STATE OF NEBRASKA
ATTESTATION REVIEW
OF THE
METROPOLITAN UTILITIES DISTRICT

JANUARY 1, 2008 THROUGH DECEMBER 31, 2008

Issued on September 14, 2009

Executive Summary

During 2004, the Metropolitan Utilities District (District) implemented a new customer information system known as Banner. Complications associated with the implementation of Banner and inadequacies in other aspects of the billing and collection processes at the District have played a part in millions of dollars of customer accounts not being collected. The problem was compounded by the rapid escalation in natural gas prices during the period under review. Despite the deterioration and problems observed, the District's write-off of uncollectible accounts appears to still be within industry norms, but could be improved.

In the three year period 2006 through 2008, the District wrote off approximately 18,000 customer accounts totaling over $6 million relating to customer charges for 2004 through 2006.

The District does not have a stated goal as to when closed accounts are to be sent to a collection agency and we observed some uncollected accounts were not sent to a collection agency for up to five years. Thus, the amount eventually collected by the agencies has decreased.

The District referred over $15 million in delinquent accounts to collection agencies from 2004 through 2008, but the collection agencies were only able to recover approximately $644 thousand. An average recovery rate of 4.3%. This was a sharp deterioration in the recovery rate from the prior five-year period of 11.3%.

The average annual write-off of accounts as a percentage of revenue was 0.37% from 1999 through 2003 but has deteriorated to 0.65% from 2004 through 2008 – an increase of nearly 76%. Customer accounts written off by the District are estimated to be $2.9 million for accounts due from 2008.

Over 150,000 District customers continue to experience minor over-charges for the volume of gas used due to technical inconsistencies between the type of meter installed and the atmospheric pressure of natural gas actually delivered through the meter. In other words, customers who use identical quantities of natural gas do not receive identical bills.

The Internal Audit function at the District is not structured according to *Government Auditing Standards*, raising serious questions as to whether or not the District Board is being properly informed of internal audit findings.

During the course of our review, we noted that District management has increased efforts to improve the effectiveness of their collection activities.

METROPOLITAN UTILITIES DISTRICT
ATTESTATION REVIEW

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Independent Accountant's Report

Citizens of the State of Nebraska:

We have reviewed customer accounts and the internal audit function of the Metropolitan Utilities District (District) for the period January 1, 2008, through December 31, 2008. The District's management is responsible for the customer accounts and the internal audit function. We did not obtain a written assertion regarding such matters from management.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on customer accounts and the internal audit function. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that customer accounts and the internal audit function are not presented, in all material respects, in conformity with the criteria set forth in the Criteria section.

In accordance with *Government Auditing Standards*, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grant agreements, and abuse that are material to the District's customer accounts and internal audit function and any fraud and illegal acts that are more than inconsequential that come to our attention during our review. We are also required to obtain the views of management on those matters. We did not perform our review for the purpose of expressing an opinion on the internal control over the District's customer accounts and internal audit function or on compliance and other matters; accordingly, we express no such opinions.

Our review disclosed no findings that are required to be reported under *Government Auditing Standards.* However, we noted certain other matters and those findings, along with the views of management, are described below in the Summary of Results.

Draft copies of this report were furnished to the District to provide them an opportunity to review the report and to respond to the findings and recommendations in this report. We believe the District has prepared a written response to this report; however, the District has declined to provide it to us.

This report is intended solely for the information and use of the Citizens of the State of Nebraska, management of the District, others within the District, and the appropriate Federal and regulatory agencies; however, this report is a matter of public record, and its distribution is not limited.

Signed Original on File

Mike Foley
Auditor of Public Accounts

Mary Avery
Special Audits and Finance Manager

September 14, 2009

Background

The Nebraska Legislature created the Metropolitan Utilities District (District) in the early 1900s as a political subdivision of the State to provide water and natural gas to metropolitan class cities. Omaha qualifies as a metropolitan class city. The District is governed by a board of seven directors, elected by its customer-owners as per Neb. Rev. Stat. §§ 14-2102 (Reissue 2007) and 32-540 (Reissue 2008).

The mission of the District is to provide customers low-cost, high-quality natural gas and safe drinking water at a cost consistent with sound management practices. Besides providing natural gas and water service, the District also provides a cost-saving service to municipalities by collecting sewer use and trash pick-up fees.

The District's first water treatment plant was built near the Missouri River in 1889 by a private company. Omaha received water and gas service from private water and gas companies until the citizens of Omaha became dissatisfied with high costs, constant ownership changes, and poor service, and voted to take control and ownership of their utilities. The Legislature created the Metropolitan Water District in 1913.

Five years later, State senators authorized the City of Omaha, which had acquired the gas system by condemnation, to assign the responsibility for operation of the gas system to the Metropolitan Water District. The name was changed to the Metropolitan Utilities District. Today, the District is the only metropolitan utility district in the State of Nebraska.

As one of the largest public gas utilities in the United States, the District serves natural gas to over 207,000 customers in Omaha, Bennington, Fort Calhoun, Springfield, Yutan, and Bellevue. During 2008, the District sold 34.9 billion cubic feet of gas. This was the highest volume since 1996 and the second highest in the past 33 years.

The District also delivers water to over 194,000 customers in Omaha, Bellevue, Bennington, Carter Lake, LaVista, Ralston, Waterloo, and Fort Calhoun. The District also maintains over 28,000 water hydrants throughout its service area for fire protection. During 2008, the District delivered over 29.3 billion gallons of water to customers.

In 2007, the District implemented an enterprise resource planning software for Systems, Applications, and Products in Data Processing (SAP) to process its financial information.

In 2004, the District implemented the Banner Customer Information and Billing System (Banner). Banner is a comprehensive customer billing and accounts receivable software application specifically designed for the utilities industry. The District will discontinue the use of Banner when it implements its new SAP customer information module in the upcoming years.

Criteria

The criteria used in this attestation review included compliance with State Statutes, the District's internal policies and procedures, good internal controls, and good business practices.

Summary of Procedures

Pursuant to Neb. Rev. Stat. § 84-304 (Reissue 2008), the Auditor of Public Accounts (APA) conducted an attestation review of the District's customer accounts and the internal audit function for the period January 1, 2008, through December 31, 2008, in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The APA's attestation review consisted of the following procedures:

Customer Accounts

1. Customer accounts procedures and controls.
    a. Gain an understanding.
    b. Review and test adjustments made to customer accounts.
    c. Review and test customer billings.
    d. Review the District's internal audit recommendations to determine whether the necessary corrections have been made.

2. Accounts receivable collection procedures and controls.
    a. Gain an understanding.
    b. Review and test accounts receivables collections.
    c. Review and test collection agency reports and agreements.

3. Bad debt allowance and write off procedures and controls.
    a. Gain an understanding.
    b. Compare the District's bad debt to industry standards.
    c. Review and test receivables written off.

Internal Audit

1. Review the District's internal audit organizational structure.
2. Review the District's internal audit reports and supporting documentation.

Summary of Results

The summary of our attestation review noted the following findings and recommendations:

1. Accounts Receivable

Timely Reporting of Customer Accounts to Collection Agencies

Good business practices require delinquent customer accounts be reported to collection agencies in a timely manner to ensure the highest possible percentage of accounts are collected. The District does not have a documented policy on when delinquent inactive accounts should be sent to a collection agency. Before the Banner System was implemented, the undocumented procedure was to report these accounts to collection agencies within 60 days. According to an APA generated outline of current undocumented District procedures, reviewed by the District's

Vice President of Customer Service, accounts are eligible to be sent to a collection agency after approximately 60 days. Inactive customer accounts are accounts in which the services have been turned off.

In 2004, the District implemented Banner, a new Customer Information System. The 1999 to 2003 time period noted below was prior to the implementation of Banner, and the 2004 to 2008 time period includes the implementation of the Banner system through the end of the most recent calendar year. Our review of delinquent customer accounts and the District's collection procedures noted the following:

- In 2006, 2007, and 2008, the District wrote off approximately 18,000 customer accounts totaling $6,302,509. We compiled a list of combined customer write-offs for this three year period and judgmentally selected 121 of the largest customer accounts written-off for further testing. Individual customer account balances written-off for the three year period ranged from $1,043 to $61,197, We noted the following:
  - 6 were reported to a collection agency within 60 days of the final bill due date.
  - 8 were reported to a collection agency 60 to 120 days after the final bill due date.
  - 15 were reported to a collection agency 120 to 365 days after the final bill due date.
  - 32 were reported to a collection agency 1 to 2 years after the final bill due date.
  - 20 were reported to a collection agency 2 to 3 years after the final bill due date.
  - 16 were reported to a collection agency 3 to 4 years after the final bill due date.
  - 7 were reported to a collection agency over 4 years after the final bill due date.
  - The longest length of time from the final bill due date to the date sent to the collection agency was 1,778 days (nearly five years), and the average length of time was 690 days (nearly two years).
  - 2 had not been submitted to a collection agency, and
  - 15 were bankruptcy cases that were not sent to collection agencies.

- As of February 18, 2009, the District had 232,243 customer accounts totaling $44,228,312 on its accounts receivable aging report. This total was made up of the following:

Unbilled Amount	$ 1,751,634
0 to 30 days old	$ 37,546,051
31 to 60 days old	$ 2,081,750
61 to 90 days old	$ 667,615
Over 90 days old	$ 7,256,174
Unapplied payments	$ (5,074,912)
Total	$ 44,228,312

  - There were 11,227 inactive customer accounts, totaling $5,313,289, with a total balance due greater than $25 and older than 60 days. Of the 30 customer accounts we randomly selected for testing from this group, we noted the following:
    - 4 were reported to a collection agency within 60 days of the final bill due date.
    - 6 were reported to a collection agency between 60 and 120 days after the final bill due date.

- 7 were reported to a collection agency between 120 and 365 days after the final bill due date.
- 7 were reported to a collection agency more than 365 days after the final bill due date. The longest length of time noted from the final bill due date to the date sent to the collection agency was 737 days. This customer's final bill due date was January 3, 2007, and the account was sent to the collection agency on January 9, 2009.
- 6 had not been reported to a collection agency. These accounts were 135 to 357 days after the final bill due date as of April 2, 2009.

➢ There were 485 inactive customer accounts with a total balance of $238,542 that were 60 to 90 days past due. Of the 10 accounts selected for testing, none had been submitted to a collection agency. One of these accounts was subsequently satisfied by the customer in March 2009, 104 days after the final bill due date in December 2008.

➢ There were 97 accounts with a total balance of $1,066,366, which were over 90 days old with an individual account balance greater than $3,000. Of the 14 accounts selected for testing, three had not been reported to a collection agency within 60 days. Of these three, two were reported to a collection agency between 120 and 365 days after the final bill due date and one was reported to a collection agency 395 days after the final bill due date.

- New accounts were reported to collection agencies monthly in 57 of 60 months from 1999 to 2003, a frequency of 95%. This was prior to the implementation of Banner.

- New accounts totaling $7,000 or more were reported to collection agencies in only 30 of 60 months from 2004 to 2008, a frequency of 50%. During this time period, there were five gaps of four to seven months where no amounts were reported to collection agencies. The last significant gap in reporting accounts to collection agencies occurred from February 2007 through May 2007. District management indicated there can be a timing difference between when amounts are reported to and recorded by collection agencies. Months with no amounts reported may have had some amounts reported and recorded in the following month. However, it is clear that since the implementation of Banner, accounts had not been sent to collection agencies on a regular basis.

- District management has now indicated that they have sent accounts to a collection agency on a regular monthly basis since December 2008.

- The District hired a collection specialist in 2006. The position's two main responsibilities are collecting delinquent final accounts by transferring the balance due to another active account for the customer or related party and reporting delinquent inactive accounts to collection agencies. Currently, a clerk is also assisting the collection specialist. District management reports these in-house collection procedures have resulted in recoveries of $122,504 in 2007 and $388,633 in 2008. These recoveries are generally obtained by transferring balances from inactive accounts to related active accounts. The APA's review of these transfers indicates that some, but not all, of the transfers resulted in actual cash collections by the District.

- From 1999 to 2003, customer accounts totaling $5,655,534 were reported to collection agencies and amounts recovered were $614,624. From 2004 to 2008, customer accounts totaling $15,104,735 were reported to collection agencies and amounts recovered were $644,377. Therefore, the collection agencies' annual recovery rate averaged 11.3% from 1999 to 2003 and 4.3% from 2004 to 2008, a 61% decrease. See the graph of "Collection Agency Recovery Percentage by Year" on page 9.

- The District's operating revenue grew from $162,212,208 in 1999 to $410,136,239 in 2008, an increase of 153%. Customer accounts written-off by the District grew from $386,924 for 1999 to an estimated $2,894,175 for 2008, an increase of 648%. See the graph of "Operating Revenues by Year" and "Accounts Written-Off by Year" on pages 10 and 11. The 2008 estimate is based on uncollected inactive accounts as of June 30, 2009. District management provided documentation that this amount has decreased because of subsequent collection activity and should further reduce by the time the accounts are written-off in December 2010. Therefore, the average annual write-offs as a percentage of revenues were 0.37% from 1999 to 2003 and an estimated 0.65% from 2004 to 2008, which is an average increase of 76%. See the graph of "Annual Write-Offs as a Percentage of Related Revenues by Year" on page 12.

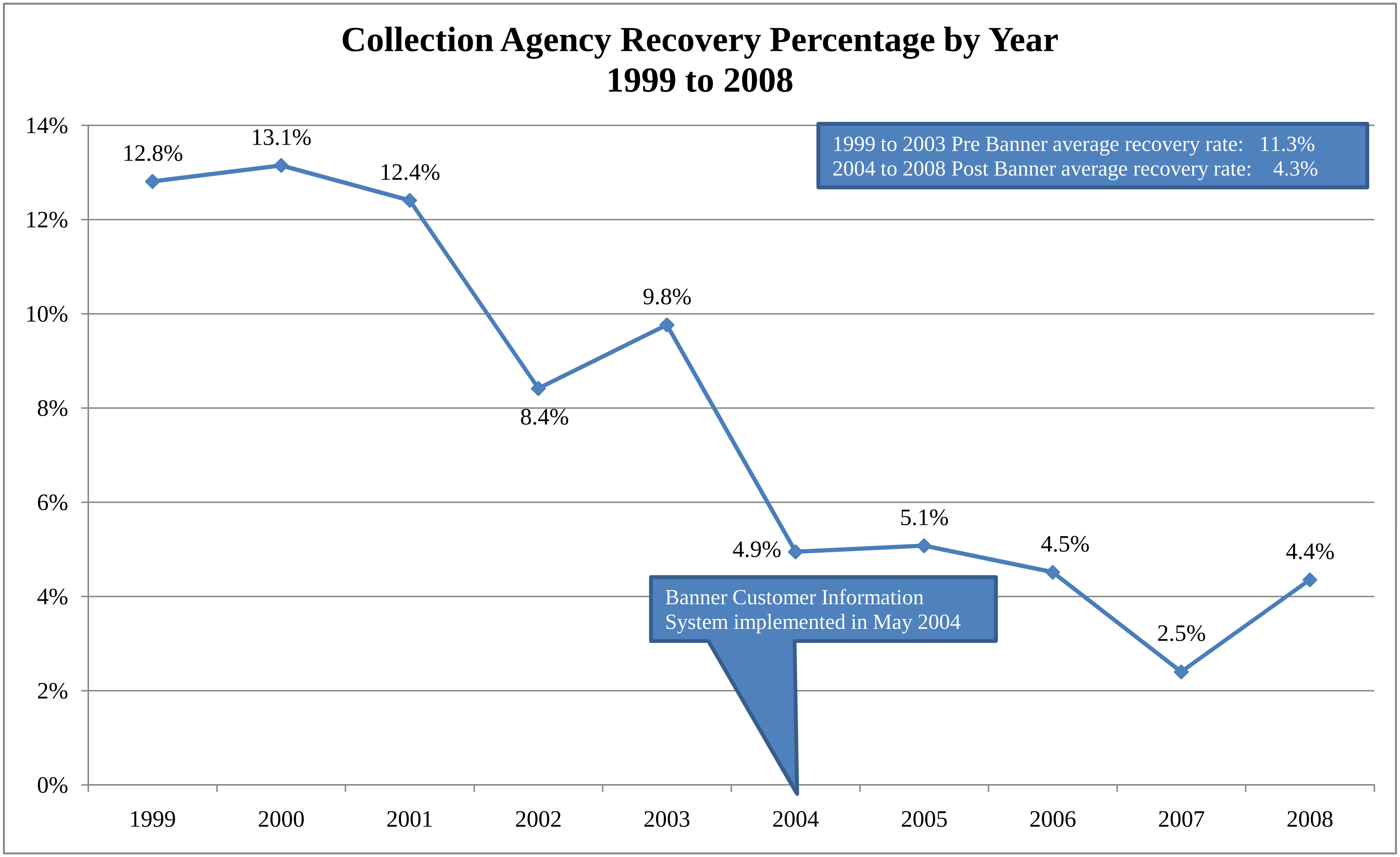
- Collection procedures are not the only factor that affects the amount of write-offs. Gas prices also affect write-offs, as the price of gas increases the average customer billing also increases, resulting in higher unpaid accounts. The District's cost of gas grew from $.3671 per therm in 1999 to $.9365 per therm in 2008, an increase of 155%. See the graph of "Average Yearly Gas Cost Per Therm" on page 13.

- We noted several inactive accounts with a balance marked as the "Estate of Customer's Name." The District indicated that these were unpaid accounts from deceased individuals. Our review of ten of these accounts noted seven estate accounts did not have a copy of the personal representation letter or death certificate on file and five estate accounts did not have a claim filed with the court before the due date.

The transition to Banner in May 2004 appears to have caused a stoppage in regularly reporting inactive accounts to collection agencies. This stoppage created a backlog of accounts that is currently being worked through by District staff. During the course of our review, we noted that District management has increased efforts to improve the effectiveness of their collection activities.

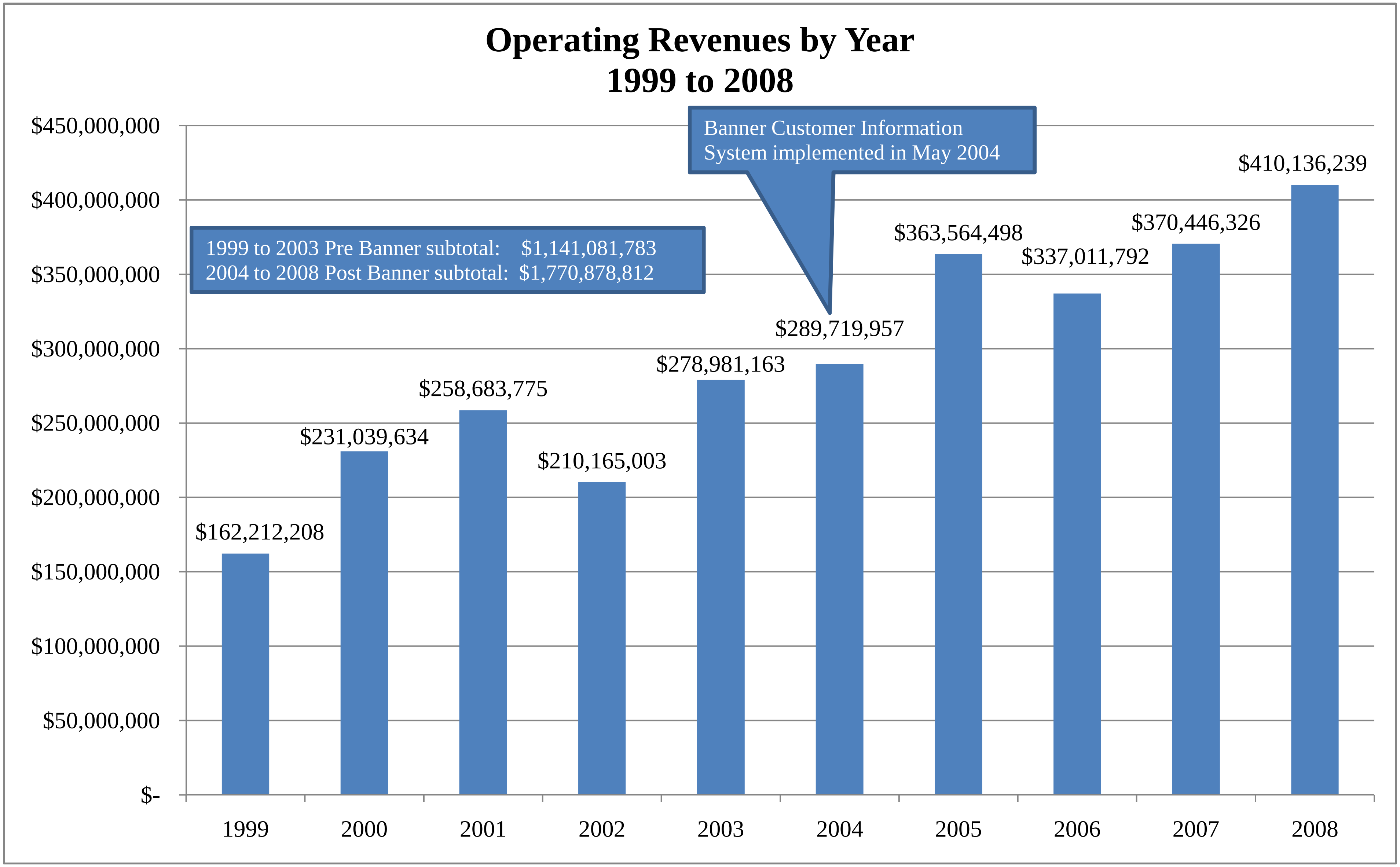
By not reporting accounts to a collection agency in a timely manner, there is an increased probability that fewer delinquent accounts will be collected. Additionally, the apparent success of one in-house collection specialist for the District would seem to indicate additional in-house collection staff might help reduce the current backlog of inactive accounts over 60 days past due which could be reported to a collection agency.

We recommend the District continue to work on improving the effectiveness of their collection activities, including clearing the existing backlog of cases to be reported to collection agencies and developing a documented policy on when delinquent inactive accounts should be reported to collection agencies. We also recommend the District review staffing needs related to the collection of unpaid accounts and consider additional positions to assist in clearing the current backlog of such accounts, as well as collecting more accounts in-house.



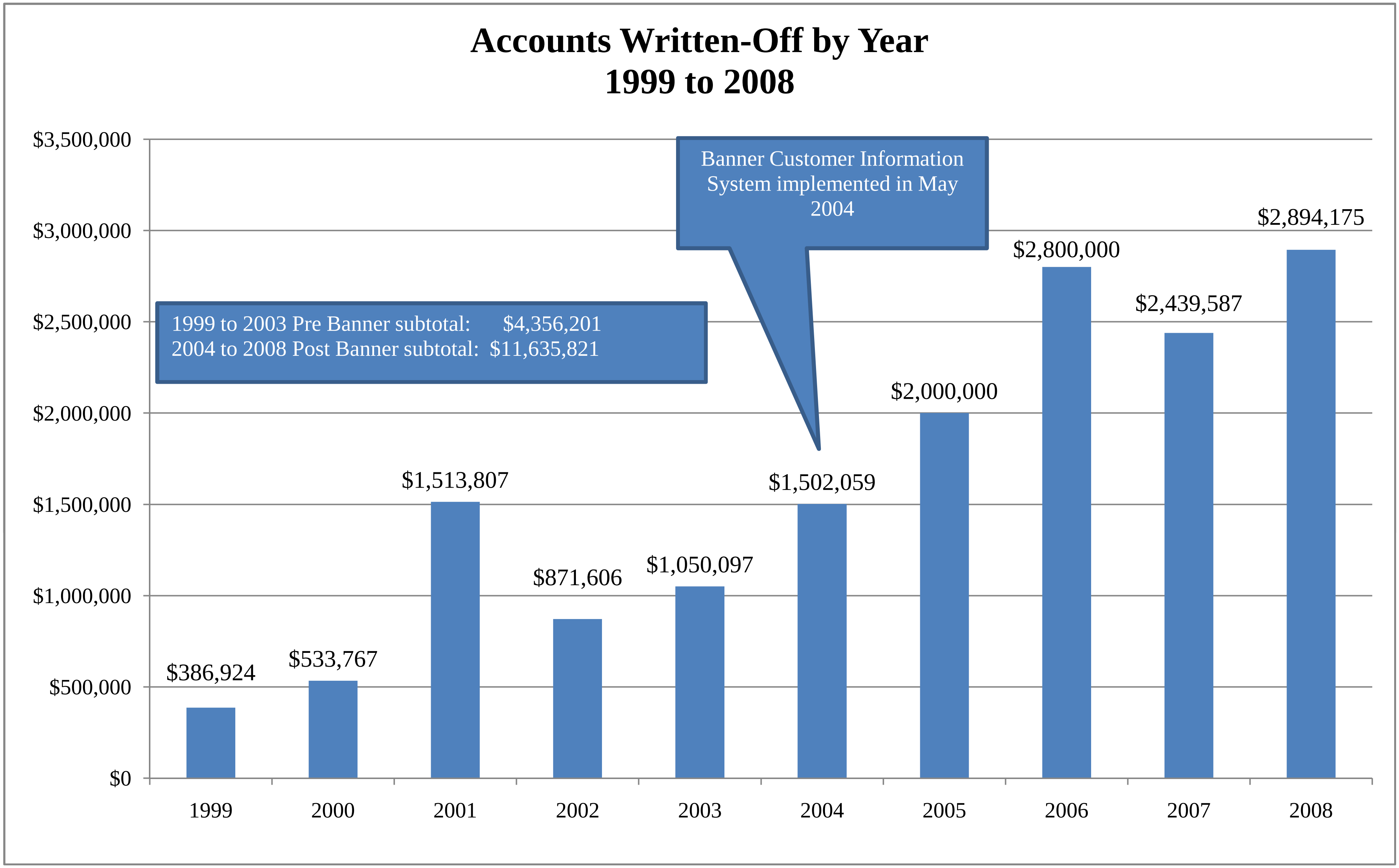
Source: District collection agency reports
Prepared by APA

August 4, 2009



Source: District annual reports

Prepared by APA August 4, 2009

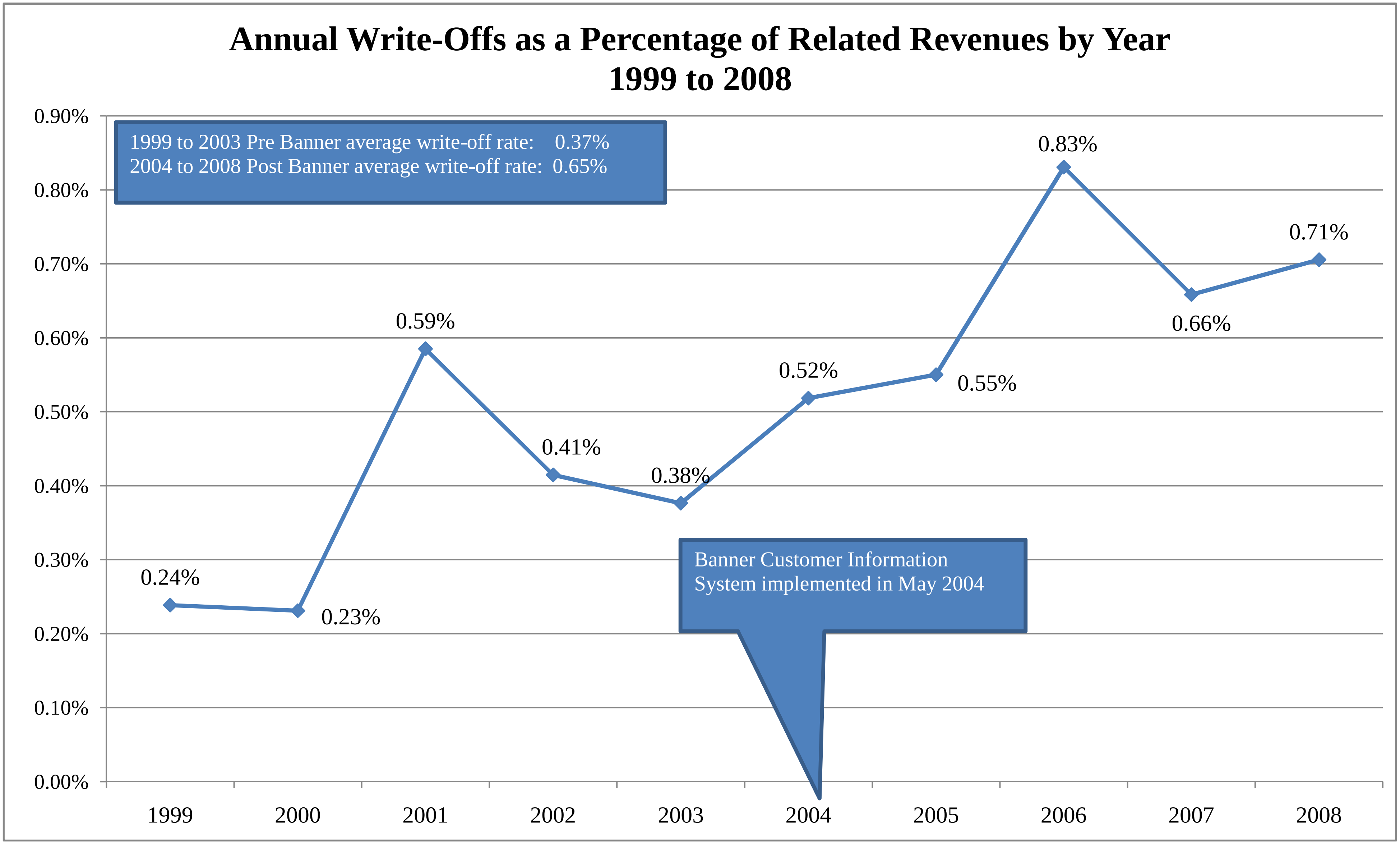


Note: Amounts for 2007 and 2008 are estimates, based on accounts receivables from these years remaining on the District's Accounts Receivable Aging Report as of February 18, 2009, and June 30, 2009, respectively.

Source: District annual reports and staff

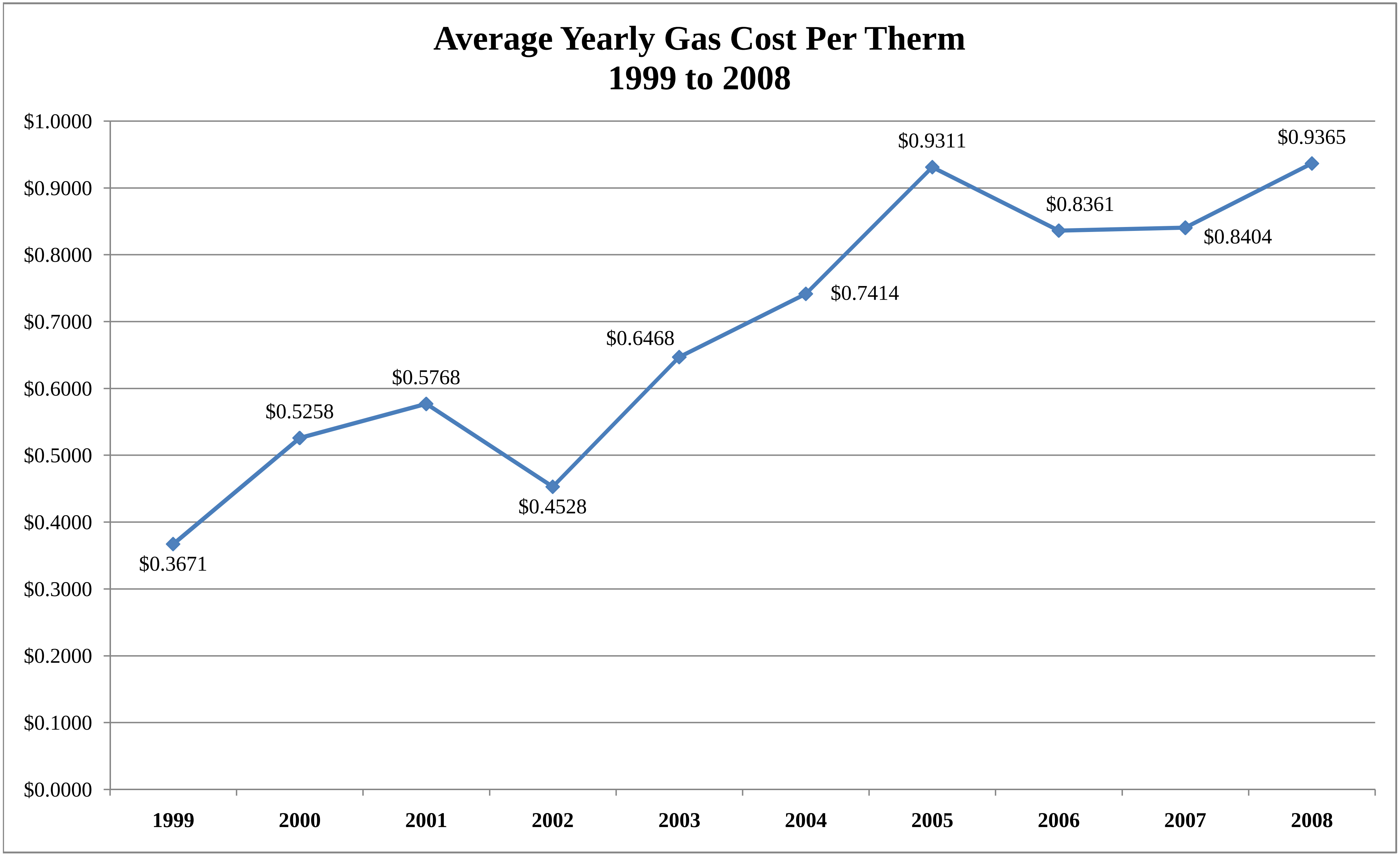
Prepared by APA

August 4, 2009



Source: District annual reports and staff

Prepared by APA August 4, 2009



Source: District Management

Prepared by APA

August 24, 2009

Documentation of "Collect-Off" Selection Criteria

Good business practices require procedures be in place to finalize an account when payments are delinquent. These procedures would include shutting off the service, completing a final billing, and beginning collection procedures. Good business practices also require criteria, used in selecting customer accounts to be subject to shut off procedures, be adequately documented to ensure consistent application of the criteria and to allow for the evaluation of the performance of the criteria by other employees.

The District considers all accounts that have a balance of more than $150 for residential customers or $100 for commercial customers that are over 30 days old eligible for field collection and shutoff procedures. This process is referred to by District staff as "collect-off." Since the District cannot immediately shut off all customers who have met collect-off requirements, a District clerk reviews delinquent accounts and selects them to be worked for the collect-off process. The clerk uses delinquent account information, sorted by geographic area and amount owed, to select customer accounts to be worked by the six field collectors. However, the criteria used to select these delinquent accounts were not formally documented. The District's policy manual references information to be reviewed from the legacy computer system that ceased operation in May 2004. The Banner System has similar data elements to the legacy system as well as additional data that has been incorporated into the selection process. The District's policy documents how accounts are to be sorted for the selection process, but the clerk has broad discretion as to which accounts are actually selected for the "collect off" process and which are not.

It appears the collect-off process could be improved, as our review of the District's March 20, 2009, "Active Accounts without a Payment in the Last 180 Days" report noted there were 253 active accounts totaling $152,439. The average account had not made a payment in 253 days, or over 8 months, and had a balance of $603.

Since the collect-off procedure is a vital step in the District's customer account collections process, an account should be shut off in a timely manner in order for it to be submitted to a collection agency. When there is a potential lack of consistency in the selection of delinquent accounts for collect-off procedures, there may be accounts that are not selected in a timely manner, which could negatively impact later collection activities.

> We recommend the District develop and document clearly defined collect-off selection criteria. These criteria should include any active account that has not made a payment in a specified number of days, such as the last six months, or any account over a specified dollar amount, such as $1,000.

Comparison to Industry Standards

The District is a unique utility in that it provides both gas and water services to its customers. Most utilities either provide one type of service or provide gas and electrical services. We also understand that one cannot make a direct comparison between an electric vs. gas utility as consumers are far more likely to view electric service as a necessity of life and therefore pay their monthly electric bill to keep their account current. Natural gas service (particularly during the non-heating season) is not viewed the same. Thus, the rate of non-payment and eventual write-off is higher in the natural gas industry. However, as noted previously, the District is not merely a natural gas utility but is also a water utility and water service is a year-round necessity of life. We know of no other utility enterprise in the United States whose percentage of revenue write-off could be used as a fair comparison with the District's. The District believes they are best compared to gas only utilities.

District management had provided the following industry standard comparison of the District's write-off of uncollectible accounts as a percentage of total sales of gas for the last three years to the District Board on November 14, 2008. The industry standard was accumulated by the American Gas Association (AGA).

Year	**2005**		**2006**		**2007**	
	District's Write-off Percentage	Industry Write-off Percentage	District's Write-off Percentage	Industry Write-off Percentage	District's Write-off Percentage	Industry Write-off Percentage
Gas	.546	1.14	.842	.74	N/A	.54
Water	.561	N/A	.657	N/A	N/A	N/A
Combined	.54	.50	.81	.57	.67	.80

Note: Industry Combined as reported by AGA, combines both a gas and electric average.

2. Customer Account Meter Data

The District's gas billings normally include three values: 1) the quantity of consumption; 2) a heat value factor; and 3) a pressure adjustment factor. The quantity of consumption is based upon a meter reading, or an estimated reading, of gas consumed during the billing period. The heat value factor varies for each billing period and is based upon the amount of energy produced from each unit of gas the District acquires. The pressure adjustment factor is only included in the billing of certain customers and may contain an adjustment for atmospheric pressure. A pressure adjustment is needed whenever the pressure the gas is delivered at is not consistent with the type of meter installed. An atmospheric pressure adjustment is needed because the quantity of gas is generally measured at a specific temperature and at the atmospheric pressure of the location relative to sea level. Since the District is not located at sea level, an atmospheric pressure adjustment should be made.

Prior to the implementation of Banner, the District was unable to easily make pressure adjustments. Banner now allows the District to make these adjustments. Currently, the District makes a pressure adjustment in Banner for the approximately 17,500 customers that have a low pressure (7" or .25 psig, pound-force per square inch gauge) meter but receive high pressure (2 psig) delivery. This adjustment factor increases usage by 1.0998 and includes an atmospheric pressure component. The approximately 35,500 customers receiving high pressure delivery with a high pressure meter do not need any pressure adjustments, as the meters make the necessary adjustments. The approximately 157,000 customers receiving low pressure delivery with a low pressure meter do not receive an atmospheric pressure adjustment of .9810. As a result, had the District implemented a pressure adjustment for the affected customers, the quantity of gas billed would have been reduced by roughly 2%. This problem has been known for years and continues to this day.

During 2008, various District staff evaluated Banner meter data. This evaluation was focused on identifying data inconsistencies. For instance, Banner had records stating a customer was receiving low pressure delivery, had a low pressure meter, and was incorrectly being billed the 1.0998 pressure adjustment factor. Upon discovering the errors in billings, the District decided to give credits to the customers who had been overbilled in excess of $10. Residential customers who had been underbilled were not required to pay the amount they had been underbilled, and large commercial clients who had been underbilled were charged for the difference between what they were billed and what they should have been billed.

Below is a brief description of the results of the District's evaluation of the Banner meter data and our review to determine whether corrective action had been properly taken by the District.

A. The District's evaluation noted meter data inconsistencies in 635 customer accounts. These inconsistencies included customers billed the 1.0998 adjustment factor when their meters showed such adjustment factor to be unnecessary, customers not billed the 1.0998 adjustment factor when service notes indicated such adjustment factor to be warranted, and customers billed based upon the wrong measurement of consumption. An inconsistency in the billing data increases the likelihood a customer is not being billed accurately, and the inconsistency could last for the lifetime of the account if not corrected.

   The APA selected 32 customer accounts the District's staff had indicated had data inconsistencies. All 32 customers selected did have data inconsistencies. Seven of the 32 inconsistencies were not adequately corrected by the District. Customers 1, 2, 20, and 22 were overbilled because they were incorrectly billed the 1.0998 adjustment factor. However, these 4 accounts had not received their overbilling credit. Customer 28 was underbilled, and the District incorrectly credited the customer's account for $94. The District did adjust this customer's billing to correctly account for future use, but the credit should not have been given. Customer 30 incorrectly received two duplicate credits for previous overbillings. Because the first credit made full restitution for the District's prior billing errors, the second credit resulted in an over-refund of $1,895. Customer 32 was overbilled due to the District having charged for the wrong measurement of consumption, but the customer did not receive the appropriate credit.

Below is a table showing the results of the Banner meter data inconsistencies tested by the APA, and the over/under billings as calculated by the APA.

Customer	Total Over / (Under) Billed in Therms	Corrected by the District
1	45	No
2	209	No
3	(182)	Yes
4	(214)	Yes
5	(131)	Yes
6	(426)	Yes
7	(193)	Yes
8	(87)	Yes
9	(413)	Yes
10	(399)	Yes
11	(302)	Yes
12	(68)	Yes
13	(94)	Yes
14	(12)	Yes
15	0	Yes
16	(112)	Yes
17	(594)	Yes
18	(171)	Yes
19	0	Yes
20	111	No
21	0	Yes
22	121	No
23	31	Yes
24	15	Yes
25	113	Yes
26	(39)	Yes
27	78	Yes
28	(198)	No
29	290	Yes
30	2,157	No
31	(43,581)	Yes
32	141	No

Note: The District charges customers based upon usage in therms. Therms cost varied during the review period based on the price of gas, but can be approximated at $1 per therm.

The three customers who were neither over nor underbilled had errors in the meter type listed in Banner. These errors did not result in any type of incorrect billing.

According to our discussion with management, the District has implemented procedures to assist in preventing and detecting these types of errors in the future. We did not evaluate the effectiveness of these procedures.

B. District staff queried Banner and found 387 premises where service was not retired and to which a route number had not been assigned. If the District does not assign a route number to a premise, there is an increased risk such a premise might receive services without the knowledge of the District, which would likely result in failure by the District to bill for the consumption of services. Also, the District staff queried Banner and found 476 instances where a premise with retired services had an attached meter. Retired services should have the service and meter removed from the premise and the relationship in Banner should also be removed. Leaving a meter at a retired premise increases the risk the meter will be vandalized or removed from the District's possession.

The APA selected 30 unretired premises to which route numbers were not assigned. Ten of the 30 meters had not been corrected by assigning a route number. District management acknowledged being aware that corrective action had not been completed in this area and were continuing to work through these errors. The APA also selected 30 retired premises where a meter had been attached. All 30 premises no longer had a meter attached to the premise.

The District has implemented procedures to identify these types of errors in the future and correct them as the District becomes aware of them.

C. District staff found 684 meters where consumption had been recorded in Banner but had not been billed because the corresponding accounts were inactive. Inactive accounts are not supposed to consume services; however, if they do, the District should determine who is responsible for paying for the consumption and bill accordingly. Failure to identify and follow up on these errors in a timely manner results in the District not receiving payment for services provided.

The APA selected 30 of these inactive service locations that did not have the consumption billed to a customer. Twenty-nine of the accounts were worked and billed accordingly. However, one of the 30 inactive service locations did not have 84 therms of consumption re-billed to the customer.

The District has implemented procedures to run a monthly report identifying these errors. The District has also hired an employee to focus primarily on inactive service consumption.

D. As stated above, the District makes atmospheric pressure adjustments to customers who have a low pressure meter and receive high pressure gas delivery. No atmospheric pressure adjustment is necessary when the customer has a high pressure meter and receives high pressure gas delivery because this adjustment is done at the meter. However, the District is not making an atmospheric pressure adjustment when the customer has a low pressure meter and receives low pressure gas delivery, and the adjustment is not done by the meter.

As a result of not adjusting any low pressure customers for atmospheric pressure, the quantity of gas billed to these customers has not been reduced by roughly 2%. Approximately 157,000 of the District's customers have low pressure meters, receive low pressure gas, and receive no atmospheric adjustment resulting in a higher cost for gas than those customers who have a pressure adjusted meter.

The District has estimated implementing a low pressure adjustment would decrease the amount that customers receiving low pressure gas bills pay by $6.85 annually and subsequently increase the amount that customers receiving high pressure gas billings pay by $6.94 annually. These calculations consider the District's gas rates would need an upward adjustment as a result of the decrease in billed usage to customers. The APA did not perform any work to verify the accuracy of these numbers, but they appear reasonable based on an average residential customer's usage. The following table shows the effect the decreased billings to low level customers would have on the District's annual revenues.

	Based on 2008 Gas Costs	**Based on June 2009 Gas Costs**
Number of low pressure customers	157,000	157,000
Decreased annual bill without a change in gas cost due to decreased usage.	$ 13.66	$ 7.66
Total annual amount of decreased District revenue without a change in gas cost.	$ 2,144,620	$ 1,202,620
Number of low pressure customers	157,000	157,000
Decreased annual bill with a change in gas cost due to decreased usage.	$ 6.85	$ 4.43
Total annual amount of decreased District revenue with a change in gas cost.	$ 1,075,450	$ 695,510

As of February 2009, the District was considering whether an atmospheric pressure adjustment should be made for low pressure customers. District management has indicated they believe this issue will be best addressed when the new SAP customer information module is implemented, tentatively scheduled for late 2010 or early 2011. By not adjusting all customers for atmospheric pressure, the District is not billing all customers equally.

> We recommend the District continue the preventive and detective Banner meter data inconsistency controls it has implemented. We further recommend the District document its performance of these procedures and include these procedures in its internal policies. We also recommend the District review the corrections it has made and the inconsistencies identified to ensure all corrective actions have been made. Finally, we recommend the District determine whether an atmospheric pressure adjustment is needed for all customer accounts in order to treat all customers fairly.

3. **Internal Audit Function**

Generally Accepted Government Auditing Standards (GAGAS) paragraph 3.16 states:

"Certain federal, state, or local government entities employ auditors to work for management of the audited entities. These auditors may be subject to administrative direction from persons involved in the entity management process…Under GAGAS, a government internal audit function can be presumed to be free from organizational impairments to independence for reporting internally if the head of the audit organization meets all of the following criteria:

a. is accountable to the head or deputy head of the government entity or those charged with governance;
b. reports the audit results both to the head or deputy head of the government entity and to those charged with governance;
c. is located organizationally outside the staff or line-management function of the unit under audit;
d. has access to those charged with governance; and:
e. is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal."

GAGAS paragraph 3.17 also states, "The internal audit organization should report regularly to those charged with governance." GAGAS paragraph 3.19 also states, "The internal audit organization should document the conditions that allow it to be considered free of organizational impairments to independence for internal reporting…"

Good business practices require job descriptions be updated on a regular basis.

During our review of the District's internal audit function, we noted:

- The internal auditors report directly to the District President. The internal auditors do not have the documented, organizational authority to report to the District Board.
- Internal audit reports are not regularly sent to the District Board.
- The internal auditor position descriptions have not been updated since 1990.

When internal audit staff are not fully independent, there is a greater risk the District's internal audit staff may be subject to pressures limiting the nature or type of work they perform and may result in the Board not being properly informed of audit concerns and findings.

> We recommend the internal audit staff be free from organizational impairments by reporting regularly to the Board of Directors or a subcommittee and by sending all reports to the Board of Directors. Further, we recommend the internal audit staff document the conditions allowing them to be considered free of organizational impairments. We also recommend the internal auditor position descriptions be updated.

4. Customer Account Adjustments

Good internal controls require a segregation of duties, so no one individual is in the position to perform an accounting function on his or her own. If duties cannot be segregated, good internal controls require a review of transactions by a second individual.

During our review of the District's adjustments made to customer accounts during the period July 1, 2008, through December 31, 2008, we noted:

- There were 1.8 million lines of adjustments to customer accounts posted in Banner during the period reviewed. Of these, 1.79 million lines were less than $100, approximately 6,000 lines were between $100 and $500, approximately 1,000 lines were between $500 and $3,000, and approximately 1,000 lines were greater than $3,000.

- There were 42 District employees who could process adjustments to customer accounts without approval from a second individual. Adjustments made in Banner are done real-time and do not require approval before the adjustments are posted.

- Some adjustment types are processed automatically by the accounting system.

- The District did have a review process for certain adjustments made that were greater than $1,000. However, this review process did not include all adjustment types, such as automated adjustments. As a result, in our review of 36 adjustments, we noted 27 adjustments totalling $599,170 had not been reviewed.

- All of the 36 adjustments reviewed appeared reasonable and proper and were adequately documented.

- The District did have a process in place for the approval of refund payments made as the result of customer billing adjustments. Of the 36 adjustments reviewed, five resulted in refund checks being processed, and all five were properly approved before processing.

- All 52 employee accounts reviewed appeared reasonable and proper. No significant adjustments had been made to them.

- The District began a quality assurance program in 2009 to regularly review adjustments made to customer accounts.

Without adequate review of adjustments being made to customer accounts, there is an increased risk of loss of District funds or revenues.

> We recommend the District continue to review its procedures for processing, approving, and reviewing adjustments made to customer accounts to ensure that such adjustments are proper, reasonable, and adequately documented.

5. Allowance for Doubtful Accounts

Good accounting practices require accounting estimates be adequately reviewed, assumptions be reviewed periodically, and staff preparing the estimations must understand the process completely.

During our review of the District's allowance for bad debt calculation, we noted the estimation process appears reasonable and is documented. However, the following improvements could be made:

- The accountant who prepared the calculation was neither completely informed as to what the Banner query runs did to calculate the amount of the write-offs nor how the queries generated the information or whether they generated all the information needed.
- The calculation used a factor table that assigns a rate factor to each account to determine collectability based on the time period since the last payment. These factors have not been reviewed or updated since their development in 2006.
- The calculation was reviewed by management, but the review did not include details such as which accounts were believed to be collectible and which were not.

Without adequate knowledge of how an estimation is prepared, there is an increased risk the estimation may not be completely accurate.

> We recommend the District review its procedures to ensure the bad debt calculation is adequately reviewed, understood, and updated.

6. Uncollectible Accounts Charge

Sound business practices require formal policies be in place to address key business decisions.

During our review of Banner meter data in Finding Number 2, we noted the District granted refunds or credits to customers who were overbilled but did not document the decision on how these refunds would be calculated. The District granted refunds that differed from the amount actually overpaid by the customer due to the failure to account for all factors included in billings, such as the heat value, and also used averages for the gas cost. The District also decided residential customers who were underbilled would not be charged for the amount of their underbillings and large commercial customers would be billed for the difference between what they were originally billed and what they should have been billed.

> We recommend the District establish a policy providing guidance on how to deal with incorrect billings and how to calculate credits for customers.

7. Uncollectible Accounts Charge Offs, Billing Calculations, Customer Adjustments, and Employee Accounts

We reviewed the following and found no significant issues.

- Uncollectible accounts charged off in November 2008 were properly approved by the District Board. Our review of specific accounts written off noted no unusual or questionable write-offs.

- Our limited review of District billings indicated the bills were correctly calculated. While the billings include many variables, those variables appear to be correctly applied and in agreement with the rates approved by the District's Board and the contractual agreements with the cities.

- We reviewed 52 employees' billing accounts and determined the accounts were current, no unusual adjustments had been made, and none had been written off.

We make no recommendations at this time.

Overall Conclusion

Delinquent accounts have not been reported to collection agencies in a timely manner. In combination with higher gas prices, this has contributed to a decline in the recovery rate of accounts reported to collection agencies and an increase in the percentage of operating revenues being written-off. The District appears to be trying to improve these procedures; however, additional work is needed to improve collections and lower write-offs.

The District had inaccurate meter data in its Banner customer information system which resulted in numerous billing errors. The District appears to have implemented procedures to assist in preventing and detecting these types of errors in the future. However, additional work is needed to take corrective action on the previous errors noted and to take steps to eliminate further errors.

The District's internal audit staff is not fully independent and should report regularly to the Board of Directors.

The District makes a very high number of adjustments to customer accounts and should continue to review its procedures to ensure the adjustments are proper and reasonable.

The District should consider making atmospheric pressure adjustments on all customer accounts to ensure customers gas usage is billed equitably.

The APA staff members involved in this attestation review were:

- Tom Bliemeister, Auditor-In-Charge
- Shane Rhian, CPA, CFE, Auditor-In-Charge
- Zach Wells, CPA, Auditor-In-Charge
- Philip Olsen, CPA, Auditor-In-Charge
- Marta Schrock, Auditor-In-Charge
- Jeremy Rasmussen, CPA, Auditor
- Mary Avery, Special Audits and Finance Manager

If you have any questions regarding the above information, please contact our office.