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Audit Report

**AUSTIN ENERGY
CUSTOMER INFORMATION SYSTEM
REMITTANCES**

January 27, 2009

Office of the City Auditor
Austin, Texas

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NOTE: This report reflects edits made on February 3, 2009. Changes are not substantive to original findings.

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City of Austin

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Date: January 27, 2008
To: Mayor and Council
Subject: AE CIS Remittances

I am pleased to present this audit report on Austin Energy's Customer Information System (CIS) Remittances. This audit focused on remittances, which includes utility payments processed by Austin Energy (AE). In FY 08, AE processed approximately \$1.6 billion in utility payments.

In our audit we found that many system and procedural controls related to remittance processing are in place and have improved over time. Our test of selected utility payments revealed that utility payments were received and properly recorded in the customer billing system. However, we also found that AE does not apply late payment penalties as specified in utility regulations and does not have clear guidance for applying a non-sufficient fund fee when payments do not clear due to insufficient funds.

Other findings include that AE has established accounts to hold payments that cannot be associated with a valid customer account and monitors these accounts, but AE needs to identify strategies to reduce the balance of these accounts. Also, AE could reduce errors when applying electronic payments to accounts by requiring verification of account numbers by third party aggregators. Additionally, AE is manually retrieving payments from nine pay stations throughout the City that could be automated or eliminated.

Finally, our testing at the East Branch payment processing center revealed that AE has significantly strengthened security and cash handling but could make a few additional improvements to safeguard cash.

We have issued ten recommendations to address issues related to AE's payment processing, and AE has concurred with all of these recommendations.

We appreciate the cooperation and assistance we received from AE 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 Austin Energy's Customer Information System (CIS) Remittances. This audit focused on remittances, which includes all utility payments processed by Austin Energy (AE). In FY 08, AE processed approximately \$1.6 billion in utility payments.

The purpose of this audit was (1) to determine whether Utility payments received by AE have been properly recorded in the Customer Information System (CIS) and deposited in the bank, and (2) to determine whether AE has improved internal controls at the East Branch payment processing center related to security and cash handling following an AE internal audit and a security evaluation by Austin Police Department (APD).

In this audit we found that AE has many system and procedural controls related to remittance processing in place to ensure utility payments are received and properly reflected in the customer billing system. Our tests of a statistically valid sample of payment transactions confirmed that AE received, recorded the payments in the customer billing system, and deposited the payments appropriately for all tested transactions. While controls related to remittance processing appear strong, as part of our testing we also found that AE's processes for assessing late payment penalties are not fully aligned with Utility Regulations and as a result AE charged some customers late payment penalties but not others who were similarly situated. Additionally, AE does not have clear guidance for applying a fee when payments do not clear due to insufficient funds.

While AE has established accounts to hold payments that cannot be associated with a valid customer account and monitors these accounts for unauthorized access, AE needs to identify strategies to reduce the balance of these accounts in order to minimize the risk of misuse of these funds.

Additionally, AE does not require sufficient verification of account numbers by third party aggregators, which can result in errors when applying electronic payments to accounts. Further, one of the third party aggregators is not complying with records retention requirements and another is not complying with the required secure format for transmission of electronic payment information. Moreover, AE is manually retrieving payments from nine pay stations throughout the City that could be automated or eliminated.

Finally, our testing at the East Branch payment processing center, which collects approximately \$800k per month in cash payments, revealed that AE has significantly strengthened security and cash handling since 2005. However, we did identify a few additional improvements to enhance safeguarding of cash at the facility.

We have issued ten recommendations to address issues related to AE's CIS remittances and AE agreed to implement all of them.

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**ACTION SUMMARY
AUSTIN ENERGY CUSTOMER INFORMATION
SYSTEM REMITTANCES**



Recommendation Text	Management Concurrence	Proposed Implementation Date
01. To ensure equity in applying a late payment penalty on customer bills, the Deputy General Manager of Shared Services should take the following steps. a) Evaluate Utility Regulations, current operations, and payment processing needs to determine what changes need to be made to align practices with requirements. b) Perform a cost/benefit analysis to determine the feasibility of updating the current version of CIS to reflect the changes identified in part (a) above. c) Ensure that changes identified in part (a) above are incorporated in the CIS replacement.	Concur	July 2009
02. The Deputy General Manager of Shared Services should clearly articulate guidelines for when it is appropriate to assess the \$25 NSF fee.	Concur	July 2009
03. To maximize the use of and further safeguard available funds in the unidentified accounts, the Deputy General Manager of Shared Services should request a legal opinion on strategies for reducing the balances, especially for amounts resulting from older payments.	Concur	July 2009

Recommendation Text	Management Concurrence	Proposed Implementation Date
04. To reduce the number of misapplied payments, the Deputy General Manager of Shared Services should continue to explore ways to enhance account validation procedures performed by third party aggregators; this could include routinely providing a list of all active account numbers and any non-active account numbers that have a non-zero balance as well as another verification field such as the account holder zip code.	Concur	August 2009
05. In order to ensure security protocols and vendor contractual requirements are met, the Deputy General Manager of Shared Services should ensure that remittance files of all vendors are encrypted when they post their file on their file transfer server.	Concur	April 2009
06. The Deputy General Manager of Shared Services should continue to automate the receipt of payments from all Randall's stores to minimize costs or perform a cost/benefit analysis to determine the feasibility of eliminating Randall's as a pay station if it is not automated.	Concur	June 2009
07. In order to facilitate customer payment of utility bills, as part of the CIS replacement the Deputy General Manager of Shared Services should ensure that some enhancements to the utility bill are made, such as listing all the current pay station locations where customers can make payments and making the account number more prominent on the bill.	Concur	October 2011

Recommendation Text	Management Concurrence	Proposed Implementation Date
08. In order to strengthen monitoring of CIS user access, the Deputy General Manager of Shared Services should develop a mechanism to track CIS users by Employee ID or another unique identifier to enable verification of security access levels for CIS users.	Concur	October 2011
09. In order to comply with the City cash handling policy and safeguard cash the East Branch service center, the Deputy General Manager of Shared Services should: <ul style="list-style-type: none"> a) continue with plans to install counter setbacks or evaluate alternative plans to reduce the visibility of cash at the low counter, b) ensure that the local safes at the East Branch service center function properly and are used throughout the day, and c) establish a cash drawer limit as prescribed by the City cash handling policy. 	Concur	September 2009
10. In order to facilitate resolution of payment disputes for payments made at the East Branch facility, the Deputy General Manager of Shared Services should work with IT and security staff to increase storage capacity to retain video surveillance for a longer period of time.	Concur	September 2009

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BACKGROUND

The Austin City Council approved an audit of Austin Energy's (AE) Customer Information System (CIS) Payment Process as part of the Office of the City Auditor's (OCA) FY 2008 Service Plan.

The process for providing services and billing customers is as follows:

1. The customer receives services (water, wastewater, electric, solid waste).
2. The City reads meters for water and electric services.
3. AE prepares and sends the bill.
4. The customer pays the bill.
5. AE processes the payment.

This audit focused on steps four and five: the customer paying the bill and AE processing the payment. Given the amount of money received annually and the amount of cash involved, processing of payments is an intrinsically high risk area because even a small error could result in a substantial loss of revenue. A separate audit scheduled to begin in 2009 will focus on the billing aspects of the process described above.

In FY 08, AE processed approximately \$1.6 billion in utility payments. Of these payments, 0.6 percent were cash, 62.2 percent were checks, and 37.2 percent were electronic. The majority of cash payments, which totaled approximately \$9.6M in FY 08, were received through one walk-in service center, AE's East Branch payment processing facility. AE also received some cash payments at their office at Town Lake Center on Barton Springs Drive.

The City offers various options to customers for paying their utility bill:

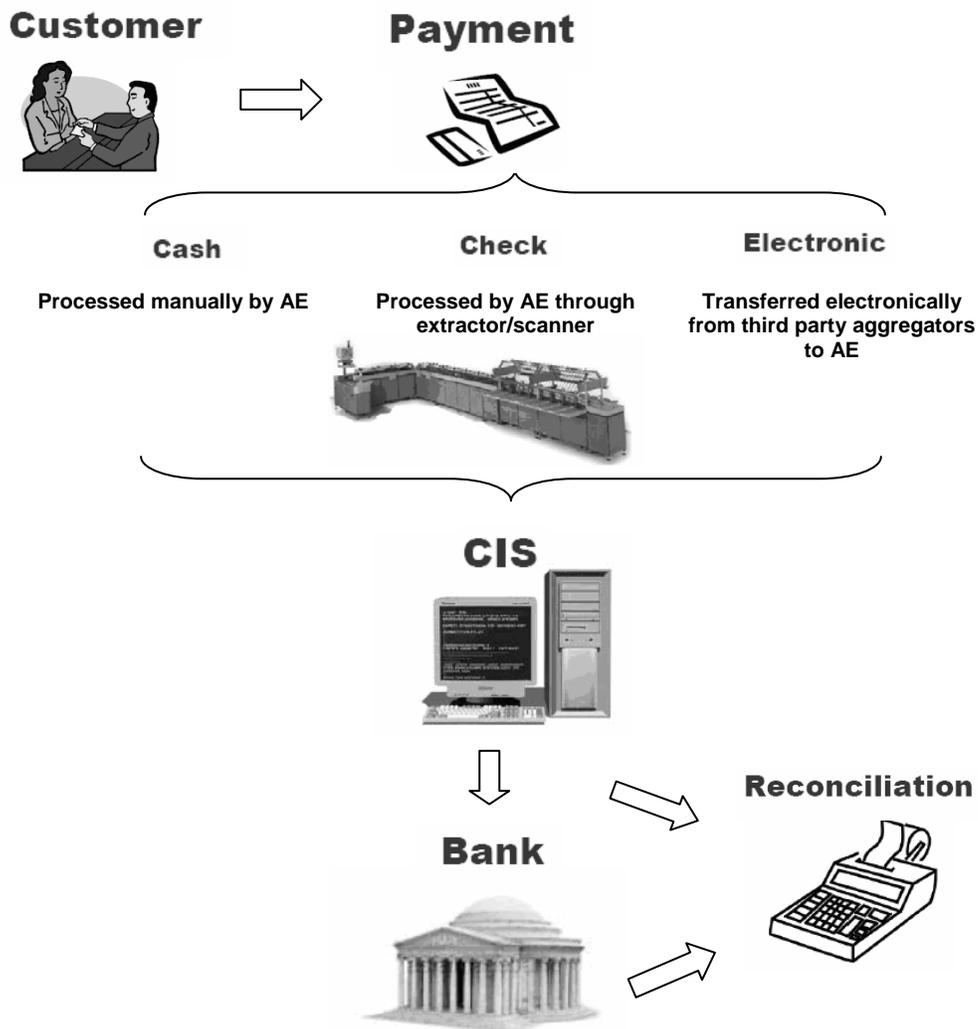
- Mail,
- AE's walk-in service centers (2),
- Payment drop boxes (3),
- Pay stations such as H-E-B or Money Box (72),
- Telephone,
- Customers' banks (either using automatic electronic fund transfer or bank bill payment programs), and
- AE's payment website.

CIS is the City's automated utility customer management and billing system, which is used to capture account information, generate customer bills, and process utility payments for electric, water and wastewater, and solid waste services as well as transportation and drainage fees. CIS has been utilized by AE since 1999 when the City switched from the previous Land Information System (LIS).

The Remittance Processing group within AE's Customer Care Division, which has a staff of eleven, is responsible for ensuring that payments are posted to the billing system, deposited in the bank, and providing customer service. Customers make payments (cash, check, or electronic) to AE, and the AE Remittance Processing group serves as the clearinghouse for all payments. Checks and stubs received through the mail are sorted

using a high speed mail extractor and scanned using high speed optical character recognition machines. To receive payments from most pay stations, AE contracts with vendors called “third party aggregators” that compile and electronically transmit payment information and payment amounts to AE. These and other direct electronic payments are processed automatically and exceptions are handled manually. All payments are directly deposited in the bank and Remittance Processing posts the payments on CIS. Finally, AE’s Finance Division reconciles the CIS postings against the bank deposits each day and works with Remittance Processing to resolve any discrepancies. Exhibit 1 shows the steps of utility bill payment processing.

**EXHIBIT 1
Utility Bill Payment Processing**

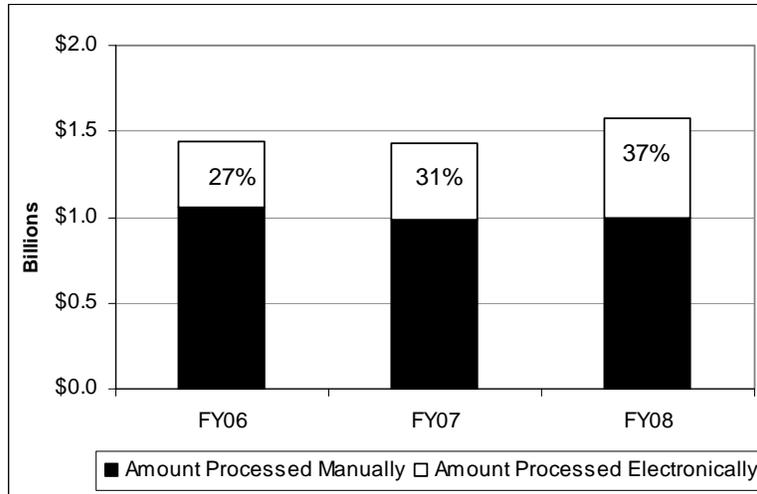


SOURCE: OCA analysis of AE utility bill payment processing.

The monetary value of payments processed increased from approximately \$1.4B in FY 06 to approximately \$1.6B in FY 08. As shown in Exhibit 2, during the same time

period, the monetary value of payments processed electronically also increased, from 27 percent in FY 06 to 37 percent in FY 08.

EXHIBIT 2
Payments Processed Electronically and Manually: FY 06 to FY 08



SOURCE: OCA analysis of payment trends through September 2008.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives for this audit were to determine:

1. if utility payments received by AE have been properly recorded in the Customer Information System and deposited in the bank, and
2. whether AE has improved internal controls at the East Branch payment processing center related to security and cash handling following an AE internal audit and a security evaluation by the Austin Police Department (APD).

Scope

The scope of work includes transactions occurring between October 2005 and September 2008; payments related to all utilities and services (i.e., electric, water, and solid waste) processed through AE's Customer Information System (CIS); and relevant agreements between AE and third party aggregators that work with retail establishments to accept and remit customer utility payments throughout AE's service territory.

Methodology

To accomplish our first audit objective, we performed the following steps.

1. Conducted interviews of key personnel involved with CIS utility payment processing.
2. Analyzed laws, policies, and procedures related to AE's payment processing.
3. Assessed compliance with laws, policies, and procedures governing the payment process by testing a representative random sample of 270 utility bills. For detailed methodology about this sample, see Appendix B.
4. Assessed compliance with the policies and procedures related to returned payments by testing a judgmental sample of 30 Non-Sufficient Fund (NSF) items.
5. Assessed compliance with select terms and conditions in agreements between AE and outside parties that accept and remit customer utility payments.
6. Compared accounts provided in transmission files for electronic payments to valid accounts.
7. Compared a list of AE CIS users with a list from the payroll department of all active employees.

In addition to testing payments received through the East Branch facility as described in 3. above, to accomplish our second objective we performed the following additional steps.

1. Conducted interview of key East Branch personnel.
2. Reviewed policies and procedures regarding security and cash handling at the East Branch.
3. Observed East Branch cash handling operations.
4. Conducted a surprise cash count at the East Branch.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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 RESULTS

During this audit of Austin Energy (AE) remittance processing, we found that overall Austin Energy has strong controls over the processing of utility payments. Our testing of a sample of transactions indicated that payments were received, properly reflected in CIS, and deposited in the bank. We did, however, identify several opportunities for AE to further strengthen controls related to the remittance process to ensure equitable treatment of customers and maximization of revenue, as well as to prevent misapplication of utility payments. In addition, we noted some enhancements related to the CIS system that can be incorporated when the system is replaced in 2011. Finally, our testing at the East Branch payment processing center revealed that AE has significantly strengthened security and cash handling but could make a few additional improvements to safeguard cash.

Overall Austin Energy has strong system and procedural controls related to the processing of utility payments, which have improved over time.

In this audit we found that AE has many system and procedural controls related to remittance processing in place to ensure utility payments are received and properly reflected in the customer billing system. In FY 06, AE collected over \$1.4 billion in utility payments and this increased to almost \$1.6 billion in FY 08. Even in light of a higher volume and value of payments handled, these controls have improved over time as AE has successfully automated various processes. Upon testing a statistically valid sample of payment transactions, we confirmed that AE received, recorded the payments in the customer billing system, and deposited the payments appropriately for all payments tested.

Over time the volume and value of payments processed by AE has increased, and AE has substantially reduced payment processing time by automating various processes and increasing the number of electronic payments. As shown in Exhibit 3 below, AE processes a high volume of payments per year, which averaged \$1.5 billion in the scope period of our audit. While payments processed have increased, AE has substantially reduced the amount of time it takes for the Remittance Processing group to process payments, including recording the payment in the billing system and, for mailed in payments, depositing the checks in the bank. The yearly average of payments processed within the same day increased from 44 percent in FY 06 to 99 percent in FY 08. Additionally, since March 2008, 100 percent of payments have been consistently processed within the same day.

EXHIBIT 3
Amount of Payments Processed and Payment Processing Time

FY	Total Bills Issued	Total Amount Processed	Payments Processed within Same Day
FY06	5,055,729	\$ 1,441,869,784	44%
FY07	5,169,849	\$ 1,424,993,397	90%
FY08	5,286,586	\$ 1,579,596,908	99%

SOURCE: AE data on payment trends and payment processing time through September 2008, unaudited.

AE has improved its remittance processes by automating various processes and increasing the number of electronic payments. In 2005, AE began converting its pay stations from a paper remittance process to an electronic process and making more electronic payment options available. As shown in Exhibit 2 in the Background section of this report, the monetary value of electronic payments AE received increased from 27 percent in FY 06 to 37 percent in FY 08. Additionally, in 2007 AE procured a high speed mail extractor to open and sort mailed-in payments automatically instead of manually. Both of these changes have combined to substantially decrease AE's payment processing time and allow a higher volume of payments to be processed more efficiently.

For all payment transactions tested, AE properly received utility payments, updated accounts in CIS, and deposited payments accordingly. As described in the methodology section of this report, we tested 260 payments (remittances), and confirmed that each payment was appropriately reflected in CIS and deposited in AE's bank. Effective payment processing can be attributed to controls in place to support CIS remittance processing such as: use of a high speed mail extractor to process mailed in payments; use of two high speed optical character recognition machines to capture account and payment information from remittance stubs and checks; reconciliation of payments between CIS and bank deposits daily before uploading the financial data to the City's financial system; and reconciliation of CIS payments between the bank deposits and the financial system monthly.

While we did not identify payment processing discrepancies as part of our testing, AE was unable to retrieve documentation for 18 transactions, so we could not directly test those payments. Nonetheless, for all of these 18 transactions we were able to confirm that AE's reconciliation process occurred and payments were appropriately deposited. As such, AE's inability to retrieve transaction information appears to be a records retention issue rather than a payment processing issue.

AE can further strengthen controls related to the remittance process to ensure equitable treatment of customers, maximize revenue, and prevent misapplication of utility payments.

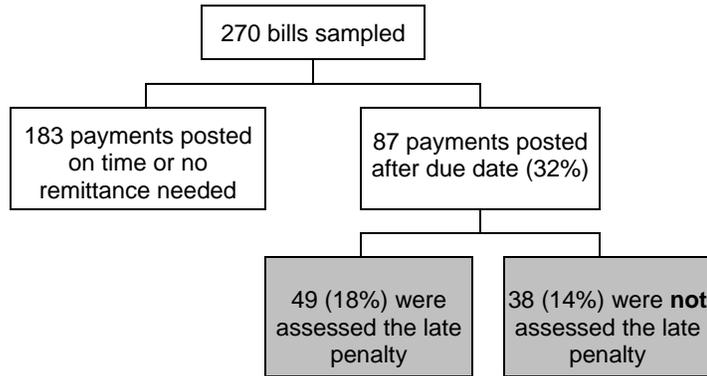
As part of our work, we found that AE's processes for assessing late payment penalties are not fully aligned with requirements of the Utility Regulations contained in the City's Code of Ordinances. As a result, AE charged some customers late payment penalties but not others who were similarly situated. We also found that AE does not have clear guidelines for consistently assessing the \$25 non sufficient funds (NSF) fee. In accordance with industry practices, AE has established accounts to hold payments that cannot be associated with a valid customer account and monitors the accounts for unauthorized access. However, to better prevent misapplication of payments and to maximize revenue performance, AE should identify strategies to reduce the high balances of these accounts.

We also found that AE does not require sufficient verification of customer account numbers by its third party aggregators. When customers provide invalid account numbers to these aggregators when making payments, errors can result when electronic payments are posted to CIS accounts. Further, one third party aggregator is not complying with the required secure format for electronic information. Finally, AE could further improve the cost effectiveness of payment processing by reducing the number of payment centers that require physical trips to retrieve payments.

AE's processes for assessing late payment penalties are not fully aligned with requirements of the Utility Regulations resulting in an inequitable application of penalties and possible forgone revenue. According to City Utility Regulations, "if customer care does not receive payment in full by the payment due date on the bill, a five percent late payment penalty shall be added to the invoiced electric, water, reclaimed water, and wastewater charges." Further, the regulations state that the late payment penalty "shall be assessed during the next billing cycle and be included in the next invoice for utility services." As shown in Exhibit 4, we found that of the 270 bills we sampled and tested, 87 (32 %) were posted by AE one or more calendar day after the due date which appeared on the customer invoice. Of these, 38 bills (44 % of those that were received late) were not assessed the five percent late payment penalty; whereas, 49 bills (56 % of those received late) were assessed the penalty.

The reason that late payment penalties conflict with City regulations is that the assessment of late payment penalties is done automatically by CIS. However, the CIS "trigger" for assessing the penalty is not whether AE receives the payment by the due date shown on the bill, per Utility Regulations. Instead, CIS is programmed to assess the penalty only when AE has not received and posted payment in full for the current balance before the invoice for the next billing cycle is generated.

EXHIBIT 4
Late Penalties Not Assessed for All Payments Posted After Due Date



SOURCE: OCA analysis of sample of bills between October 2005 and July 2008.

As shown in Exhibit 5, Customer B was not charged the late payment penalty because he did not have an outstanding balance on the date the following month’s bill was generated. In contrast, Customer A’s payment was posted eight calendar days late, and he was charged the late payment penalty, because the payment was posted after his next bill was generated.

EXHIBIT 5
Example of Inequitable Assessment of Late Payment Penalties

	Customer A	Customer B
	Late Penalty Assessed	Late Penalty Not Assessed
Payment Due	4/9/2007	1/10/2006
Payment Posted	4/17/2007	1/19/2006
Next Bill Issued	4/16/2007	1/20/2006
# of Days Late	8	9

SOURCE: OCA analysis of sample of bills between October 2005 and July 2008.

Moreover, when a customer pays late and properly includes the late payment penalty in the payment amount, CIS automatically credits the account for the late penalty if the payment is posted before the next bill is generated. For example, Customer C’s bill was due on 10/19/07 and on 10/22/07 Customer C remitted the full payment amount plus the late payment penalty of \$4.32. However, because Customer C paid before the next bill was generated on 10/29/07, the account was credited \$4.32 in CIS.

Not only is the method by which CIS assesses late payment penalties not aligned with current Utility Regulations, it also results in inequitable treatment of AE customers whose payments are not received and posted by the due date. In addition, by not assessing the late payment penalty in accordance with Utility Regulations, AE may have forgone significant revenue. Projecting the exceptions found in our sample to the total number of bills issued in our scope period, we estimated that the City may have forgone as much as \$13.6M in late payment penalties between October 2005 and July 2008. This estimate is calculated by multiplying 14 percent of the total population of bills by \$7.20,

which is the average late penalty amount for the 38 bills that were not assessed a penalty in our sample. This estimate may be higher than what AE would have actually assessed because it was calculated using a literal application of the regulations and available data, which included estimating a late penalty for each payment that was received by AE one or more calendar days after the due date.

According to responsible AE managers, CIS was set up to allow time to process payments without penalizing customers who did pay on time. Some businesses that process payments opt to grant a grace period, applied equally to all customers, to allow for the time it takes to process payments after receipt. However, AE has not formally implemented such a grace period.

When a customer makes a payment but the funds are unavailable, AE reverses the payment as prescribed by the Utility Regulations; however, AE does not have clear guidelines to ensure consistent assessment of the \$25 non sufficient funds (NSF) fee. According to the City Utility Regulations, “the City may assess a \$25 returned payment fee each time a customer’s payment is returned unpaid for a reason other than a verified vendor error.”

By stating that AE “may” assess an NSF fee, as opposed to “shall” assess an NSF fee, the City Utility Regulations provide AE some discretion in its imposition of the NSF fee. AE policies regarding NSF are primarily focused on the mechanics of processing NSFs in the billing system. As such, AE staff currently lack a clear set of guidelines to assist them in determining when it is appropriate to not assess the NSF fee.

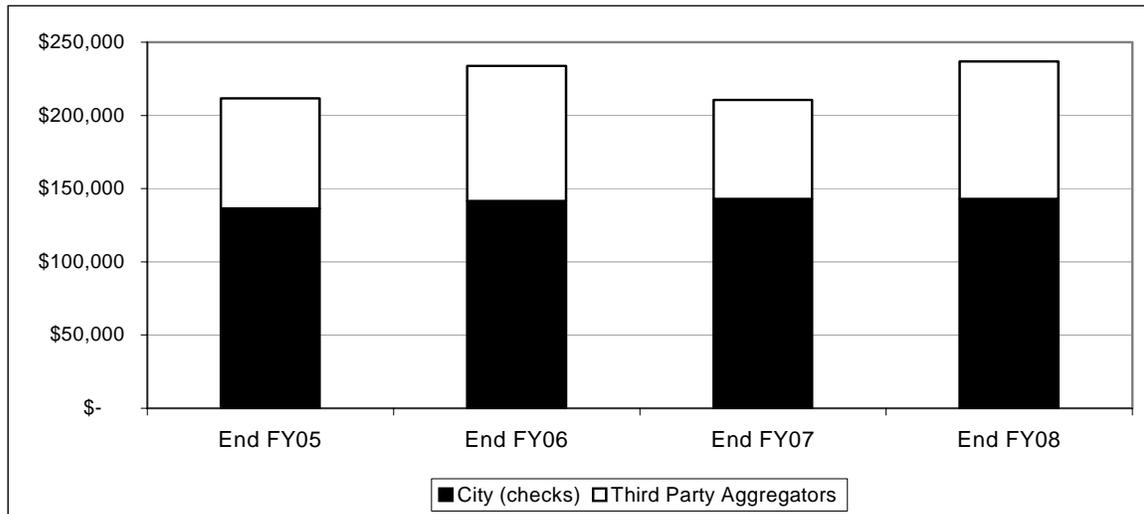
According to AE management, AE does not charge the \$25 NSF fee when the return is caused by issues attributable to AE, such as an electronic fund transfer (EFT) being drafted even though AE has information that the banking information was incorrect. When a new EFT is set-up, the bank sends a pre-notification to AE to verify the accuracy of the banking information. Until March 2008, AE debited the customer account even if the bank indicated that a customer’s bank account information was incorrect. This caused an NSF for the customer’s account but because AE knew the account information was incorrect, AE did not assess the \$25 NSF fee on the customer’s account. Beginning in March 2008, AE adopted a practice of not processing the payment when the bank has indicated that the account information is invalid and requesting the correct account information from the customer.

We tested a separate random sample of 30 returned payments (NSF), to determine whether AE appropriately reversed the payment and assessed a \$25 NSF fee. For each NSF reviewed, AE properly reversed the payment in CIS to reflect that the funds were not available and that the customer’s account had an outstanding balance. Additionally, AE assessed the \$25 NSF fee for 14 of the 30 transactions tested, but did not do so for the remaining 16 NSF transactions. We reviewed the 16 transactions with AE staff and were able to confirm that the majority (15 out of 16) were not assessed the NSF fee for a valid reason. However, without a clear set of guidelines staff could assess the NSF fee inconsistently and therefore treat customers with similar circumstances differently.

Problems related to the assessment of the late payment penalty are discussed earlier in this report. Issues with assessing the late payment penalty are further complicated for NSF transactions because the payment is not always reversed prior to when the next bill is generated; if the charges have not been reversed when the next bill is generated, then a late fee is not assessed by CIS.

General controls appear to deter unauthorized access to funds from payments not attributable to valid customer accounts, but AE may be able to decrease the balance held in these accounts. In accordance with industry practice, AE has established multiple “unidentified accounts” in CIS to hold payments that do not come with a remittance stub or accurate account information. When AE receives a payment without accurate account information, AE staff conduct research and attempt to connect the payment to the intended account. If they are unable to identify the account and do not have information to return the payment, the payment is placed in the appropriate unidentified account. For payments received without accurate account information, separate unidentified accounts have been set up for payments that are mailed-in directly to AE as well as for each of the third party aggregators. The balance in these accounts, which has accumulated since before AE implemented the current billing system in 1999, was approximately \$239,000 as of October 2008. Exhibit 6 illustrates the split between unidentified accounts resulting from payments processed directly by the City (primarily checks) and payments processed by third party aggregators.

**EXHIBIT 6
More than \$200,000 Held in Accounts Used to Track Payments
Not Attributable to a Valid Customer Account**



SOURCE: OCA analysis of unidentified account balances, October 2008.

Only a few AE employees are authorized to access funds contained in these unidentified accounts. While many more employees have access to the accounts, they are not all authorized to transfer funds from them. Our test of select transactions that pass through these accounts did not reveal any instances of unauthorized access of these accounts. AE

staff monitors unidentified accounts to verify that they are not inappropriately accessed and tracks the balance of each account in a spreadsheet that includes the date and amount of money that was transferred in or out of the account(s) the money was transferred to or from.

While we did not identify any misuse of these accounts, most of the funds in the unidentified accounts have been there since before 2001. While the amount is relatively insignificant in terms of the total payments processed by AE, this money could be applied elsewhere rather than left in the “unidentified” accounts. To this end, AE should consult with its legal division to explore ways to reduce the balance in these accounts to minimize the risk of misuse of these funds; this could include creating a policy that ensures money in these accounts is removed from the unidentified accounts after a given period of time.

Because AE requires limited verification of account numbers, third party aggregators can attribute payments to invalid account numbers which could result in customer dissatisfaction and additional work for AE staff. As mentioned in the background section of this report, the number of payments that AE receives electronically has been increasing which reduces some of the costs associated with receiving the payments. However, this may also result in an increase in errors related to electronic payments being associated with incorrect account numbers.

The majority of electronic payments are transmitted to AE from third party aggregators. The remaining electronic payments are received primarily through electronic fund transfers (EFT) and wire transfers, which do not require a third party aggregator. In FY 08, 89 percent of electronic payments were handled by third party aggregators.

We tested the accuracy of account numbers for payments received from third party aggregators for 3 consecutive days in October 2008 and found that out of 26,807 payments, 223 payments, or 0.8 percent, were made using incorrect account numbers. This means that the third party aggregators accepted accounts numbers which were invalid CIS account numbers, including account numbers composed of all zero digits (000000). Additionally, 196 out of the 223 accounts were non active accounts with a zero balance, which do not typically receive payments. While the percentage of errors revealed in this test was low, the number of electronic payments has been trending upwards which could reasonably lead to an increase in the number of errors.

One reason for which electronic payments result in errors is that AE requires limited account verification by its third party aggregators. Interviews with third party aggregators indicated that AE does not provide them with the list of valid CIS account numbers. AE does require them to perform basic account validation procedures, consisting primarily of a “check digit routine,” which accepts only account numbers that have a certain number of characters. The effectiveness of these routines, however, could be enhanced with additional verification procedures. The Remittance Processing manager has discussed with IT the need for additional verification procedures, but the two groups have not yet identified a practical way to address the matter.

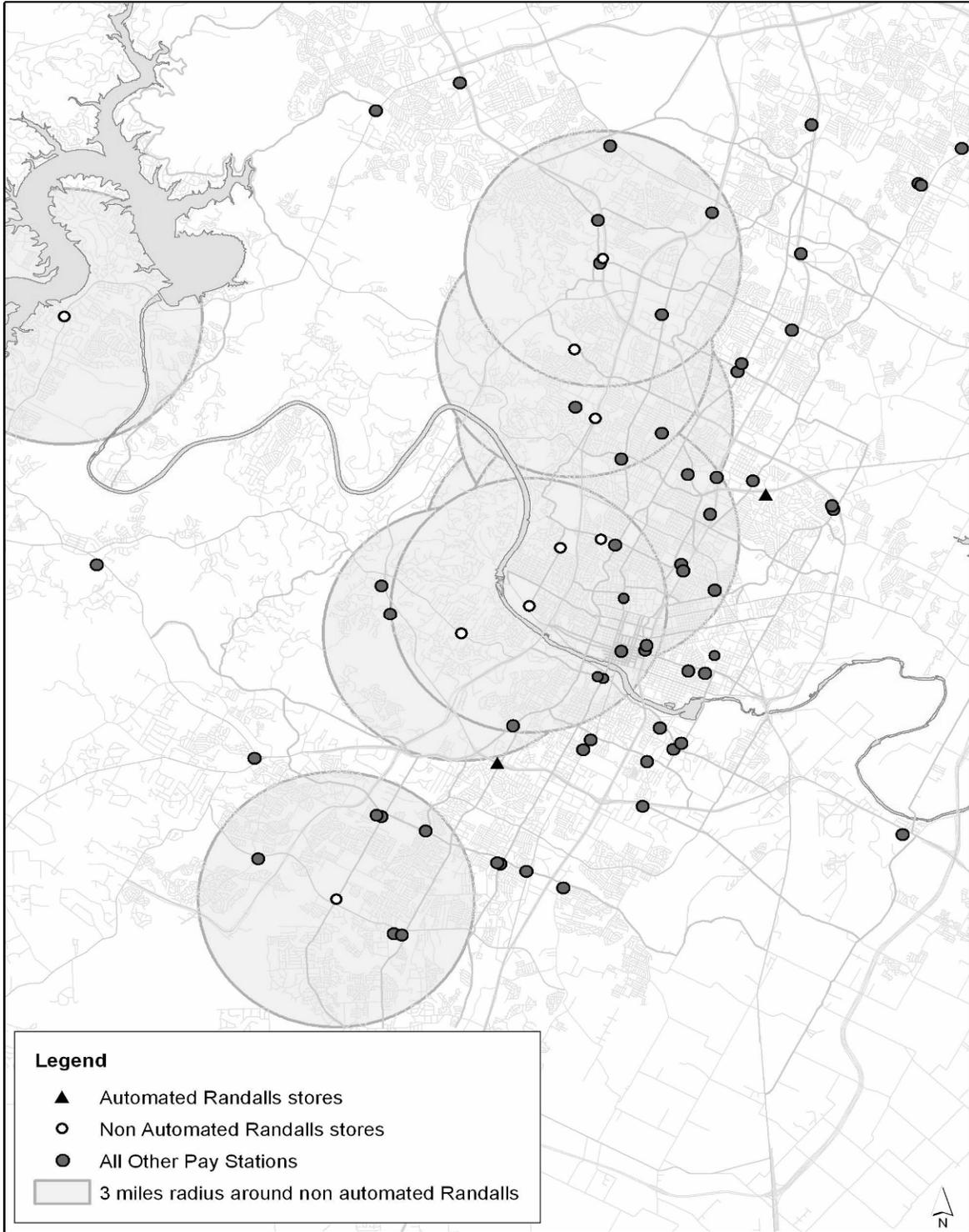
Applying payments to an incorrect account or rejecting a payment may result in customer dissatisfaction, when customers believe they paid their bill but the payment does not get attributed to their account. Additionally, these errors result in more work for AE, which currently has 2 full-time employees dedicated to rectifying misapplied payments. While mailed-in checks are usually accompanied by the bill stub and therefore have more information that can be used for research if an incorrect account number is provided, payments from third party aggregators are transmitted to AE through a remittance file which only lists the account number and payment amount. As a result, errors generated from electronic payment require more research and manual work to be resolved.

One of the third party aggregators does not fully comply with AE IT security specifications per contract terms. Third party aggregators are required to compile electronic information on payments made on the transaction day and post this payment information or remittance file on a secure server owned and maintained by the third party aggregator. The remittance file should be in the format designated by AE and should be encrypted using agreed upon encryption software. One vendor submits a file that is in AE's specified format but this file is not encrypted using the specified encryption software. Not encrypting this file increases the risk of account information contained in the file being compromised. All other vendors we interviewed stated they encrypt the file they post on their secure website.

AE could further improve the cost effectiveness of retrieving utility payments by reducing the number of payment centers that require physical trips to retrieve payments. AE collects utility payments at 72 pay stations located throughout the City. As discussed earlier in this report, in 2005 AE began converting its pay stations from a paper remittance process to an electronic process. As a result, currently, 63 pay stations transmit payments to AE electronically via Western Union. Electronic remittances are processed more quickly than paper remittances. While AE has successfully automated many pay stations and is currently implementing automation at two Randall's locations, nine other Randall's stores are not automated. For these nine locations, an AE employee visits each of the stores daily to collect the payments. The map displayed in Exhibit 7 shows locations of the Randall's stores that require a physical trip to collect payments.

The map illustrates that eight out of the nine unautomated Randall's stores are located within three miles of another AE pay station. Additionally, according to AE, Randall's only collects an average of 45 payments a day. If AE were to discontinue trips to Randall's locations, it could save approximately \$10,000 per year, resulting from combined savings in staff time and in gas. Alternatively, AE could work with the remaining nine Randall's stores to implement automated payment transmission at these locations. This would continue to provide the same number of payment location options for customers while also eliminating the cost to travel to the Randall's to collect payments.

EXHIBIT 7
Proximity of Randalls to Other Pay Stations



SOURCE: OCA analysis of utility pay stations, November 2008.

Recommendations

01. To ensure equity in applying a late payment penalty on customer bills, the Deputy General Manager of Shared Services should take the following steps.
 - a) Evaluate Utility Regulations, current operations, and payment processing needs to determine what changes need to be made to align practices with requirements.
 - b) Perform a cost/benefit analysis to determine the feasibility of updating the current version of CIS to reflect the changes identified in part (a) above.
 - c) Ensure that changes identified in part (a) above are incorporated in the CIS replacement.

MANAGEMENT RESPONSE: Concur. Austin Energy handles well over 11.4 million billing and payment transactions annually, invoicing approximately 24,000 bills daily, processing 10,000 checks daily, and remitting 11,000 electronic payments daily. Austin Energy receives an average of \$133 million in payments monthly, totaling approximately \$1.6 billion annually. The result of the audit found that all payments tested were received, reported, and deposited appropriately. The late payment anomalies cited in this report result from the timing patterns inherent in our utility billing cycles. Our utility billing cycles are designed to account for process handling time when receiving and posting payments and thus ensure that a penalty is not assessed to our customers in error. We find this to be consistent with utility industry practice. Austin Energy does agree to conduct an analysis to improve the handling of late payment penalties.

02. The Deputy General Manager of Shared Services should clearly articulate guidelines for when it is appropriate to assess the \$25 NSF fee.

MANAGEMENT RESPONSE: Concur. Austin Energy has an internal work procedure governing the assessment of NSF fees and we agree to further revise those procedures.

03. To maximize the use of and further safeguard available funds in the unidentified accounts, the Deputy General Manager of Shared Services should request a legal opinion on strategies for reducing the balances, especially for amounts resulting from older payments.

MANAGEMENT RESPONSE: Concur. Austin Energy has actively worked to reduce the amount of dollars placed into unidentified accounts. As a result, Austin Energy has successfully reduced the rate at which funds accrue in unidentified accounts from 19% in FY06 to 12% in FY08. To put this information in perspective, Austin Energy accrued \$41,585 in unidentified accounts between FY05 and FY08 which equates to .001% of the total payments received over the same period. Austin Energy does agree to seek legal opinion for the use of the accumulated balance held in the unidentified accounts.

04. To reduce the number of misapplied payments, the Deputy General Manager of Shared Services should continue to explore ways to enhance account validation procedures performed by third party aggregators; this could include routinely providing a list of all active account numbers and any non-active account numbers that have a non-zero balance as well as another verification field such as the account holder zip code.

MANAGEMENT RESPONSE: Concur.

05. In order to ensure security protocols and vendor contractual requirements are met, the Deputy General Manager of Shared Services should ensure that remittance files of all vendors are encrypted when they post their file on their file transfer server.

MANAGEMENT RESPONSE: Concur.

06. The Deputy General Manager of Shared Services should continue to automate the receipt of payments from all Randall's stores to minimize costs or perform a cost/benefit analysis to determine the feasibility of eliminating Randall's as a pay station if it is not automated.

MANAGEMENT RESPONSE: Concur.

We identified some enhancements that should be included as part of the CIS replacement scheduled for 2011.

Implementing changes to CIS requires additional programming and therefore additional costs. Because AE is currently in the planning stage of replacing the CIS system, scheduled to be implemented in 2011, some improvements can be incorporated into this replacement effort. We have identified possible improvements such as enhancing information included on the utility bill and capturing additional information about CIS users to facilitate monitoring of system access.

As part of the CIS replacement, AE should redesign customer bills to contain clear and accurate information to facilitate customer payment of utility charges. The utility bill is a communication tool with the customer; it should be user-friendly and contain accurate information to facilitate customer payment of utility charges. We observed that the current design of the utility bill does not contain a complete and accurate list of pay station locations where customers can make payments. For example, as of November 25, 2008, the bill lists the University of Texas Coop on Riverside, which has been closed. Additionally, the bill does not list Money Box, which has 32 locations where customers can make payments.

Further, the bill contains several reference numbers including the power link number, which is the number that customers are required to provide in case of power outages, and the account number, which is the number customers are required to provide to make payments so that they can be properly posted to their account in CIS. According to AE, several customers provide the incorrect number when paying their bills, so AE should consider making the account number more prominent on the bill.

AE should capture additional information about CIS users to strengthen monitoring of CIS access. While general network controls deter unauthorized access to CIS, users transferring to another department may currently be able to access and modify CIS records and AE cannot easily review lists of users with CIS access for appropriateness.

AE has several controls in place to prevent unauthorized access to CIS. For inactive users, AE disables CIS accounts after 30-60 days of inactivity and deletes accounts after 60-90 days of inactivity based on a monthly user access report from the vendor. Additionally, when an employee is terminated the City's Communication and Technology Management department eliminates the employee's network access, thus terminating access to CIS.

We conducted a test to verify if CIS accounts had been disabled for terminated employees and were unable to reconcile all users. Currently, approximately 800 active CIS user profiles exist. We randomly selected and matched about 400 of the CIS users to a list of current employees provided by the payroll department. When a name did not match with the list of current employees due to the difference in the way names are listed, we looked up the name in the City directory to confirm whether the CIS user was listed as an employee. Out of 400 users that we reviewed, we could not match 100 CIS users.

We cannot say with certainty that all these 100 CIS users do not work with the City because these unmatched users could be contract employees at AE, which do not appear in the employee list provided by payroll. Because a unique identifier such as employee ID is not maintained in CIS, we could not easily verify that these CIS users are employees of the City; similarly AE cannot easily review users with CIS access for appropriateness.

We also performed a test to verify whether employees are assigned the correct security levels and found that access may not be updated when an employee transfers to another position. Several security levels for CIS access exist, which range from full access to limited research access, based on the nature of the job the user is performing. For instance, an AE customer service representative is granted full access to CIS, whereas an employee in another department is allowed only limited research access. Our analysis of CIS security levels revealed two employees with full access to CIS even though their job did not require it. The employees were granted full access when their jobs required full access, but when the employees changed jobs (and departments) the access was not modified. This is because AE relies on the employee or their supervisor for any updates to the employee profile. Not modifying user access levels when an employee's role changes could allow for inappropriate use of CIS.

Recommendations

07. In order to facilitate customer payment of utility bills, as part of the CIS replacement the Deputy General Manager of Shared Services should ensure that some enhancements to the utility bill are made, such as listing all the current pay station locations where customers can make payments and making the account number more prominent on the bill.

MANAGEMENT RESPONSE: Concur.

08. In order to strengthen monitoring of CIS user access, the Deputy General Manager of Shared Services should develop a mechanism to track CIS users by Employee ID or another unique identifier to enable verification of security access levels for CIS users.

MANAGEMENT RESPONSE: Concur. Austin Energy will seek to improve the security verification process in the replacement CIS system.

AE has worked to improve internal controls over cash handling at the East Branch payment processing center, but additional improvements are still needed to safeguard cash.

AE has made several changes to enhance security and cash handling at the East Branch facility and our testing confirmed that improved controls have been implemented. However, cash is still visible and within reach of customers at payment counters in the facility. Additional physical controls are needed to make this cash less vulnerable to theft.

AE has improved security and internal controls over cash handling at the East Branch payment processing center. As described in the background section of this report, AE's East Branch facility is a full service pay station for residential and commercial customers that handles the majority of cash payments remitted to AE. In FY 08, East Branch handled an average of \$843,526 in cash payments per month.

AE has recently made several improvements to controls at the East Branch facility. Following an attempted robbery in January 2005, AE requested that APD conduct a security evaluation of the East Branch facility to identify needed security improvements. In April 2007, AE's Internal Audit group conducted a review of internal controls over cash handling at the East Branch facility, and in December 2007 APD conducted a follow-up security evaluation.

At the time of APD's 2007 security evaluation, many of the concerns identified in the initial 2005 evaluation had been addressed. For example, AE had implemented the following improvements.

- Installed new security cameras and adjusted security lighting.
- Installed panic buttons to alert APD of robbery attempts.
- Redesigned the lobby area including relocating the security guard.
- Conducted employee training on robbery situations.

Remaining concerns identified during the 2007 evaluation are shown in Exhibit 8. Of the 2007 recommendations, AE has implemented one, plans to implement three, and management has indicated that one is still under consideration. To this end, AE has researched best practices, toured other cash handling facilities, and is considering other public safety implications as part of their decision making process. Additionally, as indicated in Exhibit 8, AE is researching optimal design plans for the counter setbacks to ensure that cash is less visible and less accessible to customers making payments.

EXHIBIT 8
Status of Recommendations from 2007 APD Security Evaluation

Recommendation	Status
1. Install counter setbacks to reduce visibility of cash.	Planned: AE is researching optimal design plans for the counter setbacks
2. Enhance camera resolution.	Implemented: Have adjusted the focus of the camera.
3. Install ballistic barrier.	Under consideration: Pending research on public and employee safety implications of installing such barrier.
4. Install partitions for managers in lobby.	Requested: Management requested a partition that provides privacy when dealing with confidential customer issues.
5. Enforce cash limits for individual cash drawers and for the center.	Planned: Planning to implement an extra pickup when the cash volume exceeds \$300k which is aligned with industry standards (per AE); have drafted but not implemented procedures for cash drawer limits.

SOURCE: APD Security Survey of Austin Energy East Branch Office, December 2007; AE Status Report on East Branch Recommendations 11/12/08; and OCA interviews and observations.

We observed cash handling controls in place at the East Branch facility and conducted a surprise cash count of one cash drawer and did not identify any discrepancies. The cash handling system at East Branch includes several controls designed to prevent theft. These include receiving or generating a payment stub for each payment, recording each payment in CIS, issuing receipts using a “validator” machine that tracks the account number and payment amount, having a supervisor reconcile the cash drawers twice a day to receipts issued and to payments recorded in CIS, and maintaining surveillance video for each cash handling station for 30 days.

In addition to verifying the controls in place at the East Branch facility through on-site observations, we also conducted a surprise cash count of one cash drawer as part of this audit. We were able to reconcile the amount of money in the cash drawer with the receipts issued by the cashier and the payments recorded into CIS.

Though AE has made many security improvements, large amounts of cash are still visible and vulnerable at the cashier stations. According to the City’s cash handling policy, “Safes or storage drawers should be positioned so that they are not visible to the general public. Partitions or barriers should be positioned to hide cash storage receptacles.” The East Branch facility has three cashier stations; two with a high counter and one with a low, ADA compliant counter. During our observations, we noticed that large amounts of cash in drawers at these counters were visible to customers, making the cash more vulnerable to theft. As previously mentioned, AE is planning to redesign the counters to add counter set-backs rather than install a protective barrier between the cashiers and the customers. Once implemented, counter setbacks should reduce the vulnerability for the two high counters, but will not sufficiently reduce the vulnerability of the lower counter.

In addition, during our site observations we learned that cashiers were not using local safes to reduce the amount of easily accessible cash on hand. AE does not currently have an established policy which sets forth a cashier drawer limit for the East Branch facility. According to the City's cash handling policy, "Departmental policy should set the amount of cash which any one cash handler may hold (may be based on a percent of normal daily transactions). When funds at a cash handler's work station exceed this amount, an additional deposit or transfer of funds to a safe should be made."

One other issue we noted was that East Branch maintains an average of 30 days of video surveillance. Because the billing cycle is 30 days long and the video recordings are sometimes used to resolve payment disputes which may not be identified until the customer receives the next bill, a longer retention period may be more appropriate.

Recommendations

09. In order to comply with the City cash handling policy and safeguard cash the East Branch service center, the Deputy General Manager of Shared Services should:
- a) continue with plans to install counter setbacks or evaluate alternative plans to reduce the visibility of cash at the low counter,
 - b) ensure that the local safes at the East Branch service center function properly and are used throughout the day, and
 - c) establish a cash drawer limit as prescribed by the City cash handling policy.

MANAGEMENT RESPONSE: Concur.

10. In order to facilitate resolution of payment disputes for payments made at the East Branch facility, the Deputy General Manager of Shared Services should work with IT and security staff to increase storage capacity to retain video surveillance for a longer period of time.

MANAGEMENT RESPONSE: Concur.

APPENDIX A
MANAGEMENT RESPONSE

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MEMORANDUM

To: Stephen Morgan, City Auditor

From: Kerry Overton,  Deputy General Manager Shared Services, Austin Energy

Copy: Elaine Hart, Sr. VP of Finance, Austin Energy
Corrie Stokes, Assistant City Auditor, Office of the City Auditor
Gus Rodriguez, Auditor-In-Charge, Office of the City Auditor

Date: January 23, 2009

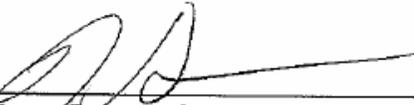
Subject: Austin Energy Customer Information System Remittances Audit:
Management Response

Austin Energy's (AE) management team has outlined a set of critical strategic objectives that address the concerns of all stakeholders in the rapidly evolving environment of the local consumer market and its relationship to the larger energy industry. The team regularly evaluates the progress towards attaining those goals, but also adjusts those processes when appropriate. Our primary goal is the authentic evaluation and continuous improvement of AE policies and procedures. AE's relationship with the City Auditor's Office has been an important part of that process. Our working relationship is productive and together we have documented and developed effective solutions.

The objectives of this audit were to determine whether utility payments have been received by AE and properly documented in the Customer Information System (CIS) and whether AE has improved internal controls at the East Branch payment processing center related to security and cash handling following an AE internal audit and a security evaluation by the Austin Police Department (APD). The City Auditor's Office found that Austin Energy has strong system and procedural controls concerning the processing of utility payments. Moreover, the system and controls have improved over time as AE has automated a number of processes. AE performs on average 11.4 million billing and payment processing transactions yearly. In FY' 06, AE collected in excess of \$1.4 billion in utility payments. The utility payments increased to almost \$1.6 billion by FY'08, while AE has significantly reduced the bill processing time. We are pleased that this audit confirmed that Austin Energy's procedures and practices when handling payment transactions are strong.

We concur with the ten recommendations. Collectively, we are committed to implementing the findings in conjunction with our on-going business process improvement initiatives to further strengthen the utility's remittance processing operation.

Concur:


Roger Duncan, General Manager, Austin Energy

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ACTION PLAN
AUSTIN ENERGY CUSTOMER INFORMATION SYSTEM REMITTANCES AUDIT

Rec. #	Recommendation Text	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/Phone Number	Proposed Implementation Date
01	To ensure equity in applying a late payment penalty on customer bills, the Deputy General Manager of Shared Services should take the following steps. a) Evaluate Utility Regulations, current operations, and payment processing needs to determine what changes need to be made to align practices with requirements. b) Perform a cost/benefit analysis to determine the feasibility of updating the current version of CIS to reflect the changes identified in part (a) above. c) Ensure that changes identified in part (a) above are incorporated in the CIS replacement.	Austin Energy will conduct an analysis to improve the handling of late payment penalties	Planned	Jawana Gutierrez	July, 2009
02	The Deputy General Manager of Shared Services should clearly articulate guidelines for when it is appropriate to assess the \$25 NSF fee.	Austin Energy will review and appropriately revise the work procedures to clarify NSF guidelines.	Planned	Peggy Miller	July, 2009

03	To maximize the use of and further safeguard available funds in the unidentified accounts, the Deputy General Manager of Shared Services should request a legal opinion on strategies for reducing the balances, especially for amounts resulting from older payments.	Austin Energy will seek legal opinion for the use of the accumulated balance held in the unidentified accounts.	Planned	Jawana Gutierrez	July, 2009
04	To reduce the number of misapplied payments, the Deputy General Manager of Shared Services should continue to explore ways to enhance account validation procedures performed by third party aggregators; this could include routinely providing a list of all active account numbers and any non-active account numbers that have a non-zero balance as well as another verification field such as the account holder zip code.	Austin Energy will investigate ways to enhance account verification when customers make payments via third party aggregators.	Planned	Jawana Gutierrez	August, 2009
05	In order to ensure security protocols and vendor contractual requirements are met, the Deputy General Manager of Shared Services should ensure that remittance files of all vendors are encrypted when they post their file on their file transfer server.	Austin Energy will work with the third party payment vendors to encrypt remittance files.	Underway	Peggy Miller	April, 2009
06	The Deputy General Manager of Shared Services should continue to automate the receipt of payments from all Randall's stores to minimize costs or perform a cost/benefit analysis to determine the feasibility of eliminating Randall's as a pay station if it is not automated.	Austin Energy will research the feasibility of eliminating each of the non-automated Randall's pay stations.	Underway	Peggy Miller	June, 2009

07	In order to facilitate customer payment of utility bills, as part of the CIS replacement the Deputy General Manager of Shared Services should ensure that some enhancements to the utility bill are made, such as listing all the current pay station locations where customers can make payments and making the account number more prominent on the bill.	Austin Energy will investigate ways to update the utility bill to facilitate customer payment in the CIS replacement system.	Planned	Peggy Miller	October, 2011
08	In order to strengthen monitoring of CIS user access, the Deputy General Manager of Shared Services should develop a mechanism to track CIS users by Employee ID or another unique identifier to enable verification of security access levels for CIS users.	Austin Energy will seek to improve the security verification process in the replacement CIS system.	Planned	Peggy Miller	October, 2011
09	In order to comply with the City cash handling policy and safeguard cash the East Branch service center, the Deputy General Manager of Shared Services should: a) continue with plans to install counter setbacks or evaluate alternative plans to reduce the visibility of cash at the low counter, b) ensure that the local safes at the East Branch service center function properly and are used throughout the day, and c) establish a cash drawer limit as prescribed by the City cash handling policy.	Austin Energy will complete an evaluation and implementation of the counter heights at the East Branch. Austin Energy will also develop and implement guidelines and work procedures regarding cash drawer limits and safe transfer of money through-out the day.	Planned	Peggy Miller	September, 2009

10	In order to facilitate resolution of payment disputes for payments made at the East Branch facility, the Deputy General Manager of Shared Services should work with IT and security staff to increase storage capacity to retain video surveillance for a longer period of time.	Austin Energy will determine the feasibility of increasing the surveillance video retention period.	Planned	Peggy Miller	September, 2009
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Status of strategies: planned, underway, or implemented.

APPENDIX B

**DETAILED METHODOLOGY FOR
SAMPLE OF BILLS**

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Detailed Methodology for Sample of Bills and Verification of Payment Processing

As described in the methodology section of this report, we assessed compliance with the policies and procedures governing the CIS remittance process by testing a representative random sample of 270 bills (calculated at a 90 percent confidence level) from the universe of over 13.5 million utility bills issued between October 2005 and July 2008.

Of the 270 bills selected 260 had a payment; the remaining ten did not have a payment because the amount due was covered by a previous credit.

To test the remittance process, we checked that payment was reflected appropriately in CIS and deposited in AE's bank for the 260 payments by performing the following steps:

- For checks, we obtained the digital check image and compared the amount and account number on the check to the account number and payment amount posted in CIS. We then traced the payment to the batch it was processed in and traced the batch to the deposit to the City treasury.
- For cash, we obtained the cashier batch that listed all the payments processed by the cashier and compared the account number and payment amount to what was recorded in CIS. We then traced the payment to the batch it was processed in and traced the batch to the deposit to the City treasury.
- For electronic payments, we obtained the file that AE receives from the third party aggregator responsible for processing the payment, and compared information for the selected remittance to the account number and payment amount posted in CIS. We then verified that the total amount for the third party aggregator for the applicable day was deposited to the City treasury.