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Audit Report

**Austin Energy
Deferred Payment Agreements**

June 26, 2007

Office of the City Auditor
Austin, Texas

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Date: June 26, 2007
To: Mayor and Council
From: Stephen L. Morgan, City Auditor
Subject: Austin Energy DPA Audit

I am pleased to present this audit report on Austin Energy Deferred Payment Agreements. The purpose of this audit was to determine if DPA policies are in line with best practices, ascertain staff adherence to DPA policies, and evaluate management's monitoring efforts related to DPAs.

In comparison to other municipally owned utilities, we found that Austin Energy has a more comprehensive program. This includes adoption of a tighter DPA policy in FY06. Since adoption of that policy, the total number of DPA accounts, the number of DPAs issued per account, and the amounts placed in DPAs have decreased. We also found that management is paying increased attention to DPA errors when a DPA is established.

While we fully recognize improvements to the program have been made, we found some areas where the program could be further strengthened:

- No written notification is sent to customers after a DPA is set up.
- Both residential and commercial customers share the same policy though their needs are different.
- Inconsistencies in the DPA policy and staff understanding of the DPA policy.
- Areas where additional enforcement and routine monitoring may be required.

As a result of our work we issued seven recommendations aimed at enhancing DPA policies, system controls, collections efforts, and DPA monitoring.

We appreciate the cooperation and assistance we received from Austin Energy Customer Care management and staff during this audit.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM
City Auditor

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COUNCIL SUMMARY

This report presents the results of our audit of Austin Energy Deferred Payment Agreements (DPAs). The purpose of this audit was to determine if DPA policies are in line with best practices, ascertain customer care staff adherence to DPA policies, and evaluate management's monitoring efforts. A DPA is an agreement between the utility customer and Austin Energy in which the customer agrees to make regular, consistent payments to pay off a delinquent balance over an agreed-to length of time. In addition, the customer agrees to make a defined down payment on their DPA.

Our comparison of Austin Energy's DPA program with other municipally owned utilities shows that Austin Energy has a comprehensive program that includes a written policy, analysis of cases on an individual basis, and program monitoring.

As a result of a new policy instituted by Austin Energy in FY06, we found that the number of DPAs established has decreased by more than half, thereby significantly reducing the dollar amounts placed in DPAs. We also found that the number of customers defaulting on three or more DPAs has declined over the three year scope from 23 percent in CY 04 to 6 percent in CY 06. This would represent customers who truly default the DPA and either pay the full amount or have their services disconnected and are moved into the collections process. Another area showing significant improvement is the error rate when setting up a DPA. A past audit revealed an average DPA error rate of 67 percent between March and October 2001. The average has dropped to 17 percent in FY 06.

While we found some significant positive changes to the program, additional improvements can further strengthen the program. We recommended that Austin Energy institute several systemic changes to the DPA program. These include establishing a separate policy for commercial and residential customers, updating the DPA policy to reflect current practices, sending written notices to DPA customers, and communicating needed system enhancements to the team responsible for developing specifications for the upcoming upgrade to the utility's billing system. We also recommended improving compliance with some parts of the DPA policy, including identifying and making all attempts to include past delinquent inactive accounts when a DPA is established and consistently applying requirements related to customers who have meter tampering charges. Finally, stronger monitoring will help management further ensure the continued success of the DPA program.

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ACTION SUMMARY AUSTIN ENERGY DEFERRED PAYMENT AGREEMENTS



Recommendation Text	Management Concurrence	Proposed Implementation Date
01. In order to reduce DPA errors following the upcoming upgrade of AE's Customer Information System (CIS), the Senior Vice President of Customer Care should communicate the need for data entry verification (e.g., constraints on date fields) to the team developing specifications for the CIS upgrade.	AE concurs	August 24, 2007
02. In order to improve collection of DPA payments, the Senior Vice President of Customer Care should: a. ensure that written notification is sent to a customer who establishes a DPA, and b. communicate the need for inclusion of DPA terms, payment amounts, and payment due dates on CIS bills once CIS is upgraded.	AE concurs	a. September 26, 2007 b. August 24, 2007
03. In order to ensure that policies are consistent with practices and all DPA documentation is congruent, the Senior Vice President of Customer Care should update the DPA policy to: a. reflect the number of DPAs a customer can actually receive, and b. clarify the requirements related to down payments from customers receiving 24-hour notices.	AE concurs	a. Synchronization of policy and practice will be complete by August 24, 2007 b. Draft revised policy by August 24, 2007

Recommendation Text	Management Concurrence	Proposed Implementation Date
04. In order to ensure that DPA policies are appropriate for commercial customers, the Senior Vice President of Customer Care should review data on commercial accounts and develop a separate policy for Commercial DPAs.	AE concurs	Complete analysis and draft new policy by September 26, 2007
05. In order to increase compliance with the DPA policy, the Senior Vice President of Customer Care should identify appropriate warning messages to display to warn Customer Service Representatives of potential deviations from the DPA policy and communicate these needs to the team developing specifications for the Customer Information System upgrade.	AE concurs	August 24, 2007
06. In order to increase collections of delinquent inactive accounts, the Senior Vice President of Customer Care should ensure that Customer Care staff identify and attempt to collect delinquent balances or transfer balances from delinquent inactive accounts to active accounts at the time that a DPA is set up.	AE concurs	August 24, 2007
07. In order to increase compliance with the DPA policy and reduce DPA errors, the Senior Vice President of Customer Care should ensure that managers and supervisors regularly review available reports to identify DPA errors and policy violations and provide necessary coaching to reduce such errors in the future.	AE concurs	July 27, 2007

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BACKGROUND

Austin Energy (AE) customer payment standards require that utility payments be received on or before the due date printed on the bill. For customers who are unable to make a payment AE offers the Deferred Payment Agreement program. In addition, AE offers different assistance programs. These include the Customer Assistance Program, fee waivers and discounts, free home energy improvement assistance.

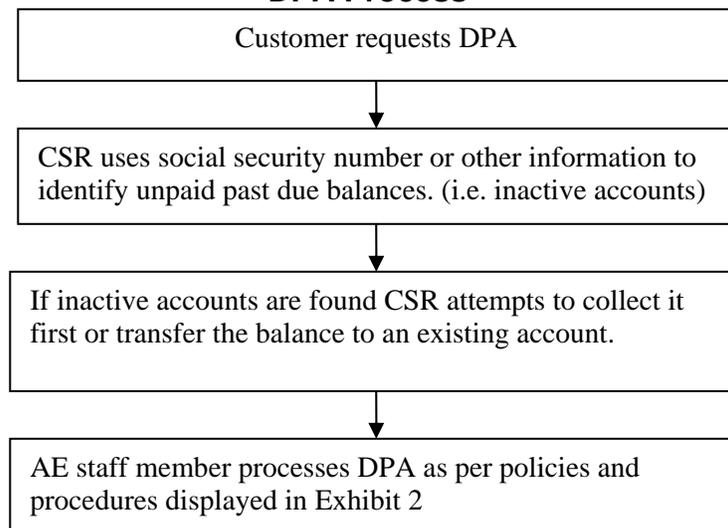
A Deferred Payment Agreement (DPA) is an agreement between the utility customer and Austin Energy in which the customer agrees to make regular, consistent payments to pay off a delinquent balance over an agreed-to length of time. In addition, the customer agrees to make a defined down payment in order to be eligible for a DPA.

Deferred Payment Agreement Process

When a customer's utility account balance is past due, the customer can contact AE's customer care unit to set up a deferred payment agreement. The customer care unit currently consists of 80 Customer Service Representatives, Leads and Supervisors, 8 Utility Billing Analysts, and 8 Customer Solutions Coordinators who create DPAs. Handling DPAs is only one of their assigned duties.

The customer's first point of contact is the Customer Service Representative (CSR). When a customer requests a DPA, the CSR reviews the account and determines if the customer is eligible for a deferred payment agreement. If the customer is eligible, the CSR then reviews all accounts currently and previously held by the customer to search for any unpaid balances. If the CSR identifies any past delinquent inactive accounts, the CSR attempts to collect the balance or transfer the balance to the current account. Exhibit 1 gives an overview of the DPA process.

EXHIBIT 1 DPA Process



SOURCE: OCA Analysis of DPA Process and Documentation

In the event that the payment terms offered do not meet a customer's needs, the call is forwarded to a Customer Service Lead (CSL) who can offer more options than a CSR can. If the DPA terms offered by the CSL still do not meet the customer's needs, the call can be forwarded to an Escalated Payment Terms Group (EPTG) member, who is authorized to offer more generous terms. The EPTG members consist of AE Customer Service Managers, Credit and Collections Staff, and Customer Solution Coordinators.

DPA Program Changes

Several past audits performed by both our office (OCA) and an outside consultant, McConnell Jones Lanier & Murphy (MJLM) have pointed out weaknesses in AE's collection process specifically related to the DPA program. In 1995, an OCA audit of the Utility Customer Service Office (UCSO) Account Receivables process identified several weaknesses related to DPAs. In 2002, MJLM reviewed Austin Energy's collection process and suggested ways to improve the DPA program. Finally, OCA issued a follow up report on Austin Energy account collections in April 2003 and identified the DPA program as an issue for further study.

AE Management began making changes to improve the DPA program. AE began following a new DPA policy in October 2005 and formally adopted this policy in March of 2006. Exhibit 2 outlines the parameters the CSRs use when establishing a DPA. These parameters apply to residential and commercial customers.

**EXHIBIT 2
Standard DPA Processing Requirements**

	Standard DPA			Extension
Criteria	Option 1	Option 2	CSL Option	
Term Length	3 months	4 months	6 months	15 calendar days
Minimum Down Payment if Customer has not been issued a 24-hour notice *	1/4 of balance	1/3 of balance	1/3 of balance	N/A -- Total balance
Minimum Down Payment if Customer has already been issued a 24-hour notice*	1/2 of balance	1/2 of balance	1/2 of balance	N/A -- Total balance
Down Payment Due Date	7 calendar days	7 calendar days	7 calendar days	N/A
DPA Ineligibility	Customers with meter tampering charges, customers who did not make their previous down payment, and customers whose power has been disconnected.			

SOURCE: Excerpt from Austin Energy DPA Policy, Revised March 2006

* A 24 hour notice is left prior to service disconnection on those customers' doors who have received a Final Termination Notice, ten days prior and still have not made sufficient payment or credit arrangements.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of this audit were to determine whether:

- DPA policies are in line with best practices;
- DPA policies are followed by AE staff and customers; and
- AE is monitoring the DPA program to reduce delinquencies.

Scope

Our scope of work included the DPA program and related records at Austin Energy for the time period FY04 - FY06. Austin Energy began following a new policy for DPAs in October 2005 and formally adopted this new DPA policy in March 2006. As a result, two different policies were in effect for the audit scope period of FY04 - FY06.

Methodology

Methodology for the fieldwork phase included:

- Interviewing CSR's and managers to obtain their understanding of processes and procedures.
- Determining and evaluating existing performance measures used for the DPA program.
- Examining and analyzing DPA accounts. The full universe of DPA accounts for FY 04 - FY 06 was utilized for most of our data analysis purposes. The few exceptions to this are as follows:
 - For our test of customers defaulting on down payments we used a random sample of accounts statistically valid at the 95 percent confidence level with a 5% margin of error. The results of this analysis can be generalized to the universe of DPA accounts. For each year within the sample, the sample is statistically valid at the 95 percent confidence level and can be generalized to the population of DPA accounts with the following margins of error: FY04 \pm 4.81%, FY05 \pm 4.93%, and FY06 \pm 6.96%.
 - For computing the number of DPAs issued per account and the number of accounts with three or more DPA defaults, we used calendar year data instead of fiscal year data to reflect the DPA policy requirements.
- Evaluating management efforts to monitor the program.
- Collecting and analyzing best practices information from other municipally owned utilities.

This audit was conducted in accordance with generally accepted government auditing standards.

AUDIT RESULTS

Austin Energy uses the Deferred Payment Agreement (DPA) program as one method to effectively manage delinquent accounts while offering customers an alternative to disconnection. Over the years, Austin Energy has transformed the DPA program into a more structured one. Essentially, we found more stringent DPA eligibility requirements, a decreasing number of DPAs, and continuous tracking of DPA information. We also found areas where Austin Energy can institute systemic changes to improve the overall DPA system. Austin Energy should also employ additional enforcement efforts and continuous monitoring to further strengthen the program and reduce potential misuse of the program.

In comparison with other municipal utilities, AE has a more comprehensive payment agreement program and offers more payment options to customers.

We analyzed the payment agreement programs of five other municipally owned utilities to understand how they compare to AE's DPA program. We found that in comparison to other municipally-owned utilities, AE has a more comprehensive program that includes a written policy, analysis of cases on an individual basis, and program tracking. Some programs we identified do not have a written policy. Others fail to track measures about the program or only monitor whether the customer has paid the bill or should be disconnected.

We also found that AE offers more payment arrangement options to customers. AE customers are offered extensions and DPAs. Extensions are offered for up to 30 days and the DPA term lengths range from 3 months to 18 months in extreme cases. Most other cities surveyed offer customers 30 day extensions only. Overall, we observed that AE offers customers much broader options and is more lenient prior to disconnecting service.

Austin Energy's increased attention to DPA errors and adoption of a new policy in FY 2006 have made the DPA program more effective.

Austin Energy began following a new policy for DPAs in October 2005 and formally adopted this policy in March 2006 to tighten up the policy and to place restrictions on DPA eligibility. This policy along with continuous monitoring of CSR errors has brought in some positive changes to the DPA program.

AE adopted a stronger DPA policy in March 2006. This policy imposed more limitations on DPA eligibility. This new policy restricted the maximum number of DPAs that a customer can have in a calendar year, restricted the number of months allowed to pay off the receivables balance, and required a higher minimum down payment to ensure continuity of the DPA program.

The new DPA policy has had a positive effect on the DPA program. The intent of the program is to effectively manage the number/dollar volume of delinquent accounts. In effect, the following three findings show a declining trend over the last three years in the number of DPA accounts established, the number of DPAs issued per account, and the percent of DPA customers defaulting on their third or later DPA.

- **We found the total number of DPA accounts and the amounts placed in DPAs decreasing in FY 06.** Exhibit 3 shows a significant decline in both the number of DPAs and the amounts placed in DPAs. From FY04 to FY06, we noted that the number of DPAs written and the total amount of money placed in DPAs have decreased by more than half.

**EXHIBIT 3
Decreasing Number of DPA Accounts and Amounts Placed in DPAs**

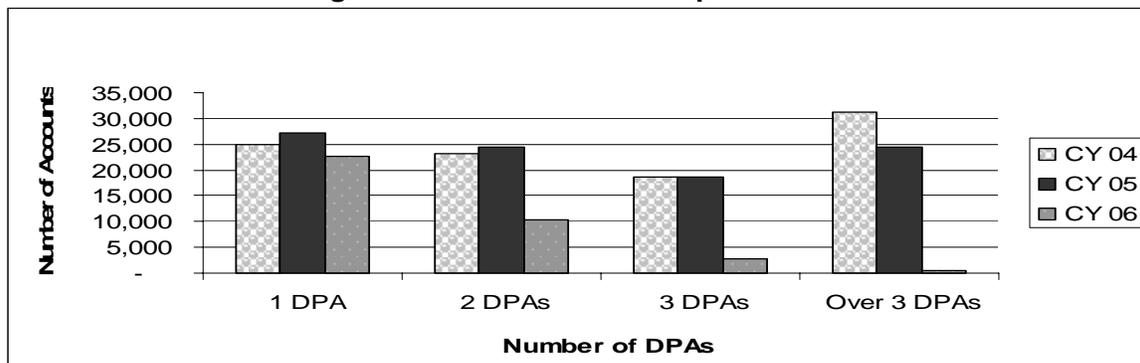
Fiscal Year	Total Active Accounts*	DPA Accounts	% in DPA	Total Dollar Amount in DPA	Average Amount Per DPA
FY 04	406,036	191,751	47%	\$ 105,005,261	\$ 548
FY 05	415,583	186,175	45%	\$ 109,620,045	\$ 583
FY 06	424,463	81,065	19%	\$ 49,839,502	\$ 615

SOURCE: OCA Analysis of FY 04–FY 06 data extracted from Austin Energy Customer Information System.

*As of December of each year.

- **Following the new policy, the number of DPAs issued per account has also decreased.** Currently, customers are limited to three DPAs in a calendar year which has significantly reduced the number of DPAs issued per account. Exhibit 4 shows a decreasing number of DPAs issued per account in CY 06, when compared to CY 04 and CY 05. As shown in the Exhibit 4, AE has been able to limit customers to no more than three DPAs fairly successfully. Accounts with three DPAs have dropped from 18,642 in CY 05 to 2,833 in CY 06. Accounts with over three DPAs have decreased significantly from 24,403 in CY 05 to 601 in CY 06.

**EXHIBIT 4
Decreasing Number of DPAs Issued per Account**



SOURCE: OCA Analysis of FY 04–FY 06 data extracted from Austin Energy Customer Information System.

- **In addition, the percent of DPA customers defaulting on their third or later DPA has decreased.** For a comprehensive review of the DPA program, we analyzed the number of defaults that occur on the last DPA that a customer is eligible for. These represent defaults that can result in disconnection of service and eventually become part of collection efforts. Exhibit 5 indicates that in CY 04, 23 percent of DPA customers defaulted on their third or later DPA. This number dropped to 6 percent in CY 06. These customers are the ones who have exhausted all DPA options and may either find another way to pay or may be disconnected and as a result ultimately move into the inactive collection process.

EXHIBIT 5
Accounts Defaulting their Third or later DPA

Calendar Year	Percent of customers defaulting on their 3rd (or later) DPA
CY 04	23%
CY 05	19%
CY 06	6%

SOURCE: OCA Analysis of CY 04-CY 06 data extracted from AE Customer Information System

AE’s increased attention to errors, error reporting, and training has brought about a significant decrease in CSR data entry error rate. The DPA error rate reflects errors made when initially establishing a DPA. Exhibit 6 shows examples of data entry errors made by CSRs when establishing a DPA.

EXHIBIT 6
Explanation of Data Entry Errors When Establishing DPAs

Error Type	Description
Missing or Incomplete Contact	CSR fails to input information indicating if the DPA established is the first, second or a subsequent DPA.
Incorrect Down Payment Date	Down Payment is due in seven calendar days except when a 24 hour notice is issued. In that case down payment is due in 24 hours.
Incorrect Down Payment Amount	CSR computes the wrong down payment amount.
Incorrect DPA Term	CSR computes the wrong DPA term.
Incorrect DPA Term Amount	CSR uses the wrong amount to compute the DPA term amount.
Did not capture Prior Balances	When a delinquent inactive account is found, CSR does not initiate a balance transfer on the active account.
Ineligible without Down Payment	The DPA is set up without the required down payment.

SOURCE: Internal Quality Control Report, Austin Energy Customer Care.

An audit conducted by the outside consultant, MJLM, revealed an average DPA error rate of 67 percent between March and October 2001. The DPA error rate has shown a declining trend since then. The average error rate in FY 04 was 22 percent and it decreased to 17 percent in FY 06. This declining trend in data entry error rates is mainly

due to additional monitoring and coaching in this area. We found that most of these errors are caught by chance or by other staff members. When such errors are brought to supervisors' attention, supervisors do notify and coach CSRs to prevent similar errors in the future.

Some DPA errors may have a significant impact on a customer's account while other errors are less significant. Some errors may have a direct impact on the customer or AE's collections. For example, inputting the wrong payment due date directly impacts the customer because when the customer does not pay by the incorrectly entered payment date, the system shows that the customer has defaulted, which places the customer back into the collections process. Errors increase the cost of operating the DPA program and delay the collections process, making it less efficient.

Errors occur due to CSR's lack of attention and/or failure to understand DPA procedures. Based on the interviews, the most common errors are inputting incorrect DPA payment dates and amounts.

Austin Energy should consider system enhancements to further reduce errors. We found errors that could be avoided with an enhanced system. For instance, we found typos where DPAs were set with a negative term length. For example, a DPA that was set up in December 2005 had a DPA end date of January 2005. In this case, the customer would default on the payment agreement immediately. We also found DPAs with the DPA end date in the year 2020. An enhanced system with data validation would prevent a CSR from committing such errors and further reduce the error rate.

Recommendation

01. In order to reduce DPA errors following the upcoming upgrade of AE's Customer Information System (CIS), the Senior Vice President of Customer Care should communicate the need for data entry verification (e.g., constraints on date fields) to the team developing specifications for the CIS upgrade.

MANAGEMENT RESPONSE: AGREE. Customer Care staff will participate in the development of system requirements for the CIS replacement project. Customer Care staff will ensure that system functionality regarding data validation (e.g. constraints on date fields) is included in the requirements document.

While recent policy changes strengthen the DPA program, additional systemic changes are warranted to further improve the program.

These systemic changes include notifying customers of the DPA payments, terms and conditions. Additionally, management should address inconsistencies in the DPA policy and staff understanding of the DPA policy. Austin Energy should also work to establish a separate DPA policy for commercial customers.

We found that customers do not receive any notification after the DPA is set up, which may result in higher delinquencies. Once a DPA is established, the amount due on the DPA is not included on the customer's bill. In addition, customers do not receive any written confirmation of a DPA established with Austin Energy. The customer has to remember to make these additional payments for each month of the agreement.

An OCA audit of accounts collections in 2003 also identified this issue. According to management, customizing the billing system to include the information about the DPA is cost prohibitive. Likewise, sending notification manually may result in higher costs of the program. However, with no notification or reminder, the customer may be more likely to forget the terms of the DPA or forget to make payments on their DPA. This may also impact the DPA default rate. Moreover, written notifications could be used as an enforcement mechanism, and a venue for information on energy saving strategies.

We noted some inconsistencies regarding how many DPAs a customer can be granted in a calendar year. Through document analysis and interviews, we noted that DPA related documents are not consistent with one another or with practices in place with regard to the number of DPAs that can be granted to a customer in a calendar year. For instance, the DPA policy states that two DPAs can be granted to eligible customers per year by CSRs, CSLs and EPTG members combined. However, when the policy was created AE management's intent was to allow two DPAs via the CSRs and one additional DPA to be offered by EPTG members. This intent is reflected in other documentation and by the actions of CSRs and EPTG members even though it is not adequately captured in the policy. In practice, CSRs can offer customers two DPAs, and a third one can be authorized by EPTG members if the call is escalated.

We also noted inconsistency between policy and practice regarding the number of days given to receive down payment by customers with a 24 hour notice. A 24 hour notice is left on those customer's doors who have received a Final Termination Notice and still have not made sufficient payment or credit arrangements. The DPA policy states that if a 24-hour notice is left, the down payment is due in 7 days to ensure continuity of the program. However, our observations indicate the customers are given 24 hours to pay the down payment when a 24-hour notice has been left at their door. We found that this variation is in practice to allow AE to process the down payment in a timely manner. Since these inconsistencies in policy and practice create potential for additional DPA errors, the DPA policy should be revised to reflect the 24 hour payment window and the seven day processing window.

AE does not have a separate policy for commercial and residential customers, even though their needs differ. An audit by MJLM in January 2002 identified this issue. However, AE management has not created a separate commercial policy and the current policy does not differentiate between residential and commercial customers. As a result, AE may be offering more generous terms than is necessary for potentially large amounts due. The average commercial bill in FY 06 was \$2,686 whereas the average residential bill for the same period was \$526.

Recommendations

02. In order to improve collection of DPA payments, the Senior Vice President of Customer Care should:
- a. ensure that written notification is sent to a customer who establishes a DPA, and
 - b. communicate the need for inclusion of DPA terms, payment amounts, and payment due dates on CIS bills once CIS is upgraded.

MANAGEMENT RESPONSE: AGREE.

- a. Customer Care staff will pursue providing a written notification to customers who establish a DPA based on the customer's progression within the DPA program.
 - b. Customer Care staff will ensure that DPA notification is included in the CIS requirements gathering discussions for the CIS replacement project.
-

03. In order to ensure that policies are consistent with practices and all DPA documentation is congruent, the Senior Vice President of Customer Care should update the DPA policy to:
- a. reflect that customers can receive up to 3 DPAs per year, and
 - b. clarify the requirements related to down payments from customers receiving 24-hour notices.

MANAGEMENT RESPONSE: AGREE.

- a. Customer Care staff will review the current DPA policy and practices to synchronize the two to meet the objectives of the program.
 - b. Customer Care staff will clarify within the revised policy the down-payment requirements for customers who have received a 24-hour notice.
-

04. In order to ensure that DPA policies are appropriate for commercial customers, the Senior Vice President of Customer Care should review data on commercial accounts and develop a separate policy for Commercial DPAs.

MANAGEMENT RESPONSE: AGREE. Customer Care staff will conduct an analysis regarding DPAs for Commercial customers to define improvements and industry best practices.

AE should further enforce the DPA policy in some areas to reduce opportunities where the program could be misused.

Our data analysis, interviews and observation indicate that some policies and procedures were either overlooked or not adhered to. For instance, we found that customers with meter tampering charges and customers with prior defaults on down payments were offered subsequent DPAs. Also, inactive accounts were not consistently researched and included when a DPA was established.

Our analysis of a sample of DPAs indicates that in FY06 AE offered a subsequent DPA to 53 percent of customers who defaulted on the down payment. As per the prior and current policy, if the down payment was not received and posted to the account

within three days after the due date, the customer should not be eligible for any other deferred payment arrangement.

We reviewed a statistically valid sample of 384 accounts to identify the number of customers with a default on the down payment who were offered a subsequent DPA. As shown in Exhibit 7, our sample revealed that for the three year period, 14 percent of customers in our sample defaulted on down payments. And of these 14 percent, 64 percent of customers with a default on a prior DPA down payment were offered another DPA. Generalized to the population, this indicates that we are 95 percent confident that this holds true for between 59 percent and 69 percent of DPA customers during our three year scope. In addition, our sample analysis indicates a decrease in the percentage of subsequent DPAs offered to customers with a default on the down payment.

EXHIBIT 7
DPAs Defaulting on Down Payments and Subsequently Offered DPAs

Fiscal Year	% in Sample Defaulting on Down Payment	Defaults on DPA down payments by customers in sample	Sampled customers defaulting on down payment subsequently receiving DPAs	% of Customers in Sample Receiving Subsequent DPAs
FY 04	15%	62	42	68%
FY 05	12%	46	31	67%
FY 06	15%	30	16	53%
Total	14%	138	89	64%

SOURCE: OCA Analysis of FY 04–FY 06 data extracted from AE Customer Information System

Causes for establishing DPAs when the customer did not fulfill their prior obligation may include insufficient research by CSRs to identify prior defaults on down payments and inadequate system controls to warn CSRs when a customer is not eligible for a DPA.

AE offered subsequent DPAs to some customers with meter tampering charges; however, this number decreased significantly in FY06. The policy in place prior to FY06 indicates that any account with meter tampering charges is not eligible for a DPA. The revised policy implemented in FY06 indicates that customers with meter tampering charges on their account are not eligible for a DPA until after 18 months from the time the tampering charges were applied to the account.

Exhibit 8, which is based on unaudited CIS data from AE’s Customer Care & Marketing Site, demonstrates that a decreasing number of customers were offered a DPA within 18 months of a meter tampering charge. While the number is decreasing, 361 customers in FY 06 were offered a DPA even though they had a recent meter tampering charge.

EXHIBIT 8

DPAs Offered to Customers within 18 Months of Meter Tampering Charges

Fiscal Year with Meter Tampering Charges	Customers Offered DPA within 18 months of tampering charge	% of DPAs accounts with Meter Tampering Charges
FY 04	1,555	.81%
FY 05	1,001	.53%
FY 06	361	.45%

SOURCE: Austin Energy "Customer Care & Marketing Site". Data not audited.

Also, as per current policies and procedures, DPAs are not permitted on any account that has two or more meter tampering charges assessed. We found that a small number of customers with two or more meter tampering charges actually received subsequent DPAs. Offering DPAs to these customers greatly increases the chance that these customers will default on their agreement. It also allows customers who have already violated law more than once to further take advantage of AE's customer assistance programs. Exhibit 9, based on unaudited data from Customer Care & Marketing Site, shows a decrease from FY05 to FY06 in the number of customers with at least two meter tampering charges and who were offered a subsequent DPA.

EXHIBIT 9

DPAs Offered to Customers with Two or More Meter Tampering Charges

Number of DPAs offered after the 2nd Meter Tampering Charge	FY 04	FY 05	FY 06
Customers offered less than 3 DPAs	3	6	4
Customers offered 3 or More DPAs	5	4	1
Total	8	10	5

SOURCE: Austin Energy "Customer Care & Marketing Site". Data not audited.

Research by CSRs regarding inactive accounts is not sufficient to ensure that past inactive accounts are identified and included when establishing a DPA. As per the DPA policy, when a customer requests a DPA on an active account, the Customer Service Representative (CSR) should review all accounts currently and previously held by the customer. The CSR should utilize customer information such as the customer's social security number or driver license number as search criteria within the Customer Information System to help search for any unpaid past due balances. If inactive account balances are found, the CSR should attempt to collect the full balance of the inactive accounts at the time the DPA is established.

The following data is based on a query of CIS data from AE customer care staff. For FY 04 through FY 06, 4,854 inactive accounts were not identified when setting up a DPA. This totaled to \$901,400 in receivables that could potentially be transferred to the active account if inactive accounts were researched thoroughly when a DPA was requested.

EXHIBIT 10
DPA Accounts with Inactive Accounts

Account Type	Amount in Inactive Accounts	Number of Inactive Accounts
Residential	\$466,921	3,619
Commercial	\$160,920	505
Other	\$273,559	730
Total	\$901,400	4,854

SOURCE: Internal Quality Control report, Austin Energy Customer Care. Data not audited.

Insufficient research by CSRs may preclude timely transfer of inactive accounts to the active account. This adds to the number and amount of inactive accounts that must go through AE's collection process.

Recommendations

05. In order to increase compliance with the DPA policy, the Senior Vice President of Customer Care should identify appropriate warning messages to display to warn customer service representatives of potential deviations from the DPA policy and communicate these needs to the team developing specifications for the CIS upgrade.

MANAGEMENT RESPONSE: AGREE. Customer Care staff will ensure that warning messaging functionality is included in the CIS requirements gathering discussions for the CIS replacement project.

06. In order to increase collections of delinquent inactive accounts, the Senior Vice President of Customer Care should ensure that Customer Care staff identify and make all attempts to collect delinquent balances or transfer balances from delinquent inactive accounts to active accounts.

MANAGEMENT RESPONSE: AGREE. Customer Care staff will create and implement a quality assurance program to address the balance transfer activity during the initial set-up of a DPA.

AE maintains information on various aspects of the DPA program; however, this information is not routinely used to monitor the program.

We found that AE tracks DPA errors and DPA statistics regularly. AE also produces reports that track non compliance with policies. However, these reports are not routinely reviewed for decision making purposes.

AE regularly tracks useful information about DPA errors and DPA accounts. AE produces information on program measures such as:

- Total number of arrangements written during the month
- Total open agreements
- Total amount placed on arrangements during the month
- Total amount on arrangements (cumulative)
- Total number of agreements with data entry errors each month
- Total number of data entry errors each month

We also found reports that track non compliance with the policy. These include:

- Accounts with DPAs that have down payment due date exceeding a specified number of days.
- Accounts with DPAs that have paid down payment less than a specified percentage of the balance
- Accounts with DPAs that have longer than six months term lengths.
- Accounts with DPAs with the wrong beginning balance.
- Accounts with DPAs that also have inactive accounts.
- Accounts with DPAs who previously had meter tampering charges.

However, available information is not routinely used to identify and correct non-compliance with the DPA policy. During our interviews, we found that while supervisors use error information to provide coaching to CSRs, supervisors do not review reports that signal non compliance with the DPA policy or provide information about the program's effectiveness. Monthly reports that track policy violations and other DPA statistics are sent to supervisors, but through our interviews with supervisors we found that these reports are not routinely reviewed. We also found additional reports on the Austin Energy intranet, but two out of the three supervisors interviewed were not aware of the reports. By not analyzing these reports, supervisors and managers lose the opportunity to use available information to improve the DPA program.

Recommendation

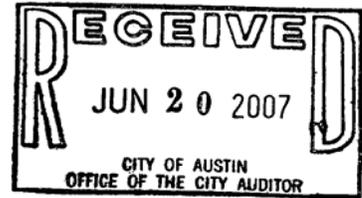
07. In order to increase compliance with the DPA policy and reduce DPA errors, the Senior Vice President of Customer Care should ensure that managers and supervisors regularly review available reports to identify DPA errors and policy violations and provide necessary coaching to reduce such errors in the future.

MANAGEMENT RESPONSE: AGREE. Customer Care staff will expand the content and distribution of the DPA error report. Customer Care staff will monitor Supervisor's use and follow-through on errors to ensure coaching and training techniques are applied where necessary.

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APPENDIX A
MANAGEMENT RESPONSE

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MEMORANDUM

To: Steve Morgan, City Auditor
Office of the City Auditor

From: Kerry L. Overton, Sr. Vice President
Customer Care

Date: June 19, 2007

Subject: DPA Audit response

A handwritten signature in black ink, appearing to read "Kerry L. Overton".

In response to the DPA audit performed by your team, the Customer Care Management Team has completed the DPA Action Plan matrix.

Please see the attached matrix with Customer Care responses to each of the findings.

If you have any questions regarding our responses, please contact me at 322-6113 or Jawana Gutierrez at 972-7572.

Thank you.

AE ACTION PLAN
AE Deferred Payment Agreements

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
01	In order to reduce DPA errors following the upcoming upgrade of AE's Customer Information System (CIS), the Senior Vice President of Customer Care should communicate the need for data entry verification (e.g., constraints on date fields) to the team developing specifications for the CIS upgrade.	CONCUR	Customer Care staff will participate in the development of system requirements for the CIS replacement project. Customer Care staff will ensure that system functionality regarding data validation (e.g. constraints on date fields) is included in the requirements document.	Underway	Judith Rebmann 972-7730	August 24, 2007 (This strategy will be met when the final CIS requirements document has been approved by the project's Executive Steering Committee. This approval is scheduled for August 24, 2007.)

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
02	<p>In order to improve collection of DPA payments, the Senior Vice President of Customer Care should:</p> <ul style="list-style-type: none"> a. ensure that written notification is sent to a customer who establishes a DPA, and b. communicate the need for inclusion of DPA terms, payment amounts, and payment due dates on CIS bills once CIS is upgraded. 	CONCUR	<ul style="list-style-type: none"> a. Customer Care staff will pursue providing a written notification to customers who establish a DPA based on the customer's progression within the DPA program. b. Customer Care staff will ensure that DPA notification is included in the CIS requirements gathering discussions for the CIS replacement project. 	Planned	<ul style="list-style-type: none"> a. Jawana Gutierrez 972-7572 b. Judith Rebmann 972-7730 	<ul style="list-style-type: none"> a. September 26, 2007 b. August 24, 2007

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
03	In order to ensure that policies are consistent with practices and all DPA documentation is congruent, the Senior Vice President of Customer Care should update the DPA policy to: <ul style="list-style-type: none"> a. reflect the number of DPAs a customer can actually receive, and b. clarify the requirements related to down payments from customers receiving 24-hour notices. 	CONCUR	<ul style="list-style-type: none"> a. Customer Care staff will review the current DPA policy and practices to synchronize the two to meet the objectives of the program. b. Customer Care staff will clarify within the revised policy the down-payment requirements for customers who have received a 24-hour notice. 	Planned	Jawana Gutierrez 972-7572	<ul style="list-style-type: none"> a. Synchronization of policy and practice will be complete by August 24, 2007 b. Draft revised policy by August 24, 2007
04	In order to ensure that DPA policies are appropriate for commercial customers, the Senior Vice President of Customer Care should review data on commercial accounts and develop a separate policy for Commercial DPAs.	CONCUR	Customer Care staff will conduct an analysis regarding DPAs for Commercial customers to define improvements and industry best practices.	Planned	Joe Calabrese 972-7601	Complete analysis and draft new policy by September 26, 2007

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
05	In order to increase compliance with the DPA policy, the Senior Vice President of Customer Care should identify appropriate warning messages to display to warn Customer Service Representatives of potential deviations from the DPA policy and communicate these needs to the team developing specifications for the Customer Information System upgrade.	CONCUR	Customer Care staff will ensure that warning messaging functionality is included in the CIS requirements gathering discussions for the CIS replacement project.	Planned	Judith Rebmann 972-7730	August 24, 2007
06	In order to increase collections of delinquent inactive accounts, the Senior Vice President of Customer Care should ensure that Customer Care staff identify and attempt to collect delinquent balances or transfer balances from delinquent inactive accounts to active accounts at the time that a DPA is set up.	CONCUR	Customer Care staff will create and implement a quality assurance program to address the balance transfer activity during the initial set-up of a DPA.	Planned	Jawana Gutierrez 972-7572	August 24, 2007

Rec #	RECOMMENDATION TEXT	Concurrence	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/ Phone Number	Proposed Implementation Date
07	In order to increase compliance with the DPA policy and reduce DPA errors, the Senior Vice President of Customer Care should ensure that managers and supervisors regularly review available reports to identify DPA errors and policy violations and provide necessary coaching to reduce such errors in the future.	CONCUR	Customer Care staff will expand the content and distribution of the DPA error report. Customer Care staff will monitor Supervisor's use and follow-through on errors to ensure coaching and training techniques are applied where necessary.	Underway	Joe Calabrese 972-7601	July 27, 2007