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**Audit Report**

**AUSTIN ENERGY  
CHILLER BILLINGS  
FOLLOW-UP**

**May 20, 2008**

Office of the City Auditor  
Austin, Texas

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# City of Austin

## Office of the City Auditor



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Date: May 20, 2008  
To: Mayor and Council  
From: Stephen L. Morgan, City Auditor  
Subject: Austin Energy Chiller Billings Follow-up Audit

I am pleased to present this audit report on Austin Energy Chiller Billings. This audit examined the status of the audit recommendations from the AE Chiller Billings Audit Report issued on July 27, 2004. AE began providing chilled water service in 2001. Austin Energy (AE) now owns and operates three chilled water systems (four plants) in the city: one in Downtown, another at The Domain, and a third at the Mueller Development.

In our 2004 audit, we recommended that AE resolve discrepancies between policies and contract terms, clarify language in the contracts, and expand written procedures for preparing billing statements. We found that Austin Energy has successfully implemented all recommendations contained in the original audit by determining needed changes and incorporating these changes into all contracts established after our audit and developing a how-to manual for chilled water billing.

During our current review of billing statements, we noted that late charges were not being assessed for late payments and issued two recommendations aimed at addressing this issue. We also noted that Austin Energy made some minor errors in calculating the rates charged and pointed out these errors for correction.

We appreciate the cooperation and assistance we received from staff in the On-Site Energy Resources unit and the Customer Care unit during this audit.

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





## ACTION SUMMARY AUSTIN ENERGY CHILLER BILLINGS FOLLOW-UP AUDIT



| <b>Recommendation<br/>Text</b>  | <b>Management<br/>Concurrence</b> | <b>Proposed<br/>Implementation<br/>Date</b> |
|---|-----------------------------------|---|
| 01. To assure independence, the Director of On-Site Energy Resources should assign the responsibility of preparing bills and assessing late charges to an individual not involved with direct customer service responsibilities.  | Concur                            | August 2008                                 |
| 02. To ensure adherence to the contract and timely revenue collection, the Director of On-Site Energy Resources should ensure that customers that make late payments are assessed late charges in accordance with their contract. | Concur                            | August 2008                                 |



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## **BACKGROUND**

This audit examined the status of audit recommendations from the Austin Energy (AE) Chiller Billings Audit Report issued in July 2004 by our office.

AE began providing chilled water service in 2001. Austin Energy (AE) now owns and operates three chilled water plants in the city: the Downtown plant located at the Hobby State Office Building parking garage, another on site at The Domain in north Austin, and a third at the Mueller Development. The Mueller Development site has been added since the last audit. Chilled water is used to provide air conditioning to customers in the Downtown, Domain, and Mueller areas. The chilled water plants use off-peak electricity to chill water, providing a benefit to the utility by lowering peak-time demand. The chilled water plants have a total of 45 chilled water customers. The On-Site Energy Resources business unit at Austin Energy is responsible for generating, marketing, and selling chilled water services as well as the ongoing operation and maintenance of said plants.

The chilled water billing process involves several business units within Austin Energy. Plant engineers on site at the chilled water plants compile consumption data for the customers each month. This data is provided to a consumer service representative in Customer Care who manually calculates the bill for each customer by importing consumption data into a spreadsheet and performing calculations to arrive at the final bill. A representative from the On-Site Energy Resources unit reviews the bills, and then the bills are sent to the customers.

In 2004, we completed an audit of chilled water billing. In that audit, we found that AE was accurately measuring and recording chilled water consumption and that all customers receiving service were being billed. However, we also found that AE was not consistently applying rate adjustments specified in chilled water contracts and that written procedures were lacking for some parts of the billing process. We recommended that AE resolve discrepancies between policies and contract terms, clarify language in the contracts, and expand written procedures for preparing billing statements.

Sixteen contracts have been established since the original audit.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

This project was approved by Council as part of the Office of the City Auditor's 2008 service plan.

### **Objectives**

The purpose of this follow-up audit was to assess the progress that Austin Energy (AE) has made toward addressing the original audit findings and implementing recommendations set forth in the original audit report. More specifically, our objectives were to determine if AE executive management has:

- resolved the discrepancies between AE's current policies and the terms of the chilled water contracts,
- clarified the language in the chilled water contracts to provide for consistent interpretation and application of the terms and conditions, and
- expanded upon existing written procedures to include the information necessary for preparing detailed utility statements for chilled water customers.

### **Scope**

The audit followed-up on the three audit findings of the AE Chiller Billings Audit Report issued in 2004. Our scope included all contracts established since the original audit and billing statements for these contracts from January 2007 to February 2008. More specifically, we reviewed all available bills for calendar year 2007. For contracts executed in late 2007, we also reviewed the first two bills for 2008.

### **Methodology**

To accomplish this work, we interviewed management and staff throughout the Energy Products Sales division of Austin Energy to discuss the chilled water billing process and interviewed staff from Austin Energy's legal division to determine if current policies and the terms of the contracts have been modified. In addition, we analyzed relevant contract provisions to assess whether they are congruent with audit findings and recommendations from the original audit, reviewed the process for computing chilled water bills, and tested bills for compliance with approved procedures.

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

## AUDIT RESULTS

Austin Energy has implemented all of the recommendations issued in our 2004 audit. However, while reviewing chilled water contracts and bills we noted a few errors in applying contract terms including failure to assess late charges and minor calculation errors.

### **Austin Energy has successfully implemented the three recommendations contained in the original audit.**

Austin Energy (AE) has implemented all three recommendations issued in our 2004 Chiller Billings Audit Report. AE addressed two recommendations by determining needed changes and incorporating them into chilled water customer contracts, and one recommendation by developing detailed procedures to guide the preparation of chilled water billing statements.

**Austin Energy implemented two recommendations, related to discrepancies between current practices and terms in the chilled water contracts, by determining needed changes and incorporating these changes into all contracts established after our audit.** At the time of our original audit, chilled water contracts contained provisions for AE to make an annual price adjustment based on changes in the Consumer Price Index (CPI) or changes in AE's electric rates, through an Electric Price Adjustment (EPA). In our original audit, we found what the EPA called for in contracts was not being consistently applied resulting in incorrect charges to customers. In addition, contracts did not include payment due dates or timelines for assessing late charges. We recommended that AE resolve discrepancies between current practices and contract terms and clarify contract language.

Following our audit, Austin Energy (AE) did not amend existing contracts but did revise the contract structure and language for new contracts. In particular, AE management and legal counsel met and decided to no longer include the EPA in chilled water contracts and rely on the CPI alone to adjust for increases in the cost of providing chilled water over time.

In reviewing contracts established since our audit, we found that contract language has been adjusted to reflect the changes agreed to by AE management and legal counsel for all 16 contracts initiated after our audit. In addition, the contract language also includes explicit due dates for payments and timelines for applying late charges.

**Austin Energy implemented the third recommendation, related to expanding written procedures to include information necessary for preparing detailed billing statements, by developing a how-to manual for chilled water billing.** During our original audit, we noted that AE did not have documentation to guide preparation of detailed statements for chilled water services. We recommended that AE expand existing procedures to include information needed for preparing these statements.

In September 2004, AE developed a how-to manual called the *Billing Manual for Customers of Downtown District Cooling and Domain District Energy*, which is currently used by AE for preparing billing statements for chilled water services. The manual reflects all aspects of the recommendation issued in the original audit. These written procedures include the information necessary for preparing detailed utility statements for chilled water customers. Additionally, it includes the methodology for preparing statements, determining due dates, assessing late charges, and calculating the CPI.

**While AE has implemented the recommendations from our first audit, we did note some errors during our review of billing statements.**

We reviewed all available 2007 billing statements for the 16 contracts executed since our original audit. In addition, for contracts executed in late 2007, we also reviewed the first two bills for 2008. During our review of these statements, we noted that payments were made after the due date by four companies but late charges were not assessed. In addition, we identified some errors in the application of adjustments to contract rates.

**Austin Energy is not assessing late charges for late payments for chilled water services as required by the contracts.** A review of the statements revealed that some companies have made payments for chilled water services after the due date specified in the contract, but AE has not assessed late charges for these late payments. Four companies have made a total of 10 late payments, totaling almost \$3,000 in late charges. The late charges that should have been assessed were approximately \$40 for two companies, approximately \$400 for one company, and over \$2,500 for one company. Because AE has not assessed charges for late payments, chilled water customers do not have a financial incentive to pay on time.

Several parts of the chilled water billing process are handled manually because they are not available in the current automated billing system. This includes determination of late payments and assessment of late charges. The person in charge of preparing statements was not aware of how or when to calculate late charges. The individual reviewing statements does not review them to determine whether payments are late and if the late fee has been assessed. While we did not note any intentional disparities related to the failure to charge late fees, we did note a potential conflict of interest because the person responsible for preparing the statements also has customer service responsibilities for some of the same customers. AE management noted that this was a temporary assignment due to a vacancy and would be changed as soon possible.

## Recommendations

01. To assure independence, the Director of On-Site Energy Resources should assign the responsibility of preparing bills and assessing late charges to an individual not involved with direct customer service responsibilities.

---

**MANAGEMENT RESPONSE:** Agree. Using customer service personnel for this responsibility was a temporary situation. Our plan is to reassign these responsibilities from customer care personnel back to our Financial Planner Utility position. This Financial Planner Utility position is expected to be filled by mid-June 2008. Allowing time for orientation and training, we plan to complete the transition of duties prior no later than August 2008.

---

02. To ensure adherence to the contract and timely revenue collection, the Director of On-Site Energy Resources should ensure that customers that make late payments are assessed late charges in accordance with their contract.

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**MANAGEMENT RESPONSE:** Agree. Our plan is to assign this oversight responsibility for an interim period to our Financial Planner Utility when the position is filled. This will be a "manual" operation until such time as an automatic function can be implemented. The assignment of this "manual" operation will be completed no later than August 2008.

In order to continue to improve our late fee assessment process, we will investigate how Austin Energy's CIS (customer billing system) can be utilized to automate this process over the long-term. From this point forward, we will revise our service agreement language to be consistent with the standard CIS procedures.

---

**AE has made some errors in calculating the rates charged.** In our review of 113 statements, we noted three problems in applying the contract terms when preparing the billing statements. First, we found that the CPI Adjustment was not applied to the rates for one company, though the absence was negligible to the billing amount. In addition, we found that one company was incorrectly charged the CPI adjustment, resulting in an overcharge of approximately \$550. These problems can be attributed to human error in applying the contract terms when manually preparing the billing statements. AE is aware of these issues and has indicated that they will take action to address them. One chilled water contract also specifies an electric fuel adjustment. However this adjustment, which would total over \$6,000, was not applied. This contract was initiated early in our scope and AE has since discontinued including this adjustment in chilled water contracts.

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**APPENDIX A**  
**MANAGEMENT RESPONSE**

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**TO:** Stephen L. Morgan, City Auditor  
Office of the City Auditor

**FROM:** Roger Duncan, General Manager

**DATE:** May 15, 2008

**SUBJECT:** Management Response to Chiller Billings Follow-Up Audit

I am pleased to acknowledge the findings of this Chiller Billings Follow-Up Audit. In this follow-up audit, the Office of the City Auditor determined that Austin Energy had successfully implemented all of the recommendations contained in the original audit from 2004. In addition, two new recommendations were included as part of this follow-up audit.

The first new recommendation is to "assign the responsibility of preparing bills and assessing late charges to an individual not involved with direct customer service responsibilities." Using customer service personnel for this responsibility was a temporary situation. Our plan is to reassign these responsibilities from customer care personnel back to our Financial Planner Utility position. This Financial Planner Utility position is expected to be filled by mid-June 2008. Allowing time for orientation and training, we plan to complete the transition of duties prior no later than August 2008.

The second new recommendation is to "ensure that customers that make late payments are assessed late charges in accordance with their contract." Our plan is to assign this oversight responsibility for an interim period to our Financial Planner Utility when the position is filled. This will be a "manual" operation until such time as an automatic function can be implemented. The assignment of this "manual" operation will be completed no later than August 2008.

In order to continue to improve our late fee assessment process, we will investigate how Austin Energy's CIS (customer billing system) can be utilized to automate this process over the long-term. From this point forward, we will revise our service agreement language to be consistent with the standard CIS procedures.

  
Roger Duncan  
General Manager

**ACTION PLAN**  
**Austin Energy Chiller-Billings Follow-up Audit**

| <b>Rec #</b> | <b>Recommendation Text</b>  | <b>Concurrence</b> | <b>Proposed Strategies for Implementation</b>   | <b>Status of Strategies</b> | <b>Responsible Person/ Phone Number</b>                        | <b>Proposed Implementation Date</b>                                  |
|--------------|---|--------------------|---|-----------------------------|--|--|
| 01           | To assure independence, the Director of On-Site Energy Resources should assign the responsibility of preparing bills and assessing late charges to an individual not involved with direct customer service responsibilities.  | Concur             | Preparing bills and assessing late charges will be assigned to the Financial Planner Utility position within our workgroup. | Planned                     | Jim Collins, Director, On-Site Energy Resources (512) 322-6426 | The proposed implementation will be completed prior to August, 2008. |
| 02           | To ensure adherence to the contract and timely revenue collection, the Director of On-Site Energy Resources should ensure that customers that make late payments are assessed late charges in accordance with their contract. | Concur             | Preparing bills and assessing late charges will be assigned to the Financial Planner Utility position within our workgroup. | Planned                     | Jim Collins, Director, On-Site Energy Resources (512) 322-6426 | The proposed implementation will be completed prior to August, 2008. |