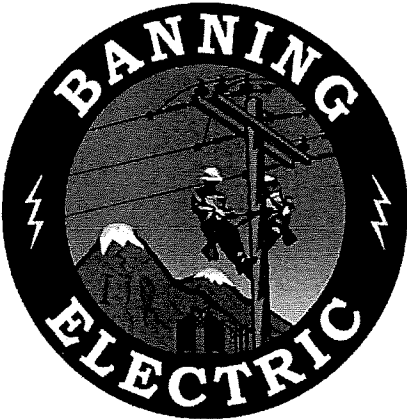


**INTERNAL AUDIT OF  
CITY OF BANNING  
ELECTRIC UTILITY**



**Table of Contents**

Transmittal Letter ..... 1

Background and Introduction ..... 2

Scope Defined in the Professional Service Agreement..... 4

Methodology ..... 5

Internal Audit Procedures and Results..... 6



Certified Public Accountants serving  
K-12 School Districts and Charter  
Schools throughout California

September 10, 2019

Banning City Council  
99 E Ramsey Street  
Banning, California 92220

**Honorable Mayor and City Council**

Christy White, Inc. is pleased to deliver to the Banning City Council the Electric Utility Internal Audit Report (Report). This Report is prepared pursuant to the contract between Christy White, Inc. ("CW") and the City of Banning ("City") executed on September 10, 2018.

The overall scope of work and approach was conducted utilizing standards in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement on Standards for Consulting Services No. 1 (SSCS), the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) and the Internal Control - Integrated Framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission as the industry standards for evaluating the city's approach and practices. In consulting engagements, the nature and scope of work is determined solely by the agreement between the practitioner (CW) and the client (the City). The practitioner develops the findings, conclusions, and recommendations presented.

An internal audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of an internal audit is to provide information and to improve accountability and facilitate decision making. Internal audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

This Report does not constitute an audit, compilation, review or forensic audit, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CW does not express such an opinion.

September 10, 2019  
San Diego, California

348 Olive Street  
San Diego, CA  
92103

O: 619-270-8222  
F: 619-260-9085  
christywhite.com

## Background and Introduction

The City of Banning is a full-service community serving a population of 30,000 people located 90 miles east of Los Angeles. Banning was incorporated in 1913 as a general law city with a Council-Manager form of government. Banning has five elected council members, one of which is appointed mayor by the Council every year. The City Manager is the Chief Administrative Officer and is appointed by the City Council. The four-year elected term of a Council member is staggered, with three members elected during one election cycle and two at another.

Banning Electric Utility ("Utility) is a not-for-profit, publicly owned retail electrical energy distribution utility with 6 distribution substations and 134 miles of power lines serving nearly 13,500 citizens and business patrons. The Utility allows for local control, the City Council has the authority to set electric utility rates, borrow money and establish reserves. The financial activity of the Electric Utility is recoded in the Proprietary Funds which requires full accrual accounting and the utility is a major fund.

For the year ended June 30, 2018 the City of Banning had an outstanding principal balance of \$28,345,000. The bond was issued for the Electric system project which financed electric improvements to the electric system. The current Standard and Poor's credit rating is A-.

The Banning Electric Utility is a member of the Southern California Public Power Authority (SCPPA). The SCPPA is a Joint Powers Authority created for the purpose of providing joint planning, financing, construction and operation of transmission and general projects.

The Customer Service Utility Department is a division of the Administrative Services Department and is responsible for connecting and disconnecting electric meters, reading those meters, and providing billing and collection services for the City's electric utilities.

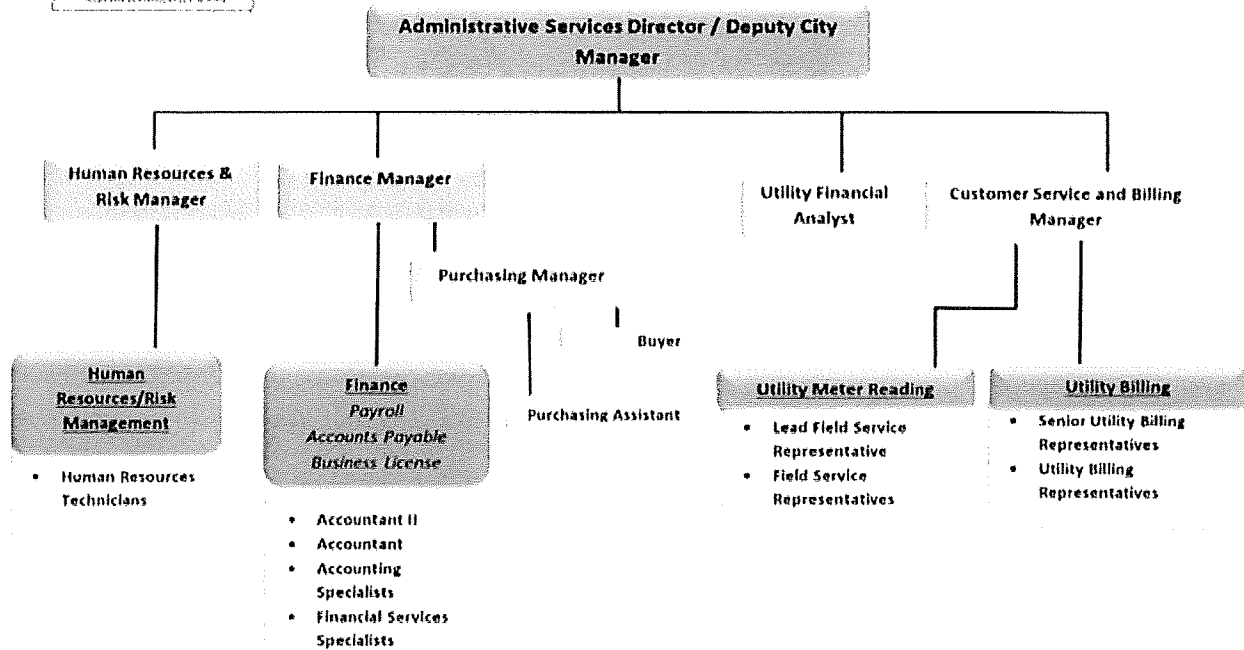
The electric department has a field staff of four (4) power line technician supervisors, seven (7) journeymen power line technicians, two (2) electric service workers, one (1) substation technician and one (1) meter technician, and three (3) service planners to equip with trucks, equipment, and material handling devices to maintain continuity of service.

The Customer Service Utility Department has administrative staff of one (1) Customer Service Billing manager, one (1) Utility Financial Analyst, three (3) Senior Utility Billing Representatives, one (1) Lead Customer Service Representative and two (2) Utility Billing Representatives to maintain continuity of service. The structure is illustrated in the Administrative Services Organizational Chart on the next page with the Customers and City Council ultimate directing and overseeing the City's electric utilities.

Background and Introduction, continued



Administrative Services Department  
Organizational Chart



These departments all work together to ensure the Banning Electric Utility can serve the City of Banning electrical load in a reliable manner and, at the same time, provide the service (meter reading and billing) at an economical cost to the customer.

Due to heightened complaints, concerns of revenue policies, public perception of a lack on internal controls and segregation of duties, and rising utility costs, City Council submitted a Request for Proposal to address the complaints. Based on these requests, they City Council defined six areas in the Professional Service Agreement.

**Scope Defined in the Professional Service Agreement:**

CW responded to a request for proposal on planet bids. We were chosen and entered into an agreement on September 10, 2018 with the City of Banning to conduct an internal audit with specific areas of scope described below.

- a) **Examine** all cash, check and credit transactions of the Banning Electric Utility and determine if all customer cash payments are fully accounted for. Amount of money deposited should correspond with the amounts paid by the City of Banning customers.
- b) **Identify** the amount of electricity purchased (from Southern California Edison and other power suppliers) by the utility in a given year and compare it to the amount of electricity sold to customers during that year (In Megawatt Hours).
- c) **Identify** all dwellings in the City that receive utilities but are not billed or are partially billed. Identify the retail value for each of those transactions.
- d) **Examine** random samples of electric utility bills for billing accuracy, rate structure, and consistency.
- e) **Examine** if electric utility usage was overridden (lowered) manually in individual cases.
- f) **Identify** charges billed for incorrect or non-existent equipment.

The City Council and City Staff were responsible for determining the areas of scope outlined above. CW is responsible for considering what elements to be included in the audit as well as determining the nature of the work to be undertaken and how it will be undertaken (approach).

## Methodology

Heather Rubio along with CW staff, performed the work on the engagement. Christy White, CPA assisted in the supervision of the work. Work began the week of January 15, 2019, culminating in this report dated September 10, 2019.

- 1) Interviews, walkthroughs and observation: Ms. Rubio met with Council Members, key members of management, and Stacy Bouslog, Utility Financial Analyst, who provided requested information to the CW online portal for document collection.
- 2) A review of documentation: Numerous documents were requested and reviewed in the course of the engagement. Stacy Bouslog, Utility Financial Analyst, provided the requested documents.

## Scope Limitations and Impact on Work Performed

Scope limitations and impact on work performed for purposes of this engagement, the meaning of scope limitation and impact on work performed is defined as follows:

- Scope Limitation Definition: CW did not receive documents requested from the City, vendors, or other third parties.
- Impact on Work Performed: Whether CW was able to reach a conclusion of the work step by performing alternative and/or sufficient testing.

## Results:

- Scope Limitation: The City was able to provide all the documents and records requested by CW. Therefore, there was no scope limitation from the City. We would like to also note that all requested documents were received on, or before, each set deadline.
- Impact on Work Performed: Although the City provided all the items requested in a timely manner, the reports were not in easily searchable formats and not available to export for data analytics due to reporting system constraints. Due to the nature of reports provided and the AS 400 system used by the City, CW was not able to make use of all types of data and analytics in the internal audit.

**Internal Audit Procedures and Results:**

**Scope Item A**

**Examine all cash, check and credit transaction of the Banning Electric Utility and determine if all customer cash payments are fully accounted for. Amount of money deposited should correspond with the amounts paid by the City of Banning customers.**

**Scope Item A Procedures:**

The audit scope included procedures and practices used by the customer service representatives of the Utility Customer Service Division's Collections Unit to receive, handle, and deposit cash, checks, and credit card payments at the time of fieldwork.

Cash may include currency, coins, checks, money orders, or credit/debit card transactions. The following are generally considered to be best practices in cash handling: (1) appropriate segregation of duties; (2) effective receipting controls; (3) proper security measures regarding daily balancing and depositing of cash collections; and (4) sufficient management or officer review. Policies and procedures were reviewed, key staff were interviewed, system functional access authority was analyzed, and operations were observed to determine if Utility Customer Service exhibited these characteristics.

- Reviewing the work of auditors in other jurisdictions and researching professional literature to identify best practices for utility billing and collections.
- Interviewing staff responsible for performing cash handling oversight functions.
- Conducting data analysis to test for cash handling fraud indicators and system control failings.
- Reviewing cash receipt support documentation, Utility Customer Service employees' system functional access authority, the City's fiscal policy on cash handling, and Utility Customer Services procedures.
- Observing customer service representatives perform their cashiering responsibilities.
- Observing non-cash credit review and approval and receipt reconciliation processes performed by the Division's supervisors
- Examining a representative sample cash collected for deposits made in the 2016-17 and 2017-18 fiscal years to determine if they correspond with the amounts recorded as deposits in the bank statements.
- Reviewing the Utility Sampling of the Division Work Order List/ Write-offs to determine there was adequate support for billing adjustments and write offs, and the City Procedures were followed.



Internal Audit Procedures and Results, continued:

**Scope Item A Results:**

We found that overall the City had proper controls, policies, and procedures over cash handling and collection. Several payment options are offered that are outlined below. Mail and Online payments make up the largest methods of payment. Actual cash collection at the City make up between 8%-10% of total payments. Due to the risk of cash collections, we focused the majority of our testing on this area.

1. Mail, Lockbox collected by bank
2. Click2Gov – Payment on Website
3. Walk-in Payment by Check
4. Drop Box at the City Office
5. Walk-in Payment by Cash
6. Automatic Bank Draft set up with the City
7. Walk-in Payment by Credit Card
8. Automatic Bank Draft set up by user at their own bank

Table 1 below describes the customer usage of the various types of payment options offered by the City.

Table 1: Payment Method Comparison

	2016		2017		2018	
Mail - Lockbox (LA)	\$ 13,408,276	28%	\$ 12,114,612	23%	\$ 12,493,959	25%
Online (C2G)	\$ 6,829,591	14%	\$ 9,343,268	18%	\$ 10,170,841	21%
Checks - Cashier	\$ 7,004,314	15%	\$ 8,950,065	17%	\$ 7,492,894	15%
Lockbox at City	\$ 5,593,635	12%	\$ 6,276,096	12%	\$ 4,534,862	9%
Cash - Cashier	\$ 4,698,779	10%	\$ 4,596,772	9%	\$ 4,165,460	8%
Autopay	\$ 4,403,015	9%	\$ 4,836,676	9%	\$ 5,022,133	10%
Credit Cards - Cashier	\$ 3,113,592	7%	\$ 3,420,875	7%	\$ 3,636,182	7%
Other Electronic Payments	\$ 2,338,719	5%	\$ 2,048,345	4%	\$ 2,020,002	4%
Total	\$ 47,389,921		\$ 51,586,709		\$ 49,536,333	

Cash collection security measures are adequate effective security measures for balancing and depositing cash collections that have the following elements: (1) Cashiers should have a lockable cash drawer and it should be secured in a locked safe, to which access is limited to the employee collecting the cash and a supervisor. If there is more than one person receiving cash at the same time, each person should have his/her own cash drawer. (2) All cash receipts should be balanced daily by comparing the receipts issued recorded in the system with the actual amount of cash in the drawer. (3) Deposit should occur at the earliest possible time with all funds intact. The entire amount of receipts collected must be deposited so that all collections are posted as receipts to the City's accounts. (4) The deposit receipt should be reconciled to cashiers' receipt documents after the deposit has been made.

**Internal Audit Procedures and Results, continued:**

**Scope Item A Results, continued:**

Through review and testing CW found that the City has effective security measures for collecting, balancing and securing cash received. Based on our observations, cashiers are providing all customers with receipts. City cash handling procedures state that cashiers should always give the customer a receipt.

An independent reconciliation is performed by the Deputy Finance Director. Each day, an Accountant in the Accounting Division of Fiscal Services reconciles the daily Utility Customer Service deposit to the City's account statement. She verifies that all deposits reconcile to accounting records, sales records, and the bank statement. This step ensures that all cash sales recorded for the day were properly and timely deposited and correctly recorded in the City's accounting system.

Cash drawers are individually assigned and secure. Each cashier is assigned a cash drawer with a change fund. The drawers are all locked in the safe overnight. In addition, cashiers can lock their drawers at their workstation. According to the 2006 Association of Certified Fraud Examiners Report to the Nation on Occupational Fraud and Abuse, approximately 33 percent of occupational fraud targets incoming receipts or cash on hand. The two most common frauds related to cash handling include: check for cash substitution schemes and lapping schemes. We performed various audit procedures and questionnaires outlined below to assess the risk that any Utility Customer Service employee is involved in perpetrating one of these frauds.

**Check for Cash Substitution Scheme Risk Evaluation:**

- Are employee duties appropriately segregated? Yes
- Are deposits made daily and in the same form received? Yes
- Does the check and cash composition of the daily bank deposit agree with the mode of payment indicated on the cash receipts? Yes
- Are official pre-numbered cash receipts used, which indicate mode of payment data (i.e.; payment by check or cash)? Yes, receipts are generated by the system.
- Does the organization verify daily cash receipt accountability to a bank-validated deposit slip showing check and cash composition? Yes
- Does the Division control revenue checks which are received through the mail by having more than one employee present when the mail is opened, making a log of the transactions, and then reconciling this information to daily cash receipt transactions to ensure that all payments were recorded properly and deposited in the bank? – Yes, deposits are made through the Check 21 process.

**Internal Audit Procedures and Results, continued:**

**Scope Item A Results, continued:**

Lapping Scheme Risk Evaluation:

- Are employee duties appropriately segregated? Yes
- Are personal checks of cashiers or other fund custodians not allowed to be cashed at Customer Service registers? Yes
- Are there no deposit timing lags from Utility Customer Service to the City's bank account? Yes
- Are deposits made daily and intact? Yes
- Does the check and cash composition of the bank deposit agree with the check and cash composition of the cash receipts issued? Yes
- Is there no reported mysterious disappearance of cash receipts? Yes

Additional safeguards in place include:

**Cash drop procedures:** Cash drop procedures are put in place to ensure cashiers do not have excessive cash in their drawers. This process is initiated for the safety of the cashier and also to prevent loss of cash due to internal or external fraud or theft. When a utility billing representative has an excess of cash in their drawer, a cash drop will be made. An excess of cash is determined as having over \$2000.00 and/or an excess of large bills. Each utility billing representative will be responsible to advise the customer service/billing manager when a cash drop is needed.

**Write Off/ Payment Plan procedures:** Payment arrangements are granted by customer service representatives when request is made for special conditions and circumstances such as sickness and hardship. The City of Banning Administrative Policy B-20 specifies that arrangements for payment will require at least one-third of the prepayment balance to be paid immediately. The Utility Finance department did an audit of Utility payment reports and Diversion reports and found 7 payment arrangements were made that were not made according to the Administrative Policy. We recommend that billing follow the administrative policy or work with City Council to update the policy.

**Internal Audit Procedures and Results, continued:**

**Scope Item B:**

**Identify the amount of electricity purchased (from Southern California Edison and other power suppliers) by the utility in a given year and compare it to the amount of electricity sold to customers during that year (In Megawatt Hours).**

**Scope Item B Procedures:**

We tested compliance with Utility policies and procedures by performing detailed examinations of electric transactions for fiscal years ending June 30, 2017 and June 30, 2018. For each transaction, we checked the adequacy of internal controls for items such as separation of duties, proof of supervisory review and oversight, and documentation of actions taken. We also examined and tested the forecasting/planning models used by Utility staff. The audit scope included:

- Reviewing the utility service agreement between the City of Banning and City of Riverside.
- Reviewing all the wire transfers made to Riverside Public Utilities for fiscal years 2016-2017 and 2017-18.
- Interviewing key staff responsible for the reporting and purchasing of energy including meeting with the Electric Utility Director Tom Miller and Power Administrator Jim Steffens.
- Examining the total consumption and revenues reported for fiscal years 2016-2017 and 2017-18.

**Scope Item B Results:**

Banning Electric Utility's primary objective is to provide reliable electric power at the lowest practicable cost, consistent with sound business principles, and in compliance with all regulatory mandates. Normal power supply activities are to be focused around this objective.

We recommend the Utility continue to participate with Southern California Public Power Authority ("SCPAA") members and other applicable utilities and agencies in California to ensure adequate resources and reliable electric service. The Utility also closely monitors the CAISO markets to make sure that their strategy will continue to be optimal.

**Internal Audit Procedures and Results, continued:**

**Scope Item B Results, continued:**

In attempting to meet the scope defined by the City, we found that the total consumption in 2016-2017 was 143,729,492 kWh, while the annual load in 2016-17 was 150,041,000, resulting in a difference of 6,311,508 which could be due to a number of factors described above. The total consumption in 2017-18 was 140,906,066 kWh, while the annual load in 2017-18 was 148,541,000, resulting in a difference of 7,634,934 which could be due to a number of factors described below. (As shown in Table 2)

The City purchases power from 00:00:01 on the first day of the month to 23:59:59 on the last day of the month with the power bills tied to that time window. There is a component known as system losses/friction. Currently Banning Electric cannot calculate/evaluate true system losses because they currently don't have a method to match the power bill to customer billing.

In addition, Banning Electric supply portfolio is exposed to several risks, including but not limited, to load variability, cost variability (including applicable CAISO resource sufficiency and associated price caps, congestion costs, energy costs and energy losses), Counterparty Risk, energy commodity price volatility, and regulatory/legislative risk.

It is a priority for the utility to finish the AMR-AMI project which will allow them to interrogate the electric meters independent of the customer billing cycles in order to match up purchases with consumption. Currently, the utility can only track the monthly differential and monitor the trend month over month to get a decent understanding of system losses. While the City reports a number called system losses, the annual losses vary widely, thus they cannot be relied on.

We recommended the Utility continue to work on a reporting model that will make the amount of electricity purchased and sold for transparency and easily explain a month to month variance. In addition, we recommend reports that outline the monthly load are provided to the Council on a frequent basis.



Internal Audit Procedures and Results, continued:

Scope Item B Results, continued:

Table 2: Electricity Purchased and Sold

DESCRIPTION	Fiscal Year 2016-17			Fiscal Year 2017-18		
	Average # of Customers in 2016-17	Total Consumption (KWh)	Total Revenue	Average # of Customers in 2017-18	Total Consumption (KWh)	Total Revenue
Residential	9,291	59,506,978	\$ 12,395,797	9,241	57,342,245	\$ 11,596,657
Commercial Demand	170	29,053,049	\$ 6,364,317	161	28,584,584	\$ 6,123,863
TOU	6	10,939,240	\$ 1,717,027	6	10,722,240	\$ 1,542,367
Commercial	644	9,036,119	\$ 1,969,959	655	9,377,130	\$ 1,977,180
Power Demand	11	8,792,730	\$ 1,910,268	11	8,389,840	\$ 1,768,258
TOU - City Well	6	5,090,136	\$ 704,874	6	5,604,410	\$ 784,851
Residential BEAR Program	433	2,739,146	\$ 425,744	451	2,815,696	\$ 424,929
Master Meter	10	2,700,305	\$ 512,505	10	2,692,102	\$ 496,812
Life Support	299	2,532,762	\$ 488,353	307	2,457,630	\$ 458,543
City of Banning	55	2,306,141	\$ 235,793	55	2,172,197	\$ 208,265
LISC-BEAR Program	413	2,167,235	\$ 314,194	424	2,167,363	\$ 299,135
Municipal Wells Demand Dept 63	5	1,832,513	\$ 395,193	5	1,593,644	\$ 323,580
Comm St Light Exempt	194	1,683,350	\$ 375,060	197	1,622,495	\$ 349,874
Street Lighting	2	1,604,784	\$ 162,861	2	1,604,724	\$ 152,337
PV - Residential	226	767,051	\$ 182,753	268	765,090	\$ 168,440
All Electric	98	734,318	\$ 149,216	104	647,901	\$ 124,805
Low Income Senior Citizen	73	491,186	\$ 93,217	60	361,663	\$ 68,338
LISC-Med LL - BEAR Program	57	436,507	\$ 63,716	65	470,552	\$ 64,931
Municipal Demand	4	351,710	\$ 35,692	4	346,280	\$ 33,089
Life Support-BEAR Program	34	281,037	\$ 42,961	41	325,493	\$ 46,958
Commercial Demand - ECDV	4	154,640	\$ 35,409	3	196,400	\$ 43,169
Municipal Block Dept 6300	9	94,360	\$ 18,683	8	298,147	\$ 54,889
Freeway Lighting	1	89,256	\$ 8,262	1	89,256	\$ 7,677
Security Lighting	37	79,240	\$ 26,741	37	63,960	\$ 21,537
All Electric-Medical Lifeline	2	71,812	\$ 18,824	1	6,484	\$ 1,164
Res All Elec - BEAR Program	8	57,246	\$ 8,769	8	56,145	\$ 7,758
Res All Electric Water Well Pump	2	44,670	\$ 9,393	2	45,461	\$ 9,059
Park Lighting	1	37,152	\$ 3,888	1	37,152	\$ 3,576
LISC-All Elec - BEAR Program	2	16,279	\$ 2,540	1	9,353	\$ 1,407
Residential Water Well-O	2	15,621	\$ 2,915	2	17,114	\$ 3,086
Low Income Senior Citizen-All Elr	1	8,158	\$ 1,548	2	13,739	\$ 2,472
Low Income Senior Citizen-Med l	1	7,789	\$ 1,473	-	-	\$ -
All Elec Med LL - BEAR Program	0.7	6,560	\$ 929	0.8	4,668	\$ 579
All Elec Med LL - BEAR Program	0	413	\$ 58	1	4,908	\$ 651
<b>Total</b>	<b>12,101</b>	<b>143,729,492</b>	<b>\$ 28,678,935</b>	<b>12,139</b>	<b>140,906,066</b>	<b>\$ 27,170,238</b>
Total Paid to Riverside Public Utilities			\$ 16,660,282			\$ 16,070,196
Annual Load MWh (amount Purchased)		150,041			148,541	
Annual Load KWh (amount purchased)		150,041,000			148,541,000	

**Internal Audit Procedures and Results, continued:**

**Scope Item C:**

**Identify all dwellings in the City that receive utilities but are not billed or are partially billed. Identify the retail value for each of those transactions.**

**Scope Item C Procedures:**

The audit scope included reviewing procedures that would help identify any dwellings that would receive utility without payment that also included:

- Reviewing the list of 125 address that the City of Banning is paying electricity for and verifying they are correctly classified.
- Interviewing key staff to determine if they are aware of any dwellings receiving utilities but not adequality billed.
- Examining of a representative sample of address from the Meter Reading Sequence Listing Route reports and tracing to utility billing.
- Following up on the 2015-16 Grand Jury Report on the City of Banning and Banning Chamber of Commerce to determine recommendations have been implemented.

**Scope Item C Results:**

The city provided a list of dwellings the City of Banning is paying for with address and the amount charged. We reviewed the address charged to determine if they were in fact the responsibility of the City of Banning. We did not find any addresses that did not appear to be allowable to charge to the City of Banning. The highest electric users and those charged to the City of Banning are monitored by the Utility Financial Analyst on a regular basis as reflected in Table 3.

Our interviews with Financial and Utility Staff, Utility Billing and Council Members did not reveal that there were any dwellings receiving utilities but not adequality billed outside of the past issues with the Chamber of Commerce (further detail can be found in the 2015-16 Grand Jury Report) and Sun Lakes Meters (related to water meter reading and not electric utility reading, water meter internal controls were not included in the scope of this report).

Internal Audit Procedures and Results, continued:

Scope Item C Results, continued:

The 2015-16 Grand Jury Report related to the City of Banning and the Banning Chamber of Commerce recommended:

- That Banning discuss its lease proposals in the open agenda portion of the Banning City Council meetings prior to agreeing to such proposals. Those discussions to include total costs to Banning both in waived rent to the lessee, as well as in waived rents that result from modifying existing leases.
- That Banning formalize its financial dealings and not utilize handshakes or past practices with other entities.
- That Banning develop written policies and procedures necessary to review contracts and/or leases to ensure compliance.

Our review of the Council Board Minutes did not reveal any lease proposals resulting in waived rent to the lessee, as well as in waived rents that result from modifying existing leases. That does not mean they do not exist, just that CW was not able to locate any though inquiry or Council Minutes.

Customer	Electric Charges	Electric Consumption (kWh)	Average per kWh
City of Banning	\$ 1,563,002	11,776,700	\$ 0.13
EDA Facilities Management	\$ 1,040,471	5,565,293	\$ 0.19
Banning Unified School District	\$ 852,622	3,820,173	\$ 0.22
San Gorgonio Memorial Hospital	\$ 738,143	5,532,040	\$ 0.13
Sun Lakes Country Club HOA	\$ 560,833	2,676,567	\$ 0.21
Albertson's	\$ 242,641	1,871,520	\$ 0.13
Frontier California	\$ 201,271	1,049,222	\$ 0.19
Rio Ranch Market	\$ 191,261	947,700	\$ 0.20
Sunrise MHP	\$ 181,676	975,680	\$ 0.19
Robertson's Ready Mix	\$ 140,437	484,082	\$ 0.29
Mountain Air MHP	\$ 97,708	515,400	\$ 0.19
Twin View MHP	\$ 91,622	507,760	\$ 0.18
Mountain Springs MHP	\$ 22,898	110,841	\$ 0.21
Peppertree Apartments	\$ 20,382	95,446	\$ 0.21
H K Realty - Windscape Village Apts	\$ 17,153	74,332	\$ 0.23

We found that Service Extensions exist, which are added facilities provided by the utility which are in addition to, or in substitution for, the standard facilities which the utility would normally install. A customer makes written application for added facilities and the installation of such facilities is under the following conditions. The customer shall pay the Department the difference in cost between the added equipment and the equipment normally supplied. The Utility had policies place in reference to requiring an application but not in relation to collecting payment, monitoring or going to the City Council. We recommend a process is put in place to monitor payment collection for Service Extensions.



**Internal Audit Procedures and Results, continued:**

**Scope Item D**

**Examine Random samples of electric utility bills for billing accuracy, rate structure and consistency.**

**Scope Item D Procedures:**

The amount of inaccurate readings that pass through the billing system appear low. During our review, we examined potential causes for inaccurate meter readings remove during and found that human error and estimations caused the highest number of inaccurate readings. We found that human error was not isolated to one specific individual. Meter reader errors can directly impact customer bills and can lead to over- or under-billing and customer complaints. To meet the objectives of the audit, the procedures performed included, but were not limited to, the following:

- Inquiring of City personnel.
- Walkthrough of the utility billing process.
- Reviewing policies and procedures, and evaluated internal controls, related to: Billing statements; Opening new accounts; Adjustments; Delinquent accounts; Account write offs; Payment plans; and Refunds.
- Reviewing whether Banning Electric has internal controls that detect errors in the billing system.
- Examining a random sample from the Meter Reading Posting (UT305L) and testing to ensure proper billing rates by tracing to posted billing rates.

**Scope Item D Results:**

In general, Utility Billing has an adequate internal control environment providing a consistent, accurate, and timely billing and payment posting operation. In our sample we were able to determine that the customers were billed correctly in accordance with the utility billing rates. The policies for service rates and fees for power provided by the Utility to its customers are determined and set by the City Council

We conducted a qualitative review on the Department's methods for ensuring the accuracy and reliability of the data contained in their database. Based on our review of the billing reports provided, we found the data to be sufficiently reliable for purposes of our analysis. Our testing strategy stratified the billing into a series of individual samples aimed at testing specific transaction items, such as accuracy of billing activities, billing charges, and payments posted.

**Internal Audit Procedures and Results, continued:**

**Scope Item D Results, continued:**

Although we did not come across billing errors in our sample, we determined that Banning Electric does not have internal controls in place to detect billing errors in which there would be an error based on how the account was setup. If there is an error in account setup our testing or current reports would not detect an error. When restructuring billing rates, the City needs a control process to ensure the account setups and rates are entered accurately.

We also found the Utility Billing Cashier is allowed to modify billing without approval, but only for removal of a \$13.50 late fee or add turn on service fees. Below are the policies and procedures related to adjustments.

1. Any adjustment must be reviewed and approved by the billing manager. An adjustment form will be completed and signed by the senior billing representative as well as the billing manager, outlining the reason for the adjustment as well as the breakdown of the adjustment to be done.
2. Adjustments must have all back up documentation attached to the adjustment form. For example, work orders and photos etc.
3. Once the adjustment has been completed, the senior billing representative will scan a copy of all adjustment information to the customer's account.
4. A hard copy of the adjustment with all backup documentation will be kept for a period of five (5) years.

We examined a random sample of user adjustments and found that the policies and procedures were followed without exception. In addition, the fee adjustments reports are printed out each day and reviewed, but the City is unable to run an annual report to determine the total amount of last fee adjustments or overall adjustments.

Through inquiry we found the Public Works Department have been overcharged in the amount of \$1,276,936. The Utility Department created a new rate code and applied it incorrectly from May 2014 to May 2016. The error was made through a sequence of events as follows:

- July of 2013: Public Works Department gave direction to the Utility Billing to change the billing rate of six electrical utility accounts, resulting in the decrease of the electrical charges by going to a Time of Use Rate (TOU- billing code of 12) instead of the current Rate Schedule of C (billing rate code of B8).
- March of 2014: A request was made by the electrical department to make a special rate code for just the six (6) accounts, Utility Billing staff created a new Rate Code identified as 15 - specifically labeled as City Time of Use Wells.
- May of 2014: It appears the incorrect rate was used.
- May of 2016: Correct rates are used.

Internal Audit Procedures and Results, continued:

**Scope Item D Results, continued:**

The errors in rate amounts and consumption totals for both demand and kWh used was due to the failure to assign the new 15 rate code to summer/winter rates, as a result the system prorated each month on the rates and the consumption was doubled. The system could not identify user history. It appears the City did not have an adequate internal control process in place for creating and applying new rate codes. As a result, we recommend that when an additional rate code is added it is formally reviewed, approved and monitored once applied. In addition, year to year fluctuations should be reviewed. Below is the change in electrical charges that show and increase in FY 14/15.

Water Expenditures	FY10/11	FY11/12	FY12/13*	FY13/14	FY14/15	FY15/16
6 60-63 00-471-2 6 -01						
Actual not budgeted	\$ 1,005,664.81	\$ 1,299,583.78	\$ 1,274,051.60	\$ 1,328,587.62	\$ 1,713,832.58	\$ 1,416,356.48
*Electrical Rate Increase effective May 1, 2013				Credit due of \$ 153,705.29	Credit due of \$ 596,405.74	Credit due of \$ 526,825.18



**Internal Audit Procedures and Results, continued:**

**Scope Item E:**

**Examine if electric utility usage was overridden (lowered) manually in individual cases.**

**Scope Item E Procedures:**

- Reviewing the policies and procedures for meter adjustments
- Examining a representative sample from the Meter Reading Exception Listing Report (UT305L) and testing to ensure proper billing
- Reviewing the process for Solar 411 Billing

**Scope Item E Results:**

We found that Banning Electric does not have metrics for evaluating meter reader performance. By not evaluating meter reader performance, the City cannot sufficiently manage staff capacity and ensure accurate meter reads, which can lead to meter reading errors and customer complaints. We recommend the City develop schedules for all audit queries based on exception rates. As of the date of this audit report the City has started using smart meters. The level of accuracy and complaints related to the smart meters had not been evaluated.

Currently once the meter reading posting report (UT305L) is ran, the senior utility billing representative will review each page of the report for the following exceptions.

- a) Negative consumption
- b) Excessive amount of estimated reads
- c) No final reading
- d) Current solar accounts (Book 32) pending reads from EL Dept.
- e) Meter exchanged
- f) Rollover occurred
- g) Any other exception that prevents the account from being final billed.

**Internal Audit Procedures and Results, continued:**

**Scope Item E Results, continued:**

1. After reviewing and correcting, the final meter reading posting will be run once again and checked for any adjustments and/or updated reads.
2. Look over the preliminary final billing register (UT420L) to make certain any adjustments/corrections made during review are reflecting correctly.
3. Advise Senior Utility Billing Representative responsible for sending bill files that Final billing has been completed and is ready to upload tonight.
4. The following business day print out Final Bill Credit Refund Listing (UT301L).
5. In Infosend, print out a copy of each account that has a credit refund due and hand both the UT301L and bill copies to Accounts Payable so they may process and send the refund checks to the customers.
6. The senior billing representative will scan the final billing posting, register, preliminary refund deposit listing, and the exception listing as well as the UT301L to the final billing folder, located in the utility billing drive the following day. The folder will be noted by year and month.

Although the City has procedures related to reviewing meter reading exceptions, the process appears timely yet cumbersome. Having summarized metrics will give the Utility a better understanding of underlying issues.

The City also runs a Residential Self Generating Utility Program (Solar 411). At the beginning of the program the City estimated the amount of electricity the customers Facility may produce on an annual basis, based on name plate capacity ratings, industry standard capacity factors, and actual production numbers. The City then compared that estimated amount to the customers actual electric consumption for the past eleven months and then "settled up" the difference. This process complied with California's original net metering, which allowed for every kilowatt-hour (kWh) of solar electricity into the grid, the customer would receive a bill credit for one kWh of utility-generated electricity. If the solar panels produced more than used, the customer "banked" the excess to use when the panels don't produce enough to meet your monthly use.

Ultimately the process described above was tracked using manually entered Solar Reading Sheets which are subject to manual override and a high risk for error, making it difficult to verify the completeness of the data. In response to this and California Net Metering 2.0, Utility attempted to create a system in which the customer is credited back each month with the amount of energy they have generated during that time period, which would eliminate the "settle up" process. The Utility department found that the system would need a number of modifications in order to support a proper tracking method. The change resulted in approximately 45 customers who signed up under the new rate structure that did not receive timely utility statements.

**Internal Audit Procedures and Results, continued:**

**Scope Item E Results, continued**

We were notified that Utility staff did reach out to the utility billing software provider and determined the best way to solve the issues they were having with the new rate structure was to get a consultant on site to assist. As of the date of this report, with the assistance of the consultant all but three of the accounts are now billed.

Although it appears the City has current procedures to streamline the process and is working on controls to ensure accurate billing, we recommend the City evaluate the new process to determine the system has the capability for accurate and timely billing, and one that can easily accommodate growth and changes. Solar is both a high growth area, we recommended moving towards and automated process that can easily be tracked, verified and reviewed.



**Internal Audit Procedures and Results, continued:**

**Scope Item F:**

**Identify charges billed for incorrect or non-existent equipment.**

**Scope Item F Procedures:**

- Reviewing the policies and procedures for interfund transfers.
- Reviewing the calculations and methodology used for interfund transfers for fiscal years 2016-17 and 2017-18.

**Scope Item F Results:**

The City of Banning operates an electric utility. The City's electric utility revenues are accounted for separately from the City's general fund revenues. The City makes an annual budgetary transfer from its electric utility fund to its general fund. The annual transfers are established at a rate to equate as nearly as practicable to the actual expenditures using a number of factors, such as the number of employees to compensate the general fund for the costs of services that other city departments provide to the utility. The rate is calculated with each budget and, as a budget line item, subject to annual discretionary reauthorization by the City Council. Rates for utilities should be adjusted to balance proprietary fund revenues and expenditures, ensure system integrity, and provide necessary improvements to the utility system.

The Electric operational fund shall maintain a minimum Available Fund Balance reserve of 10% of the upcoming fiscal year's total operating appropriations and debt service payments. The Available Fund Balance for the Electric Rate Stability Fund shall be maintained at a minimum of 20% of the upcoming fiscal year's total operating appropriations and debt service payments.

Per the City Council Resolution 2014-33 effective as of June 25, 2017, the Electric Operation Fund's administrative transfer to the General Fund is authorized at 10% of operational revenues.

## Internal Audit Procedures and Results, continued:

Scope Item F Results, continued:

In the November of 2018 the City put **Measure P** on the ballot to “allow approximately \$2,325,000 annually for unrestricted general revenue purposes such as police, fire, paramedics, parks, and senior services while stabilizing electric utility rates, shall an ordinance be adopted authorizing a **transfer not to exceed 7.5% of annual electric utility gross revenues** to the City's General Fund until December 1, 2021 and 5.5% thereafter, for unlimited duration, and establishing a rate freeze for 3 years, except as needed for financial emergency or bond covenants”. The measure was defeated. While all these factors were reviewed in determining how the City determined the budgeted transfers reflected below, we are unable to determine a single methodology that was used for actuals reflected in Table 5..

<b>DESCRIPTION</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Change</b>
INTERFUND SVC-ADMINISTRTRN	\$ 3,177,300	\$ 3,312,300	\$ 135,000
INTERFUND SVC-PERSONNEL	\$ 53,053	\$ 51,830	\$ (1,223)
INTERFUND SVC-PERSONNEL	\$ 2,025	\$ 1,978	\$ (47)
INTERFUND SVC-C/ATTORNEY	\$ 51,789	\$ 61,398	\$ 9,609
INTERFUND SVC-C/ATTORNEY	\$ 1,803	\$ 2,137	\$ 334
INTFD SVC-BLDG JANIT/MANT	\$ 46,188	\$ 44,937	\$ (1,251)
INTFD SVC-BLDG JANIT/MANT	\$ 1,788	\$ 1,730	\$ (58)
INTERFUND SVC-INSURANCE	\$ 135,452	\$ 130,179	\$ (5,273)
INTERFUND SVC-PURCH & A/P	\$ 40,604	\$ 39,492	\$ (1,112)
INTERFUND SVC-PURCH & A/P	\$ 17,560	\$ 17,080	\$ (480)
INTERFUND SVC-FLEET MAINT	\$ 147,191	\$ 102,192	\$ (44,999)
INTERFUND SVC-BILL/COLL	\$ 642,083	\$ 644,486	\$ 2,403
INTFD SVC-MTR READ/SVC	\$ 299,463	\$ 290,811	\$ (8,652)
INTERFUND SVC-FINANCIAL	\$ 109,893	\$ 106,851	\$ (3,042)
INTERFUND SVC-FINANCIAL	\$ 47,526	\$ 46,209	\$ (1,317)
INTERFUND SVC-COMPUTER	\$ 91,891	\$ 90,050	\$ (1,841)
INTERFUND SVC-COMPUTER	\$ 2,687	\$ 2,633	\$ (54)
TRNFR RATE STABILITY FUND	\$ 223,038	\$ 223,038	\$ -
TRNSF-07 ELEC DBT SVC	\$ 2,421,390	\$ 2,422,594	\$ 1,204
Total	\$ 7,512,724	\$ 7,591,925	\$ 79,201



Internal Audit Procedures and Results, continued:

Scope Item F Results, continued:

Fiscal Year Ended	Admin Fees Transferred	Operational Revenue	%
2018	\$ 1,588,650	\$ 31,242,537	5%
2017	\$ 3,149,579	\$ 34,526,349	9%
2016	\$ 3,002,767	\$ 30,732,039	10%
2015	\$ 3,180,700	\$ 46,933,787	7%
2014	\$ 3,034,707	\$ 31,037,531	10%

We recommend the City come up with more uniform, consistent, transparent system for charging the utility fund administrative fees. Under the current method it is difficult to identify the actual expenses for the Electric Utility. In the CAFR, a portion is recorded in the service line and the other portion is recorded as a transfer out of the Electric Utility Fund.

**Conclusion:** Our examinations, observations and inquiries did not uncover any instances of fraud. Instead, we found that the issues we mentioned in this report the City of Banning has encountered, are a result of outdated reporting systems and manual processes that do not allow for transparent reporting and make it difficult to detect errors timely.