

City of Austin



**A Report to the
Austin City Council**

Mayor
Lee Leffingwell

Mayor Pro Tem
Sheryl Cole

Council Members
Chris Riley
Mike Martinez
Kathie Tovo
Laura Morrison
Bill Spelman

**Office of the
City Auditor**

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Corrie E. Stokes
CIA, CGAP

AUDIT REPORT

Revenue Follow-Up Audit

August 2012



REPORT SUMMARY

We found that TARA management has implemented eight of the ten recommendations we selected for this follow-up, resulting in the collection of approximately \$1.8 million in revenues owed to the City. Furthermore, the implementation of the remaining two recommendations is underway.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT TEAM

Niki Raggi, CGAP, CICA, Assistant City Auditor
Rebecca Takahashi, CGAP, Auditor-in-Charge
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August 2012



Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of City Auditor's (OCA) FY 2012 Strategic Audit Plan.

The initial six audits contained a total of 14 recommendations aimed at recovering money owed by providers; modifying TARA processes to enhance their ability to monitor providers and revenues; and verifying provider data has been updated to correct billing errors.

What We Recommend

We did not issue any new recommendations.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

REVENUE FOLLOW-UP AUDIT

Mayor and Council,

I am pleased to present this follow-up audit on prior revenue projects.

BACKGROUND

This audit is a follow-up of six revenue audits conducted between 2007 and 2009, related to:

- Gas franchise fees (April 2007 and December 2007)
- Cable franchise fees (April 2008 and June 2008)
- Telecommunication access line fees (May 2009 and Aug 2009)

A total of 14 recommendations were made to the City's Telecommunications and Regulatory Affairs (TARA) office, related to:

- Recovering money owed by gas, cable, and telecommunications service providers
- Verifying that provider data has been updated to correct billing errors
- Modifying TARA processes to enhance ability to monitor providers and collect revenues

OBJECTIVE AND SCOPE

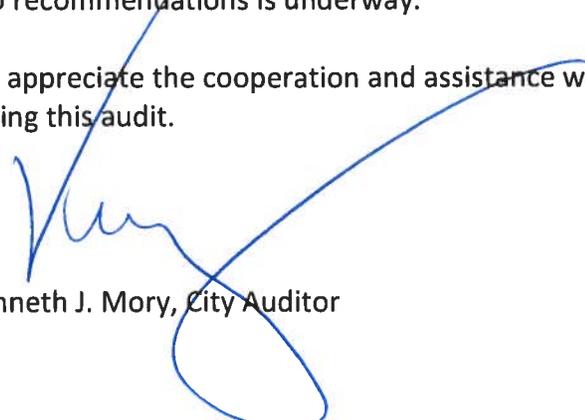
The objective of the audit was to confirm whether, and to what degree, TARA management has implemented high-risk recommendations identified from prior revenue audits.

The audit scope included actions taken by TARA management from May 2007 to May 2012 to address the recommendations made in prior audits.

WHAT WE FOUND

We found that TARA management has implemented eight of the ten recommendations we selected for this follow-up, resulting in the collection of approximately \$1.8 million. Furthermore, the implementation of the remaining two recommendations is underway.

We appreciate the cooperation and assistance we received from TARA staff during this audit.


Kenneth J. Mory, City Auditor

BACKGROUND

This audit is a follow-up of six revenue audits conducted between 2007 and 2009, including:

- Gas Franchise Fee (Atmos Energy), April 2007
- Texas Gas Service Franchise Fee, December 2007
- Time Warner Cable Television Franchise Fee Audit - Part I, April 2008
- Time Warner Cable Television Franchise Fee Audit - Part II, June 2008
- Telecommunications Access Line Fees: Phase I, May 2009
- Telecommunications Access Line Fees: Phase II, Aug 2009

Recommendations were made to the City's Telecommunications and Regulatory Affairs (TARA) office, including:

- Recovering money owed by gas, cable, or telecommunications service providers
- Verifying that provider data has been updated to correct billing errors
- Modifying TARA processes to enhance ability to monitor providers and collect revenues

OBJECTIVES, SCOPE, AND METHODOLOGY

This Revenue Follow-up Audit was conducted as part of the Office of City Auditor's (OCA) Fiscal Year FY 2012 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

Objective

The objective of the audit was to confirm whether, and to what degree, TARA management has implemented high-risk recommendations identified from prior revenue audits.

Scope

The audit scope included actions taken by TARA to address the recommendations made to TARA from May 2007 through May 2012.

Methodology

To accomplish our audit objectives, we performed the following steps:

- Selected the most high-risk recommendations for testing
- Conducted interviews with TARA and Law staff
- Compared and reconciled revenue data from the Advantage 3 (AFS3) system
- Reviewed documentation supporting the implementation status of recommendations
- Utilized Geographic Information Systems (GIS) to analyze and evaluate annexation data
- Considered risks related to information technology and fraud, waste, and abuse.

AUDIT RESULTS

The six revenue audits conducted between 2007 and 2009 included 14 recommendations aimed at recovering money owed by gas, cable, and telecommunications service providers; verifying that provider data has been updated to correct billing errors; and strengthening processes to enhance ability to monitor providers and collect revenue. The Telecommunications and Regulatory Affairs (TARA) Officer concurred with all but one of the 14 recommendations, which TARA partially concurred with. TARA management reported to the Controller's Office in 2009 and 2010 that it had implemented all recommendations related to the revenue audits for gas, cable, and telecommunications providers.

We selected ten recommendations to review, and confirmed that eight were implemented, while the remaining two recommendations are underway. A summary of the recommendations reviewed is provided in Exhibit 1 below. See Attachment B to see the actual recommendation wording.

EXHIBIT 1
Recommendations Implemented or Underway From Revenue Audits

Audit Type	Summary of Original Recommendation	Reported Status	Verified Status
Gas Franchise Fees – Atmos Energy	Recover franchise fees due to the City.	Implemented	Implemented
Gas Franchise Fees – Atmos Energy	Verify that addresses previously missing from customer lists are added.	Implemented	Implemented
Gas Franchise Fees – Atmos Energy	Include a provision in the franchise agreement for the City to charge penalty and interest on late payments.	Implemented	Implemented
Gas Franchise Fees – Atmos Energy	Include a provision where the gas company has 60 days to begin collecting and paying the franchise fee.	Implemented	Implemented
Gas Franchise Fees – Texas Gas Service	Correct existing errors in the billing system and recover additional fees from miscoded records.	Implemented	Implemented
Cable Franchise Fees – Part I	Recover fees, other revenue, and interest owed to the City.	Implemented	Implemented
Cable Franchise Fees - Part II	Recover fees, other revenue, and interest owed to the City.	Implemented	Implemented
Tele Comm. Access Line Fees: Phase I	Verify that annexation notification is posted on the PUCT website in a timely fashion.	Implemented	Implemented
Tele Comm. Access Line Fees: Phase I	Contact the Certificated Telecommunications Providers audited to collect all unpaid access line fees.	Implemented	Underway
Tele Comm. Access Line Fees: Phase II	Contact the Certificated Telecommunications Providers audited to collect all unpaid access line fees.	Implemented	Underway

SOURCE: OCA Analysis of Original Recommendations, August 2012

Finding 1: The TARA Officer has implemented eight of the ten recommendations selected for review.

Based on our work, we determined that TARA has recovered the fees owed to the City from the gas and cable providers, which resulted in the collection of approximately \$1.8 M. Further, TARA has verified that provider data has been updated to correct billing errors.

Additionally, TARA, as part of the franchise renewal agreement with Atmos Energy, included a provision that would allow the City to charge penalty and interest on late payments, as well as a sixty-day collection provision to collect fees from customers in newly annexed areas in the City limits, as recommended by the audit.

Finally, TARA implemented a process to notify both Certificated Telecommunications Providers (CTPs) and the Public Utility Commission of Texas (PUCT) of the City's new annexations. The PUCT website should be the source that CTPs use to identify newly annexed areas to a municipality to determine access line fees to assess customers; however, the PUCT is not regularly posting these notifications to the website. As a result, TARA management implemented a process to directly notify major CTPs, and indicated that in this manner they cover approximately 90 percent of the access lines in the City.

Finding 2: Based on our work, we determined that two recommendations related to collection of outstanding revenue from the access line fee audits are underway.

Based on prior audit work, we determined that nine CTPs owed the City a total of approximately \$284,000. We verified that TARA sent collection notices to the nine CTPs that were identified as owing revenue to the City. Three CTPs made payments to the City totaling approximately \$54,000, or 19 percent, of the CTP revenues owed.

Of the six remaining CTPs, three CTPs disputed the estimated amount due, one declared bankruptcy, and two CTPs did not respond. After TARA made its initial contact requesting payment from each of the nine identified CTPs, TARA referred the matter to the Law Department. At this time, TARA and the Law Department continue to work together to pursue appropriate collection action for \$230,000 in fees due to the City.

APPENDIX A

MANAGEMENT RESPONSE



TO: Ken Mory, City Auditor

FROM: Rondella Hawkins, Telecommunications & Regulatory Affairs Officer 

DATE: August 27, 2012

SUBJECT: Management Response to Revenue Follow-Up Audit

I have reviewed the attached draft audit report. I would like to provide the following response:

With regard to finding #2, Telecommunications & Regulatory Affairs will continue to work with the Law Department to pursue the appropriate collection action of the remaining estimated Certificated Telecommunications Providers access line fee revenues.

We appreciate the opportunity to provide a response. If you need additional information, please contact me at 974-2422.

CC: Ray Baray, Acting Chief of Staff

APPENDIX B

Reported and Verified Status of Original Recommendations

Gas Franchise Audits	Original Recommendation	Reported Status	OCA Verified Status
Gas Franchise Fee (Atmos) - Rec #1	To recover franchise fee due to the City, the Manager of Telecommunications and Regulatory Affairs (TARA) should work with the gas company to finalize a total amount due to the City for the service addresses not attributed to Austin.	Implemented	Implemented
Gas Franchise Fee (Atmos) - Rec #2	To ensure that Austin receives franchise fee revenue for all customers in the Austin jurisdiction, the Manager of TARA should request a revised list of Austin customers from the gas company and should verify that the revised list contains the service addresses previously missing from the Austin customer list.	Implemented	Implemented
Gas Franchise Fee (Atmos) - Rec #3	To allow the City to recoup its costs associated with this audit, the Manager of Telecommunications and Regulatory Affairs, in accordance with the gas franchise ordinance, should bill the gas company for the cost of this audit.	Implemented	Did not test
Gas Franchise Fee (Atmos) - Rec #4	To prevent any potential delays in franchise fee payments to the city, the Manager of TARA, should, as part of the Atmos franchise agreement renewal process, include a provision that would allow the City to charge penalty and interest on late payments.	Implemented	Implemented
Gas Franchise Fee (Atmos) - Rec #5	To ensure that Atmos charges and collects a gas franchise fee on newly annexed properties on a timely basis, TARA should include a provision whereby upon receipt of notice of annexation from the City, the gas company has sixty(60) days to begin collecting and paying the franchise fee for any revenues received from the gas company's customers. A penalty is due in case of untimely collection and payment.	Implemented	Implemented

APPENDIX B

Texas Gas Service Franchise Fee - Rec #1	In order to address current problems with TGS data and to ensure that the City receives all franchise fee revenue, TARA should work with TGS to ensure that existing errors in the TGS billing system are corrected and that TGS's records of City boundaries are accurate. TARA should also work with TGS to recover the additional fee due to the City for the 188 miscoded records.	Implemented	Implemented
Cable Franchise Audits	Original Recommendation	Reported Status	OCA Verified Status
Time Warner Cable Franchise Fee Part I Rec #1	The Director of TARA should make arrangements with Time Warner Cable (TWC) for immediate payment of franchise fees, PEG fees, other revenue, and interest owed to the City.	Implemented	Implemented
Time Warner Cable Franchise Fee Part I Rec #2	The Director of TARA should direct TARA staff to review TWC's future quarterly filings to determine if the customer jurisdiction information is coded correctly.	Partially Concurred	Did not test
Time Warner Cable Franchise Fee Part II Rec #1	The Director of TARA should make arrangements with Time Warner Cable (TWC) for immediate payment of franchise fees, PEG fees, other revenue, and interest owed to the City.	Implemented	Implemented
Telecommunication Access Line Fee Audits	Original Recommendation	Reported Status	OCA Verified Status
Access Line Fee Audit Phase I Rec #1	To ensure revenues owed to the City are paid by responsible Certified Telecommunications Providers (CTPs), TARA officer should contact the CTPs audited to collect all unpaid access line fees.	Implemented	Underway
Access Line Fee Audit Phase I Rec #2	To ensure that all CTPs are collecting and remitting access line fees, the TARA Officer should periodically conduct reviews of CTPs to improve compliance rates.	Implemented	Did not test

APPENDIX B

<p>Access Line Fee Audit Phase I Rec #3</p>	<p>To ensure that all CTPs are aware of jurisdiction changes that may affect the payment of access line fees to the City, the TARA Officer should verify that annexation notification is posted on the PUCT website in a timely fashion.</p>	<p>Implemented</p>	<p>Implemented</p>
<p>Access Line Fee Audit Phase I Rec #4</p>	<p>To improve the processes and streamline the rules related to conducting municipal authorized reviews, the TARA Officer should work with the Office of Intergovernmental Affairs to partner with other Texas cities to seek changes to the Public Utility Commission of Texas rules.</p>	<p>Implemented</p>	<p>Did not test</p>
<p>Access Line Fee Audit Phase II Rec #1</p>	<p>To ensure revenues owed to the City are paid by responsible Certified Telecommunications Providers (CTPs), TARA officer should contact the CTPs audited to collect all unpaid access line fees.</p>	<p>Implemented</p>	<p>Underway</p>

SOURCE: OCA Analysis of Original Recommendations, August 2012