

INTERNAL AUDIT REPORT

2013-09

Customer Information System

Municipal Light and Power

December 23, 2013

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Mayor Dan Sullivan

December 23, 2013


Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2013-09, Customer Information System, Municipal Light and Power** for your review. A brief summary of the report is presented below.

In accordance with the 2013 Audit Plan, we have completed an audit of the Customer Information System used by Municipal Light and Power. The objective of this audit was to determine whether Municipal Light and Power had proper procedures and controls to ensure that customers were properly billed and accounts receivable were properly collected and deposited. Specifically, we selected and reviewed monthly statements to determine if billing categories and rates complied with the Municipal Light and Power Tariff. We reviewed whether customers receiving services were properly billed. In addition, we selected and reviewed aged accounts receivable to determine whether appropriate collection actions were taken. We also reviewed whether Municipal Light and Power handled customer deposits in compliance with the Municipal Light and Power Tariff.

Overall, Municipal Light and Power had good procedures and controls to ensure that customers were accurately billed and accounts receivable were properly collected and deposited. However, the customer deposit requirement did not comply with the Municipal Light and Power Tariff.

There was one finding resulting from this audit. Management was responsive to the finding and recommendation.


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Internal Audit Report 2013-09 Customer Information System Municipal Light and Power

Introduction. Municipal Light and Power (ML&P) is owned by the Municipality of Anchorage (Municipality) and serves an area of 19.9 contiguous miles, including a large portion of the Municipality's commercial and high-density residential areas. As of October 2013, ML&P served approximately 30,200 residential and commercial customers. In 2012, ML&P generated approximately \$99,738,938 in retail sales revenue. The Customer Service Division (Division) at ML&P has provided billing and collection services for customers using a customer information system called Utility Power Net (UPN) since 1999.

Objective and Scope. The objective of this audit was to determine whether ML&P had proper procedures and controls to ensure that customers were properly billed and accounts receivable were properly collected and deposited. Specifically, we selected and reviewed monthly statements to determine if billing categories and rates complied with the ML&P Tariff (Tariff). We reviewed whether customers receiving services were properly billed. In addition, we selected and reviewed aged accounts receivable to determine whether appropriate collection actions were taken. We also reviewed whether ML&P handled customer deposits in compliance with the Tariff.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of October through November 2013. The audit was requested by ML&P's Administration.

Overall Evaluation. Overall, ML&P had good procedures and controls to ensure that customers were accurately billed and accounts receivable were properly collected and deposited. However, the customer deposit requirement did not comply with the Tariff.

FINDINGS AND RECOMMENDATIONS

1. **Customer Deposit Requirement Not in Compliance with Tariff.**

- a. **Finding.** The customer deposit requirement did not comply with the Tariff. The Tariff states that “The amount of deposit for all customer classes, per meter, will be the greater of two times the estimated average monthly bill at that location or two times the average monthly bill of that customer class.” However, the Division calculated deposit amounts based on the historical average usage for the location instead of two times the average monthly bill at the location or two times the customer class average. We found that the Division required a customer to pay a deposit of “. . . two times the average monthly bill . . .” of the class average only when the service location history was less than 28 days. Moreover, according to ML&P staff, they have not calculated the average monthly bill of each class since 2002. As a result, customers paid smaller deposits than what was required by the Tariff.
- b. **Recommendation.** The Customer Service Division Manager should ensure that the Division’s customer deposit procedure complies with the Tariff.
- c. **Management Comments.** Management stated, “The purpose of the account deposit is to protect the assets of the utility. ML&P is in the unique position of serving, within its’ boundaries, most if not all of the low income census tracts. As a business we strive to be sensitive to those we serve by working very hard to provide the best energy service at the lowest, most affordable cost for our customers. That said, we work to ensure that the affordability factor is met with regard to the deposit

requirements as well. The restriction potentially places an essential service out of the range of our 'average' customers who are disabled veterans, veterans, active duty military families living off of the economy; households where English is a second language, the head of household is over 65 or the median income is less than \$30,000.00 a year. We have helped to fund a revolving loan program that paid the deposits for customers with hardships to defray the cost where after a year of uninterrupted service the deposit was returned to the program to continue helping others. It should also be noted that the percentage of the write off is and has consistently been less than 1% on retail sales of over \$90,000,000.00 annually.

“Noting all of these factors the *Division concurs with the findings of the internal audit team.*”

“**Agency Corrective Action:** The Division will request that the Regulatory Affairs Division petition the Regulatory Commission of Alaska to immediately suspend and change that section of the tariff. A precedent has been established that has proven to be successful in offering relief from hardship for a number of families in this community that would otherwise find electricity unaffordable thus unattainable.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on December 18, 2013.

Audit Staff:
Scott Lee