

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the Public Lighting
Department**

February 2015




City of Detroit
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Mark W. Lockridge
AUDITOR GENERAL

MEMORANDUM

DATE: February 17, 2015

TO: Honorable City Council and Mayor Mike Duggan

FROM: Mark W. Lockridge, CPA 
Auditor General

RE: Audit of the Public Lighting Department

C: Beau Taylor, Director
Gary Brown, Chief Operations Officer
John Hill, Chief Financial Officer

Attached for your review is our report on the audit of the Public Lighting Department. This report contains our audit purpose, scope, objectives, methodology, and conclusions; background; findings and recommendations.

Responsibility for the installation and maintenance of the system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Public Lighting Department and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in Section 7.5-105(4) of the City Charter, which states in part:

Recommendations that are not put into effect by the department shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the employees of the Public Lighting Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Auditor General's reports can be found on our website at www.detroitmi.gov/CityCouncil/LegislativeAgencies/AuditorGeneral/tabid/2517/Default.aspx

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Audit of the Public Lighting Department

July 2009 – June 2012

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

Audit Purpose

The Office of the Auditor General (OAG) performed the Audit of the Public Lighting Department (PLD) in accordance with the OAG's Charter mandate to investigate the administration and operation of any City agency and report findings and recommendations to the City Council and the Mayor.

Audit Scope

The scope of this audit was an independent review and assessment of the PLD's internal control procedures for transactions of cash receipts, cash disbursements, operating supplies (inventories), payroll, pre-paid credit card, billings and revenue, capital assets; and compliance with year-end closing procedures for the period of July 1, 2009 through June 30, 2012. The audit also included a review of electrical rates and practices pertaining to protective clothing and an evaluation of the status of prior audit findings.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

Audit Objectives

The objectives of the audit were:

- To evaluate the PLD's internal controls over financial transactions;
- To determine if the PLD is in compliance with Finance Directives, policies, procedures, and laws; and
- To determine the status of each prior audit finding.

Audit Methodology

To accomplish the audit objectives, our audit work included:

- Review of internal control procedures;
- Assessment of risks;
- Review of relevant finance directives, City Charter, and State laws;
- Interviews with personnel of the PLD, Finance Department, and Human Resources Department;
- Inspection of safeguards;
- Observation of operations;
- Sample selection;
- Examination of documentation;

- Review of Public Lighting Department Electric Service Rate Book, dated April 1, 1994;
- Review of Public Lighting Department Electric Rate Book, dated July 2009;
- Review of DTE Energy (The Detroit Edison Company) Rate Book for Electric Service; and
- Interview with a representative of the DTE Energy.

Conclusions

Based on our audit, we have concluded the following:

- The Public Lighting Department has adequate control over cash disbursements, and complies with year-end closing procedures.
- Controls over the Public Lighting Department's cash receipts, operating supplies (inventories), payroll, pre-paid credit card, billings and revenue, capital and controlled assets are inadequate.
- PLD electrical rates have not been adjusted recently and are not designed to recover all costs of supplying electrical power.
- The prior audit report includes thirteen findings. Three prior audit findings pertaining to the Public Lighting Department have been resolved. One of the five prior findings attributable to the Finance Department has been resolved; one is no longer applicable; one has been transferred to the Public Lighting Department; one in this report is attributable to both the Finance and Public Lighting Departments; and the status of one prior audit finding will be determined during an audit of the Finance Department Revenue Collections Section. The status of the five prior audit findings pertaining to the General Services Department was not determined. Their status will be determined during an audit of that department.

BACKGROUND

The Public Lighting Department (PLD) is a general fund agency. Its mission is to provide reliable, economic, and efficient street lighting and electric energy services to residents, businesses, and tourists in an effort to improve the quality of life for those who live, work and visit the City of Detroit. The PLD, according to the 2011-2012 adopted budget, has 136 positions and has operations at four facilities: Grinnell Facility, which houses Administration, Construction and Maintenance, and Engineering; Kiefer Steam Plant; Mistersky Power Plant; and Witkowski Operations Center. In addition to the facilities, PLD owns and operates (30) substations throughout the City and operates and maintains 88,000 street and alley lights and 960 traffic signal installations. Its fiscal year 2011-2012 goals were to:

- Investigate options to design and add an additional tie-point for the provision of electric power to customers and implement when additional capital funds become available;
- Repair Gas Turbine (GT) to improve system reliability and provide a back-up for source of electric power;
- Increase the reliability for street lights to 90%; and
- Collaborate with the Finance Department to improve collection efforts related to outstanding electric service customer receivables.

PLD budgets for fiscal years 2009-2010 through 2011-2012 are in the following table:

	2009-2010	2010-2011		2011-2012
Expenditures	\$58,876,622	\$54,199,533		\$53,858,316
Revenues	\$53,092,503	\$53,298,456	A	\$62,730,155
Net Tax Cost	\$ 5,784,119	\$ 901,077		\$ (8,871,839)
Positions	199	136		136

A- The increase in budgeted revenues from fiscal year 2010-2011 to fiscal year 2011-2012 is mainly from sales of electricity to Detroit Board of Education.

Beau Taylor was appointed interim director of the Public lighting Department August 1, 2013. Richard Tenney served as director from November 5, 2012 through August 8, 2013. Stanley Topolewski served as director from October 20, 2008 through September 21, 2010.

Power Distribution Description

According to a PLD engineer, the Mistersky Power Generating Station is the main 24-KV distribution station serving all PLD substations and is connected to DTE Energy's Waterman Station with five 24-KV tie lines. At the substations, voltage is reduced and power is distributed through overhead or underground lines to both City departments and external customers. Power is also supplied to streetlights and traffic signals. PLD maintains approximately 88,000 streetlights in the City. Sixty percent of these lights are connected to DTE circuits. In other words, power is supplied by DTE but maintained by PLD. The remaining lights are supplied power by the PLD system through two different methods, Multiple and Series. The multiple method transformers are used to step down voltages to 480v/960v or 240/480 volts at the pole or at the ground pad. In case of Series Street Lighting, constant current regulators are used to supply power to the lights. Normal current is 6.6 amperes and voltage ranges from 2400v to 7200v. In addition to streetlights, PLD supplies power to various outdoor lighting applications such as under-bridge lighting, sports lighting, monument and building floodlighting, etc.

Public Lighting Authority of Detroit

According to the website of the Public Lighting Authority of Detroit (Authority), the Authority was authorized by Michigan Legislature in 2012 to support and develop a plan to improve public lighting in the City of Detroit, and the Detroit Council approved its creation. Odis Jones is the Executive Director of the Authority, which is overseen by a five-member board that was appointed by Detroit Mayor and City Council.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit report on the Public Lighting Department for the audit period July 2005 through September 2007, by the Office of the Auditor General, includes the findings listed below. The three prior findings pertaining to the Public Lighting Department have been resolved. One of the five prior findings attributable to the Finance Department has been resolved; one is no longer applicable; one has been transferred to the Public Lighting Department; one in this report is attributable to both the Finance and Public Lighting Departments; and the status of one prior audit finding will be determined during an audit of the Finance Department Revenue Collections Section. The status of the five prior findings related to the General Services Department was not determined. Their status will be determined during an audit of the General Services Department.

PRIOR AUDIT FINDINGS ON THE PUBLIC LIGHTING DEPARTMENT

1. Failure to Adhere to the City's Competitive Bidding Procedures
This finding has been resolved.
2. Inadequate Controls over Payroll
This finding has been resolved.
3. Non-compliance with the Finance Department's Year-end Closing Procedures
This finding has been resolved.

PRIOR AUDIT FINDINGS ON THE FINANCE DEPARTMENT

4. Inadequate Controls over Imprest Cash
This finding is no longer applicable. The Public Lighting Department no longer has an imprest cash fund.
5. Inadequate Controls over Cash Receipts
This finding has not been resolved and is transferred from the Finance Department to the Public Lighting Department. The finding is in finding 6 on page 13.
6. Inadequate Oversight of Accounts Receivable
The status of this finding will be determined during an audit of the Finance Department Revenue Collections Section.
7. Inadequate Oversight of Refundable Deposits
This finding has been resolved.
8. Failure to Adequately Control Capital Assets
This finding has not been resolved and is repeated in finding 5 on page 12. In this report, the finding is on both the Public Lighting Department and the Finance Department.

PRIOR AUDIT FINDINGS ON THE GENERAL SERVICES DEPARTMENT

9. Failure to Effectively Monitor Inventory
This finding is on the General Services Department. Its status will be determined during an audit of that department.
10. Inadequate Maintenance of Public Lighting Department Property
This finding is on the General Services Department. Its status will be determined during an audit of that department.

11. Inventory Security Weakness

This finding is on the General Services Department. Its status will be determined during an audit of that department.

12. Failure to Adequately Control Capital Assets

This finding is on the General Services Department. Its status will be determined during an audit of that department.

13. Failure to Provide a Formal Procedures Manual

This finding is on the General Services Department. Its status will be determined during an audit of that department.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Failure to Provide Protective Clothing

The Public Lighting Department provides employees with an annual clothing allowance rather than with protective clothing. The problem with this practice is employees may buy clothing without the grade of protection against hazardous agents or catastrophic occurrences.

Section 1910.132(a) of the General Requirements of the Occupational Safety & Health Administration of the United States Department of Labor mandates the following:

“Protective equipment, including personal protective equipment for eyes, face, head, and extremities, protective clothing, respiratory devices, and protective shields and barriers, shall be provided, used, and maintained in a sanitary and reliable condition wherever it is necessary by reason of hazards of processes or environment, chemical hazards, radiological hazards, or mechanical irritants encountered in a manner capable of causing injury or impairment in the function of any part of the body through absorption, inhalation or physical contact.”

To continue the practice of providing employees with a stipend rather than with protective clothing may result in employees not being protected in catastrophic situations or being exposed to harmful agents.

The reason for not providing employees with protective clothing was not obtained.

Recommendation

We recommend the Public Lighting Department provide employees with the proper grade of protective clothing in lieu of a stipend.

2. Noncompliance with the Pre-paid Credit Card Manual

During the examination of the Public Lighting Department's Pre-paid Credit Card (PCARD) expenditures, the following instances of noncompliance with the City's PCARD manual and weakness were noted:

- An employee paid \$85.50 in sales tax on a purchase of air-conditioners.
- Eight purchases with the PCARD were reviewed. The buyer did not sign four of eight sales receipts.
- The employee who signed the cardholder user agreement has retired. A new agreement has not been signed.

The City's PCARD Manual states:

- The City is exempt from paying sales tax.
- The purchaser is to sign the sales receipt.
- Every department assigned a PCARD must identify a PCARD cardholder.

The Department paid more for the purchase of air-conditioners by paying sales tax. Employees not signing sales receipts and not having a new PCARD holder sign a cardholder user agreement weakens accountability over the PCARD.

An explanation was not provided for paying sales tax on the purchase of air-conditioners or why sales receipts were not always signed. During the audit, the director indicated that the Department is prohibited from using the PCARD due to cost constraints, and sees no need to have a new PCARD holder sign a cardholder user agreement. The representative also indicated there is no use for the PCARD.

Recommendations

We recommend the Public Lighting Department:

- Comply with the PCARD Manual,
- Close its PCARD account if there is no use for a PCARD, and
- If possible, retrieve the \$85.50 the Department paid in sales tax on purchase of air-conditioners from the vendor.

3. Failure to Include All Costs in Electrical Rates Charged to External Customers

The Public Lighting Department (PLD) through its electrical network supplies power to light streetlights in Detroit, to facilities of the City of Detroit, and to external customers. The Office of the Auditor General discovered the following during a review of the Public Lighting Department's electrical rates:

- The Department's electrical rates charged to external customers do not include a rate to upgrade PLD's electrical network.
- The Department does not keep records of the costs of supplying electrical power to external customers.
- The Department has not changed its electrical rates since fiscal year 2009-2010.

According to a former PLD general manager, PLD's electrical network has always been upgraded with funding from sales of bonds, and none of the costs of financing improvements to the network have been charged or allocated to external customers.

Talks with a representative from DTE Energy revealed that DTE Energy includes in its base electrical rates that it charges customers a rate to improve DTE Energy infrastructure. This representative also indicated that DTE Energy rates are designed to recover all costs of supplying electrical power to customers.

A fundamental practice in business is to sell services and/or products at prices to recover costs of providing services and/or products and to generate earnings. Keeping records of costs of rendering services and/or products is also a sound business practice.

In essence, Detroit taxpayers through their contributions to the general fund have paid the costs of improving PLD's electrical network. By failing to keep records of the costs of providing electricity to external customers and comparing such costs to revenue generated from sales of electricity, the City does not know if it is recovering its costs and if it is profitable to render the service. Failure by the Public Lighting Department to review its rates for adjustment has resulted in the City of Detroit subsidizing costs to render electrical power to external customers.

According to a Finance Department representative who works at the Public Lighting Department, rates for improving the network have not been charged to external customers because the Public Lighting Department does not have a rate model. The representative also said electrical rates have not been adjusted in three years because PLD does not have a staff person qualified to do so. In addition, the representative indicated the Public Lighting Department has not kept records of costs of supplying electrical power to external customers because the Public Lighting Accounting System is not Y2K compliant. The system was used to keep track of all costs of rendering electrical power. The Public Lighting Department is in the process of obtaining a new system, through the Information Technology Services Department, called Caselle, in which the costs of supplying electrical power will be entered and maintained. A former general manager who has retired from the Public

Lighting Department indicated that previous administrations did not charge external customers a rate to upgrade the network to limit charges.

Recommendations

We recommend the Public Lighting Department:

- Explore in conjunction with the Mayor's Office charging external customers a rate to use in upgrading and/or maintaining PLD electrical network and rates to recover all costs of rendering services;
- Keep records of costs of supplying electrical power to external customers to use in determining if it is valuable to provide such service; and
- Review and adjust electrical rates to compensate for any rise in costs of supplying electrical power.

4. Lack of an Inventory Record-keeping System for Operating Supplies

The Department lacks a perpetual inventory recordkeeping system and does not have any record system that documents the description and quantity of each type of operating inventory item on hand.

A perpetual inventory recordkeeping system is used to track and document activity involving operating supplies. Such a system documents:

- The description, quantity, unit purchase price and total price of each type of operating item on hand at the beginning of an accounting period;
- Additional purchases of operating items during the period; the dates received and the unit purchase price and quantities received;
- Issuance of each operating item for a job, the date of each issuance; and the number and value of each type of operating item on hand.

Examples of some operating supplies used by the Department are fuses, lamps, wires, cables, fixtures, electrical connectors, luminaries, streetlight poles, duct tape, nuts, bolts, pipefittings, and batteries. The Department's materials and supplies were valued at \$3.3 million as of June 30, 2012.

A component of internal control is recordkeeping over assets.

The absence of a perpetual inventory recordkeeping system for operating supplies exposes supplies to misappropriation.

It was indicated that an inventory system has been installed to keep records of operating supplies but it is not yet "live". The Public Lighting Department and the Information Technology Services Department do not have the staff to implement the system.

Recommendations

We recommend the Department:

- Implement a perpetual inventory recordkeeping system for its operating supplies; and
- Develop written inventory policy and procedures for its operating supplies.

5. Inadequate Control over Capital and Controlled Assets

The Public Lighting Department (PLD)'s capital and controlled assets inventory is inaccurate and internal controls over PLD's capital and controlled assets are inadequate. The OAG performed two tests of PLD's capital and controlled assets. Fourteen capital or controlled assets were selected for examination. The first test was performed to determine the existence of the assets and the accuracy of the record. Seven of the eight sample items selected from the Asset Inventory Report, which was run from DRMS Capital Asset Module were located. One computer was not found. The second test was performed to determine the completeness and accuracy of the record of capital and controlled assets. For the second test, six capital or controlled assets were selected from PLD's Administration Offices. Two capital or controlled assets are included in the Asset Inventory Report. Four computers were not included in the report.

According to the City of Detroit Capital Asset Policy Guide & Procedures, to ensure the accuracy of the City's capital asset records in the Oracle Capital Asset System/DRMS, City Departments must regularly update their capital asset records and notify the Finance Capital Asset Section (FCAS) of any changes made, including intradepartmental location changes, cost adjustments, transfers, retirements and disposals. The policy guide and procedures requires computer equipment and controlled asset to be tracked in the Capital Asset System.

Failure to include all capital and controlled assets in the Capital Asset Module exposes them to misappropriation, and undervalues the City's assets. Not removing disposed assets from the Module causes overstatement of asset balances. In either case, it causes inaccuracies in the Module.

The Capital Asset Inventory Coordinator, who is a Finance Department employee, for the Public Lighting Department indicates there is a lack of communication between the Finance Department and the Public Lighting Department. The coordinator said not all acquisitions and disposals of capital and controlled assets are communicated.

Recommendations

We recommend:

- The Finance Department and the Public Lighting Department establish a guideline for communicating with each other acquisitions and dispositions of the Public Lighting Department's capital and controlled assets so that the records are maintained accurately,
- Complete all acquisition and disposition forms in a timely manner, and
- The Finance Department and the Public Lighting Department comply with the City of Detroit Capital Asset Policy Guide & Procedures.

6. Failure to Deposit Cash Receipts Timely

The Public Lighting Department receives cash receipts for special work orders (such as a removal of a streetlight pole or a transformer), restitution payments, and deposits on electrical services. A sample of eighteen cash receipts was examined to determine if they were deposited within forty-eight hours of receipt. Ten of the eighteen cash receipts were not deposited timely. The cash receipts were deposited one to nine days late.

Finance Directive 20 requires cash receipts to be deposited within forty-eight hours of receipt.

Failure to deposit cash receipts timely increases the risk that they are misappropriated.

A lack of resources to deposit cash receipts was given as a reason for not making timely deposits stated a Finance Department representative.

Recommendation

We recommend the Public Lighting Department comply with Finance Directive 20.

7. Inadequate Separation of Duties Related to the Engineering Division

The Public Lighting Department's duties for cash receipts are not adequately segregated. Engineers of the Engineering Division receive cash receipts (checks, money orders) for special service requests known as "foreign work", such as removal of a streetlight pole or transformer, and for deposits on electrical service. The Engineers prepare work orders and sketch drawings pertaining to "foreign work" requests and issue work orders and drawings to the divisions or sections to perform the work in the orders. The Engineering Division also requests the Operations Division to turn on the electricity for new customers.

One of the components of an effective internal control system is adequate segregation of duties for proper safeguarding of an entity's resources.

Since engineers receive cash receipts and issue work orders and drawings to division(s) or section(s) to perform the service in the work orders and request the Operations Division to turn on the electricity for new customers, the risk of diverting cash receipts for personal use and not being detected is increased by combining those duties.

When the Office of the Auditor General (OAG) asked why engineers received cash receipts, a Finance Department representative responded by indicating that there is no segregation of duties violation or control deficiency in engineers receiving checks and money orders. The OAG disagrees.

Recommendation

We recommend the Public Lighting Department terminate the practice of the Engineering Division receiving cash receipts and have all cash received at the Accounting Office located in PLD Administration Building.

8. Failure to Provide Documentation Essential to Examine Electric Bills for Accuracy and Failure to Comply with the Charter

The Public Lighting Department did not provide the OAG with requested documentation that is essential in examining electric bills for accuracy, and failed to comply with the Charter:

- Thirty-three electric bills were examined. Nineteen of them did not include charges for utility users' tax, sales tax or both. Documentation of the tax-exempt status of customers was not furnished.
- Many customers were charged an energy optimization surcharge, a renewable energy program surcharge, or both. Both are based on voltage served. Documentation of the level of electrical voltage served was not provided.
- A Billing Meter Data Sheet, which includes the multiplier used in calculating bills was not provided for some customers.
- Customers' bills either included a surcharge or credit; or not included a surcharge or credit. Documentation of the calculation of a power supply cost recovery surcharge or power supply cost recovery credit or of a nominal change in cost of electricity was not provided. The Electric Rate Book (ERB), July 2009, approved by City Council on November 10, 2009 requires customers' bills to be adjusted for a power cost recovery surcharge or a power cost recovery credit, unless changes in the cost of electricity is nominal. The ERB details how the surcharge or credit is to be calculated.
- In calculating a bill, a 3.2270% base rate reduction, a 0.0006775 surcharge factor, a 0.0047433 other Edison D-6 rate surcharges factor, and a 0.0500000 securitization reduction rate were used to adjust the bill. None of these rates or the electrical rates used to calculate the bill amount without the adjustments is included in the electric rate book. Documentation for the rates used in calculating the bill was not provided. An explanation for using electrical rates that deviate for the rates in the rate book also was not provided.
- The department does not comply with the Charter by failing to provide the Office of the Auditor General (OAG) with requested documentation.

Documentation is a component of internal control and is essential in verifying the reliability and accuracy of billing amounts. Documentation of tax-exempt status of customers provides assurance of complying with utility users' tax laws and sales tax laws. The ERB, July 2009, which was approved by City Council November 9, 2009, indicates that the renewable energy program surcharge and energy optimization program surcharge are based on voltage of electricity served; and requires customers' bills to be adjusted for a power cost recovery surcharge, a power cost recover credit, or not to be adjusted if changes in cost of electricity is nominal. A billing meter data sheet includes the multiplier to use in calculating a customer's bills. According to Section 9-507 of Detroit Charter, "Any agency of the City may, with the approval of the City Council, charge an admission or service fee to any facility operated, or for any service provided, by an agency. The approval of the City Council shall also be required for any change in any such admission or service fee." Section 7.5-105 of the Charter grants the Auditor General authority to have access to

all financial records, human resource records, and other records of city agencies necessary to perform his/her functions.

The Public Lighting Department may have failed to assess all taxes established to fund specific services or programs and to comply with tax laws. The incorrect multiplier may have been used in calculating the customer's bills. The OAG could not provide assurance of the accuracy and reliability of the amounts billed to customers for electricity. Without such documentation, the department is not in a position to show that amounts billed were correct and the electric rate book was in compliance. By not charging the customer electrical rates and adjusting the bill in accordance with the electric rate book, the Public Lighting Department did not comply with Charter and with the electric rate book, which was approved by City Council. The department is also in noncompliance with the Charter by not providing the OAG with requested documentation.

The OAG requested documentation and explanations for possible exceptions but it was not provided. Public Lighting was under multiple audits and time critical tasks, which took priority over responding to this audit. By the end of the OAG's fieldwork, requested documentation and explanations were not provided.

Recommendations

We recommend the Public Lighting Department:

- Obtain tax-exempt certificates of all customers who have not been charged utility users tax and/or sales tax;
- Maintain all documents to show that bills were accurately calculated and prepared and comply with the electric rate book;
- Charge customers rates and adjust their bills in accordance with the appropriate electric rate book; and
- Comply with the Charter.

9. Several Deficiencies in Practice Pertaining to Meters

The OAG noted several deficient practices of the Public Lighting Department:

- Meters were not read timely in some instances.
- Some meters show the same reading for months, which indicates they may be defective.
- One meter was not accessible for reading and another meter had a zero reading.

A fundamental practice in rendering electrical service is to measure service provided objectively.

Consumption of electricity by the customers is not objectively measured for billing purpose. Disputes over amounts billed for electric service may arise; customers may refuse to pay for electric service that is based on estimated readings. Without objectively measuring electricity supplied, the Department lacks a strong basis for amounts billed to customers.

The Department did not provide a reason(s) for the deficiencies.

Recommendations

We recommend the Public Lighting Department:

- Read meters monthly and repair defective meters, and
- Obtain access to read all meters.

10. Lacking Agreements for Electric Service

The Public Lighting Department did not provide us with a memorandum of understanding with interagency customers and does not have an agreement of electric service with six external customers.

Finance Directive 153 requires service rendered to inter-agencies is covered under formal agreements. A sound business practice is to document contractual terms.

Rights and obligations of parties to an agreement may not be clear without a written agreement. This may lead to disputes over service and payment.

The Public Lighting Department did not provide a reason(s) for not having a written agreement with its customers.

Recommendation

We recommend the Public Lighting Department enter into written agreements with all customers.

FINDINGS RELATED TO THE FINANCE DEPARTMENT

1. Failure to Comply with the Pre-paid Credit Card Manual

In March 2010, PLD began using a Pre-paid Credit Card (PCARD) in place of its imprest cash fund. Accounting for is performed by Finance Department employees assigned to PLD. A Principal Accountant of the Finance Department was assigned as the PCARD holder. The audit disclosed the following instances of noncompliance with the City's PCARD Manual attributable to the Finance Department:

- The PCARD holder reconciled the PCARD statements rather than an independent employee. The PCARD holder would give a copy of each reconciliation to another Finance Department employee, who would copy the information to prepare an "independent reconciliation." Reconciliations were initialed by the independent employee and submitted to the PCARD Program Administrator to satisfy the requirement that an independent employee performs reconciliations. In essence, independent reconciliation was circumvented.
- Sixteen of twenty-four reconciliations of the PCARD statements were submitted late to the PCARD Program Administrator.
- Check requests to replenish the PCARD were prepared by the PCARD holder.

The PCARD Manual requires:

- Departments to designate an employee as the PCARD reconciler,
- The reconciler to prepare monthly credit card reconciliations and to submit reconciliations to the Pre-paid Credit Card Program Administrator by the tenth day of the following month, and
- The reconciler is to prepare check requests to replenish the PCARD.

The failure to comply with the City's PCARD Manual exposes PLD's PCARD to risk of fraud.

A Finance Department employee indicated that a shortage of staff is the cause for noncompliance, reconciliations not being completed and submitted on time.

Recommendation

We recommend the Finance Department comply with the PCARD Manual.

2. Failure to Comply with Finance Directive 20

The Finance Department records the Public Lighting Department's cash receipts in the Detroit Resources Management System (DRMS). The Office of the Auditor General selected a sample of eighteen cash receipts to examine and determine if they were recorded within forty-eight hours of receipt. Four of the eighteen cash receipts were not recorded timely. The cash receipts were recorded from one to nine days late.

Finance Directive 20 requires cash receipts to be recorded in forty-eight hours of receipts.

A delay in recording cash receipts exposes them to defalcation.

An employee indicates cash receipts are not recorded in forty-eight hours of receipt when the employee is out the office on vacation or on sick leave.

Recommendation

We recommend the Finance Department comply with Finance Directive 20 by recording the Public Lighting Department's cash receipts in forty-eight hours of receipt.

3. Inaccurate Calculations and Failure to Comply with the Electric Rate Book and Charter

The Finance Department prepares electric bills for customers of the Public Lighting Department. During the examination of billings for electric service rendered, several errors were noted in the calculation of several bills or several deviations from the electric rate book were noted:

- Customers were charged a power supply cost recovery amount when according to the electric rate book in effect a power supply cost recovery factor was suspended.
- The rate of .078 used in calculating a bill amount is not included in the electric rate book.
- In calculating one bill, adjustments were made. The bill was reduced by \$17,413.57 for a base rate reduction, increased \$5,869.59 for a surcharge, increased \$41,094.05 for other Edison D-6 rate surcharges, and was reduced by \$28,458.55 for securitization. None of the adjustments is included in the electric rate book and the rates used to calculate the bill are not included in the rate book.
- A customer was not charged the rate for primary demand service in accordance with the electric rate book.
- Two customers were charged a renewable energy program surcharge for one meter rather than for both meters and one customer was charged a renewable energy program surcharge for one meter rather than three.
- A customer was charged double the rate for monthly service charges for two meters.
- Rates used to calculate two bills for electricity supplied to light lamps are based on the rates in the previous electric rate book.
- The multiplier used in calculating several bills is incorrect.
- A customer was improperly charged a renewable energy program surcharge. The customer receives electricity to power traffic signals. The renewable energy program surcharge is charged to customers whose service is measured by a meter. Power supplied is not measured by a meter. The customer was not charged an energy optimization program surcharge.
- A customer was charged the wrong amount for renewable energy program surcharge. The customer has three meters and should have been charged for each meter.

According to Section 9-507 of Detroit Charter, "Any agency of the City may, with the approval of the City Council, charge an admission or service fee to any facility operated, or for any service provided, by an agency." The approval of the City Council shall also be required for any change in any such admission or service fee."

The Electric Service Rate Book dated April 1, 1994 was in effect until November 10, 2009 when City Council approved another rate book, suspended the power supply recovery factor. Public Act 295 of 2008, covering renewable energy programs, and the Electric Rate Book, July 2009, approved by City Council November 10, 2009, indicates the renewable energy program surcharge is per meter.

The effects are:

- A section of the charter and provisions of the electric rate book were not complied.
- Customers were either over-billed or under-billed.
- The risk of impropriety is increased when one-employee changes rates charged to customers.

According to a Finance Department representative, a former PLD director reinstated the power supply cost recovery factor in 2007. The representative also indicated special agreements were made with some customers for electric service. Electric rates charged to those customers are not included in the rate book. The representative indicated that one employee enters the meters data and the manager reviews the billings. However, with over a thousand meters and with over a thousand meter readings to be entered in the billing system, some mistakes can be made. The Office of the Auditor General noted that one employee prepares the bills for the bulk of PLD customers with one thousand sixty-four (1,064) meters.

Recommendations

We recommend the Finance Department:

- Comply with the Charter and the electric rate book, and public acts;
- Evaluate and provide resources needed to accurately and timely prepare bills; and
- Charge customers rates in accordance with the electric rate book.

4. Failure to Provide Documentation to Calculate Bill Amounts

The Finance Department prepares and calculates electric bills for customers of the Public Lighting Department. The Finance Department did not provide documentation about:

- Calculation of power cost supply recovery surcharges or power cost supply recovery credits.
- Electric voltages used in calculating renewable energy program surcharge and energy optimization program surcharge.

Documentation is a component of internal control.

Without such documentation, the Finance Department is not in a position to show that customers were charged the correct amounts.

The Finance Department did not provide a reason(s) for not providing the documentation. The Finance Department referred the Office of Auditor General to the Public Lighting Department for the documentation. Also, the Public Lighting Department did not provide the requested documentation.

Recommendation

We recommend the Finance Department maintain documents to show that customers were billed the correct amounts.

5. Inadequate Separation of Duties

During the review of processes in relation to electric bills of customers of the Public Lighting Department and examination of bills, two instances of incompatible duties and one control weakness attributable to the Finance Department were noted:

- The employee who prepares electric bills for customers of the Public Lighting Department also adds new customers and removes former customers from the system used to prepare details of bills and calculate bill amounts. A supervisor did not review the employee's work.
- An employee in the Revenue Collection Section receives unopened mail containing checks and money orders from customers of the Public Lighting Department from another employee who picks up mail from a US Postal Service branch. The employee also posts (credits) customers' accounts for payments received.
- The Revenue Collection Section employee deposits checks and money orders received from Public Lighting Department customers at the Cashier Office of the Treasury Division without immediately obtaining a validated receipt. The process is for the teller (cashier) to provide the employee with a receipt some other day.

Principles of internal control require duties to be adequately segregated to reduce the risk of fraud and errors. Documentation is also a component of internal control, such as obtaining a validated deposit slip.

Permitting employees to perform incompatible duties provides opportunity for fraud to be committed without being detected or timely detected. An employee not immediately obtaining a receipt for depositing money (cash, checks, money orders) lessens control over cash receipts.

Reasons for the control deficiencies were not obtained.

Recommendations

We recommend the Finance Department:

- Separate the duty of preparing electric bills from the duty of adding customers to and removing customers from the system;
- Separate the duty of receiving payments from posting (crediting) payments to customers' accounts; and
- Require employees to obtain immediately a receipt when money (cash, checks, and money orders) is transferred from one employee to another.

AUDIT CONCERNS AND ISSUES

Questionable Practices

The Finance Department prepares Public Lighting Department customers' electric bills. Not all customers of the Public Lighting Department (PLD) are billed monthly for electric service. The Office of the Auditor General (OAG) questions this practice given the City's cash flow crisis.

The OAG noted that PLD has numerous customers with 1,064 meters according to records reviewed; at times, only one or two employees with other duties prepare bills; and PLD has two employees reading meters: one is an electrical worker-general and the other is a senior assistant electrical engineer-design. The OAG performed an observation of meters being read and noted the time involved. The time spent includes time driving to get gasoline for the vehicle used on the meter-reading route, pumping gas, driving to locations to read meters, time gaining access to read meters, and time reading meters. Based on the result of the observation, PLD needs four persons to read all meters monthly.

Recommendations

We recommend the Public Lighting Department along with the Finance Department and the Mayor's Office:

- Evaluate the financial benefit of billing all customers monthly;
- Evaluate the staff levels for reading meters and for preparing bills so that customers are invoiced monthly; and
- Evaluate the cost-effective and operational effectiveness of an electrical worker-general and a senior assistant electrical engineer-design reading meters.

Failure to Bill for Steam

The Department of Health and Wellness Promotion (Institute for Population Health) has not been billed for steam since October 2012. According to a Finance Department representative, three requests have been made for the Public Lighting Department to provide the data needed to bill.

Recommendation

We recommend the Public Lighting Department and the Finance Department develop a solution so that all billings are completed timely and obtain payment for steam rendered.

ATTACHMENT A

PUBLIC LIGHTING DEPARTMENT RESPONSE

3. Failure to Include All Costs in Electrical Rates Charged to External Customers

The department no longer has external customers. Prior to ceding the customer base to DTE Energy, the department revised rates to include all applicable charges and applied retroactively to the furthest extent allowed under the rate book.

4. Lack of an Inventory Record-keeping System for Operating Supplies

The department no longer purchases inventory for operating supplies. The records for those supplies purchased prior to implementation of the Electrical Distribution Supply Agreement (EDSA) between the department, TMC Alliance, LLC (TMCA), and DTE Energy that might be usable to maintain the electrical distribution grid are being kept by TMCA with the over-sight of a departmental employee.