPS Energy	Yes	Website did not discuss late fee amount
5	Grant County PUD	Yes	Late Fee is \$25
6	Imperial Irrigation District	<b>No</b>	No Late Fees Charged
7	JEA	Yes	Late Fee is 1.5%
8	Long Island Power Authority	Yes	Late Fee is 1.5%
9	Los Angeles Department of Water & Power	Yes	Late Fee is 1.5%
10	Nebraska Public Power District	Yes	Late Fee is \$15
11	Omaha Public Power District	Yes	Late Fee is 4%
12	Orlando Utilities Commission	Yes	Late Fee is 1.5% or \$3 whichever is greater
13	Puerto Rico Electric Power Authority	Unknown	They did not respond to email request for Late Fees.
14	Sacramento Municipal Utility District	Yes	Late Fee is 1.5%
15	Salt River Project	Yes	Late Fee is 2% or \$5, whichever is greater
16	Santee Cooper	Yes	Late fee is 2%
17	Seattle City Light	Yes	Late Fee is \$10
18	Snohomish County PUD No. 1	Yes	Late Fee is \$10
19	Tacoma Public Utilities	Yes	Late Fee is 1% or \$3 whichever is greater



# Office of the City Auditor

## Colorado Springs Utilities Credit and Collection Audit

### APPENDIX B – RESIDENTIAL DEPOSIT BENCHMARKING

	<b>Member of LPPC</b>	<b>Deposit</b>	<b>Notes</b>
1	Austin Energy	Yes	Deposit is \$200.
2	Chelan County PUD No. 1	Yes	Deposit is \$100.
3	Clark Public Utilities	<b>No</b>	No deposits are charged.
4	CPS Energy	Yes	Deposit shall not exceed 1/6th of annual or estimated bill for the location
5	Grant County PUD	Yes	Deposit is \$150.
6	Imperial Irrigation District	Yes	Minimum deposit is \$50.
7	JEA	Yes	Deposit depends on service but ranges from \$50 - \$200.
8	Long Island Power Authority	Yes	Deposit = Only for short term or seasonal customers or you have overdue or delinquent amounts on your account.
9	Los Angeles Department of Water & Power	Yes	Deposits range from \$205 for apartments and \$300 for homes.
10	Nebraska Public Power District	Yes	Deposit is \$150.
11	Omaha Public Power District	Yes	Deposit range from \$0 - \$350 dollars.
12	Orlando Utilities Commission	Yes	Deposit is 2 times the average bill.
13	Puerto Rico Electric Power Authority	Yes	Deposit amounts depend on service or services selected but the website did not discuss amounts.
14	Sacramento Municipal Utility District	Yes	Deposit depends on credit worthiness but max deposit it \$170
15	Salt River Project	Yes	Deposit is \$275
16	Santee Cooper	Yes	Deposit is \$100 or average of two highest consecutive bills in billing period
17	Seattle City Light	<b>No</b>	No deposits are required
18	Snohomish County PUD No. 1	Yes	Website noted that new customers might be assessed a deposit but did not discuss amounts.
19	Tacoma Public Utilities	Yes	Deposits vary by service but range from \$40 to \$200.



# CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

## **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 conforms with the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors.

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.