Nassau County
Office of the Comptroller

Review of County Utilities Expenses
Long Island Power Authority Costs

<u>GEORGE MARAGOS</u>

Nassau County Comptroller

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OFFICE OF THE COMPTROLLER

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Background

The Long Island Power Authority ("LIPA") is the main supplier of electricity[1] to Nassau County, ("County"). The County is billed for electricity provided to its buildings, other County properties, such as parks, museums, property used by other entities under leases, special permits or licensing agreements, streetlights and traffic signals. According to the County's general ledger, for the fiscal year ending December 31, 2009 and the six-month fiscal period through June 2010, the County paid LIPA $18.8 million and $9.3 million, respectively, for electricity.

The County pays the majority of its accounts through an electronic payment process established in 2004 as a result of the County incurring numerous excessive late charges due to untimely payment of its LIPA bills. At that time, the County was receiving only paper bills. The implementation of the electronic billing and payment process expedited the payment process, resulting in significant savings for the County.

The County currently has approximately 1,857[2] electronic accounts with LIPA, which are grouped into nine categories for budget billing purposes. The County processes and transmits an electronic budget payment to LIPA each month and receives a monthly electronic data file containing the actual billing details, generated from LIPA's *Totally Electronically Managed Payment Online* ("TEMPO") system. The County also has accounts that are not yet included in TEMPO and are paid via a paper billing process.

The County's monthly payment (the "monthly budget payment") is computed as one-twelfth of the County's annual estimated electrical expenses. The estimated annual cost is calculated by the County's Office of Management and Budget ("OMB") based on economic indicators and the cost of the prior year's actual electrical usage. A reconciliation of actual to budget is performed annually at the end of the billing period and the subsequent year's monthly budget payment amount is adjusted accordingly. At any point in time, there are additional LIPA accounts for which the County receives paper bills until such time that the accounts are assigned to one of the nine summary groups and included in LIPA's TEMPO electronic billing process.

Operations

The County's LIPA billing process is comprised of the following:

- account maintenance (i.e., opening/closing/revising accounts);
- account review (i.e., examining bill information for accuracy and completeness);
- financial review and settlement (i.e., ensuring correct payments are made and all adjustments explainable, and computing the final settlement and the ensuing year's monthly budget payments); and
- oversight (i.e., ensuring activity in each phase of the process is authorized and proper).

The County's LIPA billing process is decentralized with several departments and employees maintaining responsibility for one or more steps of the process. The County departments involved in the process and their responsibilities are as follows:

[1] Electricity is also provided by other sources depending on the location of the County property.
[2] Source: the June 2010 LIPA Database Report "Financials by Summary ID" for May 2010 services.

- The Department of Public Works ("DPW") is primarily responsible for the oversight of the delivery and supply of electricity to County buildings and facilities. DPW opens and closes new accounts within its jurisdiction and reviews actual usage as reported by TEMPO for reasonableness. DPW accumulates actual costs by facility code on a monthly basis in order to allocate building costs (e.g., utilities) to each department located at that facility. It also receives and reviews paper bills sent from LIPA and prepares the claim voucher in the County's Accounting System ("NIFS")[3].
- The Police Department ("PD") and the Department of Corrections ("CC") perform the same functions as DPW for their respective jurisdictions.
- OMB is responsible for establishing the amount of the monthly budget payment to be used for the next 12-month billing period, based on economic indicators and the average of the prior year's actual monthly cost of usage. OMB is also responsible for performing the reconciliation and settlement of the balanced billing payments to the actual costs once per year at the end of the LIPA billing period (July - June) and to determine the next year's monthly budget payment amount.
- The Department of Real Estate Planning and Development ("RE") is responsible for maintaining the records for all County-owned properties, including the property status and dates of occupancy. RE also summarizes monthly cost allocation data, including LIPA costs, by department on a quarterly basis.
- The Department of Information Technology ("IT") is responsible for managing the LIPA Billing Database ("Database"), which is populated monthly by the data transmitted by TEMPO.
- The Office of the Comptroller's Vendor Claims Department ("Vendor Claims") is the primary point of contact for processing LIPA claims. It also performs cursory review of the Database on a monthly basis for reasonableness.
- The Office of the Comptroller's Accounting Department ("Accounting") compares the County's monthly budget payments to LIPA to the Database for year-end accrual purposes, to ensure that the County's utility expense is accurately reflected in the County's *Comprehensive Annual Financial Report* ("CAFR").

In July 2010, as part of our review of the billing process, we facilitated a meeting between LIPA representatives (including account representatives, billing supervisors and operations management) and representatives from various County departments, including OMB, DPW, CC, IT, and the Comptroller's Office, who had varying degrees of responsibility with regard to the process. We requested the meeting to discuss issues that we identified based on the data from LIPA, problems encountered by the various County departments, and to obtain information directly from LIPA on questions related to the process that was not available from interviewing the personnel in the County departments. Several deliverables were identified and responsibility for those deliverables was assigned. Many of the deliverables are still pending as of the date of this report, and thus, appear as recommendations.

[3] Nassau Integrated Financial Systems.

Audit Scope, Objective, and Methodology

The scope of our review included an examination of the County's policies and procedures with respect to the LIPA billing process, including an analysis of the budgeted billing, the monthly electronic and manual payments, and the annual settlement with LIPA, as well as the propriety of the LIPA accounts billed to the County. The period audited was January 1, 2009 through July 31, 2010.

Our approach included reviewing policies and procedures, the data in the LIPA Billing Database, interviewing County personnel for procedures performed and the delegation of responsibilities, and examining documents and records. Our testing was performed on a sample basis and is indicated as such in the findings.

In order to determine if accounts listed in the Database represented meters on County properties, we performed some site inspections of a sample of meters and accounts. The meters were specifically selected because they had incomplete or missing addresses in the Database.

We reviewed the internal controls to determine if there was:

- proper oversight of the process to ensure that a well coordinated effort is in place and there is minimal risk that excessive or inappropriate payments can be made to LIPA and not be immediately identified;
- proper authorization for the establishment, modification or deletion of County LIPA accounts;
- proper review of actual electrical usage to ensure that excessive use is identified and the appropriate corrective action is taken;
- proper oversight of LIPA rate structures to ensure that incorrect rates are detected and corrected; and
- adequate review of all charges to ensure that erroneous charges such as sales taxes are identified and the appropriate corrective action is taken.

During the audit, we noted that electrical use at some County-owned properties that have been leased or are occupied by non-County agencies or contractors under permits for use and occupancy is being billed to the County. These agreements govern whether the County is or is not reimbursed for these costs. Our scope did not include a review of the reimbursement, if any, for the electrical costs of these properties; however, our observations will be addressed in a separate document to the County's Administration.

Summary of Significant Findings

The findings noted in this report are the consequences of the lack of centralization regarding the controls over the LIPA electronic billing and payments.

Lack of Overall Oversight and Accountability in the LIPA Billing Process and Weaknesses in the Annual Reconciliation Process, the Settlement Computation and in the Determination of the Monthly Budget Payment Amount Resulted in an Overpayment of $4.5 Million as of June 2010

Lack of Overall Oversight and Accountability in the LIPA Billing Process

As a result of the lack of overall oversight and accountability in the County's LIPA billing process, there are inefficiencies in the process, as well as risks that unauthorized accounts may be billed to the County or that the County may be paying for services that it is not receiving. We determined the County paid significantly more in its budgeted billing payments than actual usage costs, resulting in a credit due the County of over $4.5 million as of June 2010, per OMB's analysis.

Each County Department was responsible for performing its assigned tasks as described in the Procedures. However, a process did not exist that detailed when, how or to whom within the County, the Departments should report errors or issues. Further, the work performed by each Department was not subject to an independent review for compliance with the Procedures, accuracy of the billing data, or status of amount owed by or due to the County. The audit also noted that the Procedures did not cover the financial and administrative functions performed by OMB, Accounting and Vendor Claims.

Communication between the County Departments (DPW, PD, and CC) and LIPA was ineffective. LIPA frequently did not respond to the County's requests to correct data errors and as a result, it appears that the lack of cooperation and responsiveness from LIPA was not escalated within the County because there was no centralized County Department with oversight of the LIPA billing process.

Errors in the Annual Reconciliation Process and Settlement Computation Resulted in a Refund from LIPA

The County continued to remit to LIPA the monthly budget payments even though the County had significant credit balances. There appeared to be no monthly oversight to monitor the amount due to LIPA or the credit due to the County.

An error with the 2008-2009 settlement amount resulted in an overpayment of approximately $1.5 million, of which OMB had not been aware. Had the reconciliation and settlement analysis been reviewed and approved, this error may have been detected before the payment was processed. By June 2010, the overpayment credit had increased to approximately $4.5 million. The County received a refund check from LIPA of approximately $2 million in June 2010 and the July 2010 payment was skipped. Increased electric usage per the July and August LIPA

TEMPO files eliminated the remaining credit. According to OMB, a reconciliation will be performed in February 2011 to finalize the 2010 LIPA expenses for year-end reporting purposes.

Weaknesses in the Determination of the Monthly Budget Payment Amount

Weaknesses with OMB's process for determining the monthly budget payment amount were noted that contributed to the significant overpayment due the County by LIPA. In addition, the assumptions used and the calculations performed in arriving at the monthly budget payment amount were not formally documented in written policies or procedures or reviewed and approved. Based on our analysis, the overpayment credit continued to increase each month because OMB's calculation of the 2009-2010 monthly budget payment amount did not take into consideration the debit and credit adjustments appearing in the Database.

Lack of Support for Billing Adjustments

The County Departments did not review the debit and credit adjustments appearing on the majority of the detail accounts each month and could not readily provide explanations for adjustments to specific accounts. The debit and credit adjustments for the period July 2007 through June 2008 and July 2008 through June 2009 net to $1.7 million and $0.6 million, respectively, both in the County's favor. OMB provided a general explanation stating that the higher volume of adjustments and the unusually large dollar amounts were representative of LIPA rate refunds and the correction of posting errors.

Administrative Weaknesses by County Departments May Result in Erroneous or Unauthorized Charges to the County

Inadequacy of and Lack of Adherence to the County's LIPA Account Management Procedures

The existing Procedures for the timely and accurate review of the LIPA accounts lacked requirements to verify that the correct rates were used in the billing calculations, and did not include the financial roles and responsibilities, or fully explain the role of all the departments involved in the process. The Procedures were not being followed by the various departments reviewing the monthly Database. The designated approvers for new accounts were not necessarily the individuals who contacted LIPA or completed and signed the LIPA Application form when requesting to open a new account. We noted that departmental staff did not perform a review of the LIPA bills to provide reasonable assurance that the detail account charges were accurate. In addition, a copy of the application was not always provided to the individuals responsible to review the accounts and the change in the number of LIPA accounts from month to month was not formally reconciled.

Lack of Controls over the Opening of New LIPA Accounts

The County did not have adequate controls in place to: track new LIPA account openings to determine that new account applications were for valid County properties; the applications were properly completed and approved; paper bills reflected the correct information; and the new accounts were accurately entered by LIPA in TEMPO in a timely manner. As a result, this increased the potential for unauthorized accounts being paid by the County and possible assessment of late charges. We also noted that new account applications were not routinely retained to provide evidence that new accounts were properly authorized by the County. In addition, the account information in TEMPO was frequently inaccurate and/or incomplete and there were significant delays of up to six months between the time a new account was opened and when it appeared in TEMPO. Without reliance on the data in TEMPO, we cannot be assured that unauthorized accounts would be identified.

County's Real Estate List – Poor Maintenance and Notification of Status Changes

Weaknesses in Real Estate's maintenance of the County's Real Estate List and ineffective notification of purchases and sales of properties to DPW were noted, which increase the risk that the County may be billed for meters that are located on non-County properties or no longer belong to the County.

In one case, the County continued to pay the LIPA bill for a year after the property was sold and the DPW Reviewer only became aware of the sale when questioning the need for a repair on the property. We were unable to determine if or when the County requested and received a credit from LIPA.

Errors and Data Discrepancies Were Noted in LIPA Billings

Erroneous Charges Paid by the County for Sales Tax

The County unnecessarily incurred sales taxes of $2,651 on its accounts for the period January 2010 through July 2010 because LIPA would not accept a Tax Exempt Certificate for the County as a whole. Instead, the County Departments were requested to attach a Tax Exempt Certificate to each new account application; however, this was frequently not done.

Unnecessary Charges for Lack of Access to Meters by LIPA

The County incurred "Non-Access" charges when, after several attempts to gain access to a property to read a meter and sending a letter to the service address, LIPA could not access the meters. This resulted primarily because no one County individual was designated as the person to contact when LIPA could not access its meters. "Non-Access" charges amounted to $1,750 for the billing period July 2008 through June 2009 and $2,273 for the billing period July 2009 through June 2010, for a total of $4,023.

Data Discrepancies within the LIPA Database

Numerous discrepancies within the Database file relating to meter numbers and the meter location addresses were noted. The lack of adequate address information made it difficult for the auditors to verify the existence of the meters included in the County's monthly bill, increasing the risk that an unauthorized account, or a meter related to a sold County property, may not be detected in a timely manner resulting in an overpayment by the County.

In addition, neither the County nor LIPA have a master list containing complete information of all meters billed to the County. A master list was requested of LIPA and as of the date of this report has not been received.

<u>Unauthorized Change to the Monthly Budget Payment Indicator by LIPA</u>

No controls exist to ensure that unauthorized changes made by LIPA to the County's LIPA accounts are identified on a timely basis. We noted that a County account, originally set up correctly, was subsequently changed by LIPA. LIPA was unable to provide the County with an explanation of how or why the change was made. As a result, the typical detail account calculations were not applied to this account, resulting in incorrect computations and potential billing errors.

<u>Duplicate Receipt of Paper Bills from LIPA for Accounts Already in TEMPO</u>

Although the County is on electronic billing, the County continues to receive paper bills for some of its accounts in TEMPO, increasing the risk that new bills could be overlooked and paid late or duplicate payments for the same account may occur. Adequate controls were not in place to address these risks.

<u>Duplicate Billing for a Traffic Signal and Accounts Improperly Classified as Traffic Signals</u>

Prior to the implementation of TEMPO, the DPW Reviewer was able to verify that the correct billing rates were applied to approximately 1,400 traffic signals. The same was not true for the electronic bills because the traffic signal data needed was not included in TEMPO. As a result, the traffic signal charges are not verified and the County may be billed erroneously.

Three accounts continue to be billed incorrectly under the traffic signal Summary ID despite requests to LIPA to fix the problem. Two accounts were not traffic signals and most likely required transfer to the appropriate Summary ID. However, one account was a duplicate of an existing traffic signal account. Consequently, the County was double-billed for the one traffic signal account.

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The matters covered in this report have been discussed with officials of OMB, DPW, CC, PD, and IT during the course of this audit. An Exit Conference was held on September 17, 2010 with representatives of OMB, DPW, Real Estate and IT to discuss the preliminary audit findings. On November 16, 2010, we submitted a draft audit report to OMB, DPW, Real Estate and IT with a request for comments. Subsequent meetings were held and OMB provided a coordinated response and its comments, received on May 17, 2011, are included as Appendix B to this report.

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Process Overview

In 2004, Nassau County ("County") migrated from monthly paper billing[4] to the Long Island Power Authority's ("LIPA") electronic Summary Budget Billing System ("SBBS"). As of June 2010, the County had approximately 1857 electronic detail accounts with LIPA. Under SBBS, the 1857 detail accounts are grouped into nine summary utility accounts, each with its own summary identification number ("Summary ID"). SBBS differs from a residential budget plan in that SBBS is implemented at the summary utility account level; the detail account billing is not impacted. The total monthly budget payment amount is calculated annually by the County's Office of Management and Budget ("OMB") based on the cost of the prior year's actual usage and economic indicators. OMB also calculates the settlement of the annual charges in conjunction with LIPA.

The County electronically transfers the monthly payment through LIPA's Totally Electronically Managed Payment Online ("TEMPO") option; the payment is allocated among the nine Summary IDs only, and not to the detail accounts. LIPA sends the County a monthly electronic data transmission ("EDT") file from TEMPO. This file only transmits data; it is not a report. The EDT file contains the monthly detail account billing information, the monthly budget payments and the rollup of the detail account data to the summary account level. IT created the LIPA Billing Database ("Database") in 2004 to capture the monthly EDT file data and to develop standard queries for use by the County to review, verify and approve the monthly bills.

Three County Departments, the Department of Public Works ("DPW"), the Police Department ("PD") and the Correctional Center ("CC"), manage the electrical services within their purview as determined by their assigned Summary IDs. The financial and administrative functions are managed by other County Departments including OMB, the Office of the Comptroller's Accounting ("Accounting") and Vendor Claims ("Vendor Claims") Departments, the Department of Real Estate Planning and Development ("RE") and the Department of Information Technology ("IT"). OMB developed LIPA Account Management Procedures ("Procedures") in 2004[5] that define roles and responsibilities for DPW, PD, CC, RE and IT, which include opening and closing accounts, reviewing the actual activity of accounts, and verifying and reporting on the accuracy of the monthly billing.

[4] The County continues to process paper bills for new accounts until they can be added to LIPA's Totally Electronically Managed Payment Online ("TEMPO").
[5] The Procedures were updated in 2007 and again in February 2010 to reflect personnel changes only.

Audit Finding (1):

Lack of Overall Oversight and Accountability in the LIPA Billing Process and Weaknesses in the Annual Reconciliation Process, the Settlement Computation and in the Determination of the Monthly Budget Payment Amount Resulted in an Overpayment of $4.5 Million as of June 2010

The decentralization of the LIPA Billing Process resulted in inefficiencies and errors that resulted in overpaying LIPA on a monthly basis, and resulting in a significant credit due the County. Contributing factors were a lack of formal review or approval of the annual reconciliation process and the settlement computation, and the exclusion of certain data from the calculation in determining the monthly budget payment amount.

Lack of Overall Oversight and Accountability in the LIPA Billing Process

The County's billing process with LIPA is not centralized within, or managed by, one County department. As a result, there are inefficiencies in the process, as well as risks that unauthorized accounts may be billed to the County or that the County may be paying for services that it is not receiving. Based on OMB's analysis, we determined that due to the lack of overall oversight and accountability in the process, the County paid significantly more in its budgeted billing payments than actual usage costs, resulting in a credit due the County of $4,529,586 as of June 2010.

Our review revealed that no single County Department or employee had been assigned overall responsibility to manage the process as a whole in order to ensure that the Procedures were being followed and that account billing or payment errors were identified and resolved in a timely manner. Each County Department was responsible for performing its assigned tasks as described in the Procedures. However, a process did not exist that detailed when, how or to whom within the County, the Departments should report errors or issues. Further, the work performed by each Department was not subject to an independent review for compliance with the Procedures, accuracy of the billing data, or status of amount owed by or due to the County.

We also found that the Procedures were not always followed by the Departments and did not cover the financial and administrative functions performed by OMB, Accounting and Vendor Claims (see Audit Finding (2) for further details). For example, a procedure did not exist that required OMB to review the payment due LIPA or the credit due the County on a monthly basis for purposes of identifying smaller or larger than expected actual charges. As a result, the accumulation of excess monthly budget payments over the actual monthly charges was not identified and investigated prior to the commencement of this audit (see Errors in the Annual Reconciliation Process and Settlement Computation Resulted in a Refund from LIPA below).

We also determined that communication between the County Departments (DPW, PD, and CC) and LIPA was ineffective. DPW provided the auditors with copies of email requests that were sent to the LIPA Account Representative ("LIPA Rep") to correct errors. However, these were not addressed and often went unanswered. DPW informed us that attempts to correct data errors were sometimes abandoned out of sheer frustration. Instead, DPW tracked the errors manually and corrected the monthly billing data from LIPA before using the data in any internal County documents.

For example, on March 10, 2010, LIPA received a payment for approximately $140,000 and posted it to one of the County's detail accounts; however, this account's typical monthly balance was approximately $1,000. This resulted in an unusually large credit balance in relation to this account's customary electric usage. When DPW requested an explanation for the credit balance, LIPA responded that it would refund the credit balance to the County. DPW contacted the auditors for assistance when no refund check had been received from LIPA, and upon further investigation by the auditors, it was determined that the $140,000 payment was erroneously applied to the County's account instead of the account of the customer that had made the payment. This process took approximately six months to resolve with LIPA. It appears that the lack of cooperation and responsiveness from the LIPA Rep was not escalated within the County because there was no centralized County Department with oversight of the LIPA billing process.

We also noted another instance where another customer's payment was erroneously credited to the County. The EDT file for May 2010 reflected a $3.9 million payment, which was later determined to be a payment made to LIPA by Wal-Mart but applied to the County's Summary IDs. Although this issue was subsequently resolved by OMB in conjunction with LIPA, this further illustrates the necessity for centralized oversight.

Audit Recommendations:

We recommend that the Office of the County Executive designate one department to oversee all aspects of the LIPA billing process. Centralized oversight would improve the County's ability to manage its LIPA accounts, result in more efficient and effective communication of data errors and issues to LIPA and ensure that the proper follow-up actions are taken and/or errors are corrected on a timely basis.

This designated department should also be charged with overall responsibility for developing and implementing a controlled and coordinated effort between the departments that includes a documented review and verification of the monthly LIPA activity.

Appendix A to this report details our recommendations for objectives and specific responsibilities this department should implement in order to ensure adequate oversight of the LIPA billing process and payments made by the County to LIPA.

Errors in the Annual Reconciliation Process and Settlement Computation Resulted in a Refund from LIPA

Because the reconciliation process and settlement computation is performed once per year, the County continued to remit to LIPA the monthly budget payments even though the County had significant credit balances. There appears to be no monthly oversight to monitor the total amount due to LIPA or the credit due to the County.

The annual reconciliation performed by OMB determines whether the County owes LIPA additional funds or if the County's monthly budget payments exceeded the cost of usage (i.e., LIPA would owe the County). OMB's reconciliation and settlement process was not documented in the Procedures. We also found no evidence that the results of the reconciliation and settlement process were subject to review or formally approved.

Our review of the 2008-2009 settlement amount revealed that $585,508 was shown as due LIPA in the September 2009 Database.[6] However, OMB authorized a payment of $2,079,031, representing the sum of the amount due, plus the new monthly billing amount, resulting in an overpayment of $1,493,523. Based on our analysis, the overpayment credit continued to increase each month because OMB's calculation of the 2009-2010 monthly budget payment amount did not take into consideration the debit and credit adjustments appearing in the Database. OMB had not been aware of this error until it was brought to its attention by the auditors during a meeting held in March 2010. Had the reconciliation and settlement analysis been reviewed and approved, this error may have been detected before the payment was processed.

At the March 2010 meeting between OMB and the auditors, the auditors recommended that due to the significant amount of the overpayment and the lost opportunity to earn interest on the funds, the County should immediately request a refund of the overpayment. We were subsequently notified that LIPA remitted a $2,051,691 refund check in June 2010 to the County.

An analysis of the 2009-2010 LIPA Reconciliation prepared by OMB revealed that an excess of the monthly budget payments over the actual charges continued until it accumulated to $4,529,586 as of June 2010 (this included the amount refunded to the County). In accordance with this reconciliation, the July 2010 payment was skipped in order to recoup a portion of the remaining credit. Increased electric usage per the July and August LIPA TEMPO files eliminated the remaining credit. According to OMB, there will be a reconciliation performed in February 2011 to finalize the 2010 LIPA expenses for year-end reporting purposes. We also noted that there was a problem with the October TEMPO file; the file did not include all the County's Summary IDs and was therefore not complete. A revised October 2010 TEMPO file was received indicating that the amount due LIPA was $2.3 million. A similar problem was noted for the November 2010 TEMPO file which has not yet been resolved.

Audit Recommendations:

We recommend that:

a) steps required for the annual reconciliation process and settlement calculation be documented and incorporated into the Procedures;

b) results of each year's reconciliation process and settlement calculation be documented, including:

    i. the amount due to or from LIPA, along with an explanation of how and when such balance will be paid or recouped; and

    ii. management's review of the reconciliation process and settlement computation, including the approval of any balances owed or to be recouped; and

c) any overpayments are recouped by the end of 2010.

[6] The current month's Database presents activity related to the prior month's services.

Weaknesses in the Determination of the Monthly Budget Payment Amount

Our audit noted weaknesses with OMB's process for determining the monthly budget payment amount that contributed to the significant overpayment due the County by LIPA.

OMB annually calculates the monthly budget payment amount for the upcoming year. The assumptions used and the calculations performed were not formally documented in written policies or procedures. OMB explained that the monthly budget payment for the upcoming year was based on economic indicators and the average of the actual delivery supply charges appearing in the electronic bill during the prior 12 months. The monthly debit and credit adjustments appearing on the electronic bill were not incorporated into the calculation; OMB explained that the net impact of the debit and credit adjustments have little impact to the total billed amount.

Our review noted that the determination of the monthly budget payment amount for the 2008 - 2009 billing year was based on the average of the delivery supply charges during the previous 12 months. There was no evidence that economic factors were considered. In addition, we determined that the net effect of the debit and credit adjustments was significant in some months (see Lack of Support for Billing Adjustments below).

We also found no evidence that the work performed by OMB to determine the monthly budget payment amount was subject to a formal review or approval to ensure that management was in agreement with the assumptions or to ensure that errors were detected.

Audit Recommendations:

We recommend that:

a) assumptions used and the calculations performed in the determination of the monthly budget payment amount for the upcoming year be formalized, documented and retained, including the impact of any economic indicators;

b) monthly debit and credit adjustments be factored into the aforementioned calculation; and

c) determination of the monthly budget payment amount be formally reviewed and approved in writing by a management level employee not involved in its determination.

Lack of Support for Billing Adjustments

The County Departments did not review the debit and credit adjustments appearing on the majority of the detail accounts each month and could not readily provide explanations for adjustments to specific accounts. The only explanation provided on the data file from LIPA is the adjustment code which included a very brief description of the code's meaning. The adjustments have been significant. For example, the debit and credit adjustments for the periods July 2007 through June 2008 and July 2008 through June 2009 net to $1,704,381 and $605,484, respectively, both in the County's favor.

OMB provided a general explanation stating that the higher volume of adjustments and the unusually large dollar amounts were representative of LIPA rate refunds and the correction of posting errors.

Audit Recommendations:

We recommend that the County:

a) obtain a list of LIPA's billing adjustment codes and their respective detailed explanation; and

b) develop a process to review the debit and credit adjustments on a monthly basis to determine their nature, meaning and appropriateness, and their impact on County payments to LIPA in order to avoid overpayments by the County.

Audit Finding (2):

Administrative Weaknesses By County Departments May Result in Erroneous or Unauthorized Charges to the County

We noted weaknesses in various administrative processes that increase the risk for errors or unauthorized charges in the County's LIPA bills going undetected on a timely basis.

Inadequacy of and Lack of Adherence to the County's LIPA Account Management Procedures

Existing procedures for the timely and accurate review of LIPA accounts were not being followed by the various Departments reviewing the monthly Database.

The Procedures were written by OMB in 2004, updated in 2007 and again in February 2010 to reflect personnel changes only. The stated purpose of the Procedures was to ensure the timely and accurate payment of LIPA invoices for electrical energy used by the County. As of March 2010, the 2010 revised procedures had not been distributed to DPW, PD, CC, RE, IT, Vendor Claims or Accounting.

Inadequacy of the County's LIPA Account Management Procedures

The Procedures did not include the financial roles and responsibilities of OMB and Accounting. The Procedures designated Vendor Claims as the recipient of the "Departmental Verification of LIPA Invoices" forms from DPW, PD and CC, but did not explain the role of Vendor Claims with respect to these forms.

The Procedures also lacked requirements to do the following:

- verify that all accounts billed to the County are the responsibility of the County;
- verify that the correct rate codes were assigned to the accounts based on actual energy use;
- verify that the rates used in the billing calculations agreed with the published rates for each rate code; and
- monitor compliance with the Procedures and take corrective action when necessary.

Lack of Adherence to the County's LIPA Account Management Procedures

Based on our review of the Procedures and through discussions with individuals from the related departments, we noted the lack of compliance with certain requirements stated in the Procedures. Specifically:

- According to the Procedures, RE is required to notify DPW of changes in the status of County properties, such as when a County property is sold. However, we were informed by DPW that, generally, a LIPA paper bill was received for a new property without notification from RE. Therefore, it is unclear if the County was properly invoiced for new properties, or whether billing ceased on sold properties. As a result, DPW had to send email requests to determine if the new property for which a bill was received was in fact the County's responsibility (see County's Real Estate List – Poor Maintenance and Notification of Status Changes below).
- The Departments abided by the Procedures' requirements for assigning individuals with the responsibility to open and close accounts. However, the designated approvers for new accounts were not necessarily the individuals who contacted the LIPA Rep or completed and signed LIPA's "Application and Contract for Non-residential Customers" when requesting to open, close or otherwise modify the terms of an account. We also found that a copy of the application was not always provided to the individuals responsible for reviewing the accounts; also the application was not routinely kept in one location. We were informed by the County employee designated as the DPW approver that the application form was usually completed by the individual in the field who requested the new LIPA account. The DPW approver also stated that he did not receive all the applications and he could only approve applications that he received.
- The DPW reviewers compared the number of accounts that appeared from month to month in the Database and kept informal notes when there were variances. However, they did not formally report changes in the detail accounts on the "Departmental Verification of LIPA Invoices" form or communicate the changes to the Fiscal Officer of the Comptroller's Office as required by the Procedures. No written record of the variances was routinely prepared by the reviewers and sent to the designated approvers or retained in a separate file for reference purposes. The Procedures did not require the preparation of a formal reconciliation.
- According to the departmental staff responsible for the review of the monthly Database file, they did not perform a detailed review of the "*Financials by Summary ID*" query report generated from the Database because it did not provide information that could be used to determine that the electrical usage was reasonable or that the proper rates were applied.

Audit Recommendations:

The recommendation made in Audit Finding (1), Lack of Overall Oversight and Accountability in the LIPA Billing Process, to designate a department to oversee the entire LIPA billing process, are separate and distinct from the recommendations made below.

We recommend revising the Procedures to incorporate the specific steps needed for the purpose of providing reasonable assurance that the detail account charges are reasonable and accurate. These steps should address:

a) assessing the reasonableness of usage;

b) verifying that rate codes were accurately assigned to the accounts based on actual energy use;

c) verifying that the rates used agreed with the published rates by rate code;

d) an exception process to abide by once an error is detected, variance is identified, or other exception is noted, including a protocol for when, how and to whom variances or other billing issues are escalated; and

e) the purpose and form of the communication that certifies that the detail account charges were accurate, who prepares and approves it, the due date for submission to the Comptroller's Office - Fiscal Officer and what actions should be taken if the certification forms are not consistently submitted by the departments.

We further recommend that:

f) a monitoring and compliance process be put in place to ensure the procedures are followed in a timely manner and errors and exceptions are promptly identified and resolved;

g) all revisions to the Procedures be formally distributed and evidence of the distribution should be retained;

h) the Procedures incorporate the roles and responsibilities of all Departments involved in the process and the corresponding Procedures that should be performed by each;

i) the recommendations to improve controls for new LIPA accounts in Audit Finding, Lack of Controls over the Opening of New LIPA Accounts, should be incorporated into the Procedures; and

j) a formal reconciliation of the accounts that appeared on the Database from month to month be performed and a written record of the variances should be prepared and retained for follow up purposes. Particular attention should be paid to ensure that all accounts added or deleted each month are identified.

Lack of Controls over the Opening of New LIPA Accounts

Our review noted a lack of controls in the opening of new LIPA accounts, which resulted in significant delays in the initial payment of the accounts. The weaknesses noted increased the potential for unauthorized accounts being paid by the County, possible assessment of late charges and the risk of unrecorded liabilities related to the County's financial records.

The Procedures did not explain that LIPA initially created paper bills for all new accounts and the steps that had to be taken by the County Departments to convert paper bills to electronic billing. In addition, the Procedures did not require a formal reconciliation process to identify and document all opened and closed accounts each month.

Authorization to Open New Accounts

The Procedures required that:

- the duties of approving the opening and closing of electric service accounts be assigned to individuals who would also be responsible for alerting the departmental staff reviewing the monthly invoices of any account status changes to ensure that the invoices could be properly reconciled in a timely fashion; and
- when opening an account, the designated approver must complete and sign LIPA's "Application and Contract for Non-residential Customers" and that the completed and signed application must be sent to the designated LIPA Representative. A copy of the correspondence was required to be kept for record-keeping purposes.

The DPW Approver informed us that he did not receive very many applications to open new LIPA accounts and those that he did receive were completed by a DPW employee or sometimes by a consultant hired by DPW. The DPW Approver also stated that he approved and retained the applications he received, but he did not alert the DPW Reviewer of account status changes.

We were informed by the DPW Reviewer responsible for reviewing the monthly electronic activity that she frequently had no advance notice that a new account was opened or of account status changes. Further, neither the DPW Approver nor the DPW Reviewer was aware of a County location where completed applications were routinely retained. The DPW Reviewer stated that when new accounts appeared on the electronic bill she had to research the validity of the new accounts by making phone calls and sending emails.

Exacerbating the situation, LIPA employees acknowledged that LIPA created new accounts without any authorizing signature. Discussions with LIPA employees confirmed that the applications were also not routinely retained by LIPA in a central location.

New Accounts – Paper Billing

We noted that the first paper bill received from LIPA for a new account rarely included the required County certification clause[7]. Consequently, the County Department receiving the paper bill could not approve nor forward it to Vendor Claims for payment. This resulted in numerous communications back and forth with LIPA to correct the bill, which created delays because the County Department had to withhold payment for several monthly billing periods before the bills were certified by LIPA. As a result of these delays, the accounts were subject to late fees. During this time, the County's liability to LIPA for the unpaid paper bills was not recorded or tracked, and depending upon the account, may have represented a significant expense and/or understated the County's year-end liability as reported in the CAFR.

[7] Article IV Section 403 of the Nassau County Charter states that "No claim against the county except for debt service pay rolls and judgments or other amounts required to be paid by the county, pursuant to court orders, shall be paid except upon a voucher verified by the oath of the claimant or accompanied by a certificate made by the claimant to the same effect….".

<u>New Accounts – Conversion to Electronic Billing</u>

When a County Department believed LIPA should have processed the payment, the Department had to notify LIPA to request that it be added to TEMPO. Neither the requirement to notify LIPA or the form of this notification was defined in the Procedures. We were informed by DPW that it was usually communicated by an email; however, there was no requirement to retain the emails.

LIPA added a new account to TEMPO only after its Accounts Receivable Department verified that the County's payment was applied and the account had a zero balance. There was no process in place requiring LIPA to notify the County when an account had been added to TEMPO. As a result, the County Department had no way of knowing whether its request to add the new account to TEMPO made LIPA's cutoff for generating the next month's electronic bill. If the account was not added in time, LIPA would generate another paper bill and the entire process was repeated. Our review noted that this was the general practice. This process resulted in the potential for late charges, duplication of payment where an account appeared in TEMPO and on a paper bill, and inefficiencies in the Departments' workflow.

<u>Review of New Accounts Added to TEMPO</u>

Based on interviews with DPW employees, the County did not have a control mechanism in place to track new LIPA account openings through all stages (i.e., application, paper billing and electronic billing). As a result, there is no assurance that:

- new account applications were for valid County properties;
- the applications were properly completed and approved;
- paper bills reflected the correct information; and
- the new accounts were accurately entered by LIPA in TEMPO in a timely manner.

The audit found that the account information in TEMPO was frequently inaccurate and/or incomplete and there were significant delays of up to six months between the time a new account was opened, when it appeared in TEMPO and then transmitted to the County Database. Without reliance on the data in TEMPO, we cannot be assured that unauthorized accounts would be identified.

<u>Audit Recommendations:</u>

We recommend that:

a) the County formally notifies LIPA that applications for new accounts must include the approval of the management level employee(s) designated by the County. We also recommend that this requirement be formally communicated to the appropriate County employees in DPW, PD and CC. An exception process should be developed to formalize the steps to be taken when incomplete or unauthorized applications are submitted for processing;

b) all applications for new LIPA accounts be retained by the County in a central location and that the County request that LIPA retain its copy as well, as evidence of the County's authorization;

c) the County work with LIPA to set up a procedure to shorten the length of time it takes for LIPA to include the County's vendor certification clause on the paper bill; and

d) the County formalize the process to request that LIPA add a new account to TEMPO, including the timing of the cut-off to ensure that the changes are reflected in the next TEMPO file. Further, the County should request that LIPA provide formal notification to the County that the request was processed and include the date the new account was added to TEMPO.

County's Real Estate List – Poor Maintenance and Notification of Status Changes

Our audit noted weaknesses in Real Estate's maintenance of the County's Real Estate List and ineffective notification of purchases and sales of properties to DPW, resulting in an instance where the County paid for electrical services for over a year after the property had been sold.

The listing of County-owned and leased properties that is maintained by RE was inadequate as a primary source for locating properties. The location addresses were frequently incomplete or missing. In addition, the facility codes assigned to the properties did not always agree with the facility codes maintained by DPW on its cost allocation spreadsheets. We also noted that for two of the 8 meters we observed in our site inspection, the location addresses on the County's RE List were inaccurate (see Audit Finding (3) for further details). As a result, we had to rely on DPW's records with respect to facility codes and their corresponding addresses during our testing of the LIPA accounts assigned to the County. This weakness increases the risk that the County may be billed for meters that are located on properties no longer owned by the County.

The Procedures require RE to notify DPW's Deputy Commissioner of Operations of any changes in the status of County-owned and leased properties to ensure that the County is properly invoiced for incurred charges. We were provided with several email examples from the DPW Reviewer that indicated she was not consistently notified of purchases and sales of County properties; in some instances, DPW only became aware of a property sale when inquiring about another property. In one case, a property was sold in November 2007 and the DPW Reviewer only became aware of the sale in November 2008. The County continued to pay the LIPA bill from December 2007 through April 2009, totaling $904. The most recent RE Listing provided to us had been updated last in November 2009 and it incorrectly stated the property's status as "For Sale" rather than sold. We were unable to determine if or when the County requested and received a credit from LIPA.

Audit Recommendations:

We recommend that:

a) the process used by RE to identify County properties be reviewed to improve its completeness and accuracy;

b) RE develop a standard form to document any changes in the status of County-owned and leased properties. This form should include the nature and effective date of the change, the complete address of the property, the facility code and any other relevant information that DPW, PD or CC may need to verify the LIPA bills. The original form should be used as the basis to update the RE list and retained for record keeping purposes. A copy of the form should be distributed to DPW, PD and CC, as soon as possible;

c) RE provide DPW, PD and CC with a complete and updated property listing on a regular basis;

d) DPW, PD and CC perform a comparison of the LIPA Database and the RE list on a regular basis to identify discrepancies between facility codes and meter locations. This comparison should be in writing and retained. Discrepancies should be formally communicated to RE and LIPA, where necessary, and resolved; and

e) DPW investigate the LIPA expenses that continued to be paid after the property cited in this finding was sold, to determine whether or not the County received the appropriate refund or credit. If a refund was not requested at the time, steps should be taken to request the refund or credit as soon as possible.

Audit Finding (3):

Errors and Data Discrepancies Were Noted in LIPA Billings

Our review noted several errors and data discrepancies in the TEMPO files.

Erroneous Charges Paid by the County for Sales Tax

The County was erroneously charged sales tax of $2,651 for the period January 2010 through July 2010, even though the County is a tax-exempt entity.

LIPA required that a Tax Exempt Certificate accompany each new LIPA account application before LIPA would change the account status to tax-exempt. LIPA would not accept one Tax Exempt Certificate for the County as a whole. As such, the County Departments were asked to attach a Tax Exempt Certificate to each new account application; however, we were informed by DPW that this was not frequently done. As a result, sales taxes would appear on the paper bills for new accounts and sometimes continued to appear on the electronic bill once the new account was transferred to TEMPO.

LIPA remitted sales tax to New York State ("NYS") based on its billings. We were informed by DPW that LIPA would remove charges for sales tax from bills as long as LIPA had not remitted the sales tax to NYS for the time period involved. However, in cases where LIPA had paid the sales tax to NYS, LIPA would not credit the County.

Audit Recommendations:

We recommend that the County:

a) request that LIPA accept one Tax Exempt Certificate for the County as a whole; and

b) ensure that sales tax:

    i) billed to the County, but not yet paid by LIPA to NYS, is removed from the County's bills; and

ii) billed to the County and paid by LIPA to NYS, is refunded or credited to the County by LIPA or NYS.

Unnecessary Charges for Lack of Access to Meters by LIPA

Due to LIPA's inability to access certain meters, the County incurred "Non-Access" charges. This was primarily the result of the fact that no one County individual was designated as the person to contact when LIPA could not access its meters. As a result, the County incurred "Non-Access" charges of $1,750 for the period July 2008 through June 2009 and $2,273 for the period July 2009 through June 2010, for a total of $4,023.

LIPA will make several attempts to gain access to a property to read a meter including sending a letter to the service address. After a certain period of time, LIPA will add a Non-Access charge of $50 per month, to the next bill. However, our review of the Database noted several Non-Access charges in excess of $50. We found no evidence that steps were taken to ensure that LIPA was given access and that these Non-Access charges were resolved.

Audit Recommendations:

We recommend that the County provide LIPA with sufficient contact information to allow LIPA access to meters with minimal delays; the County should also have formal communications regarding no access issues and occurrences.

We also recommend that the County determine:

a) what properties have been subject to Non-Access charges in the past to establish if a pattern exists that can be rectified; and
b) why Non-Access charges exceeded the stated $50 amount and attempt to recoup charges where possible.

Going forward, all Non-Access charges should be identified, summarized and investigated on a monthly basis and corrective action should be taken immediately.

Data Discrepancies within the LIPA Database

Our review noted numerous discrepancies within the Database file, thereby increasing the risk that the County may be paying for services on properties that may not be County-owned. In addition, neither the County nor LIPA have a master list containing complete information of all meters billed to the County.

As part of our testing, we reviewed the March 2010 Database for one Summary ID which contained the accounts of 220 meters for County buildings. Our analysis revealed the following data discrepancies:

140 Missing and Incomplete Meter Addresses

Of the 220 accounts reviewed, we identified 140 accounts in the Summary ID that either did not have addresses for the meters' locations, or the addresses were incomplete and therefore, unable to provide us with a physical location for those meters.

According to discussions with DPW personnel, meter addresses were entered on the LIPA New Account Application form by the County employee who requested the new meter. LIPA stated that the address input on this form is entered into its system. Neither the County nor LIPA established internal controls to ensure that the information appearing on this form was accurate and complete.

Follow-up conversations with DPW revealed that the County did not have a master list of all County LIPA meters and their exact locations. DPW stated that it rarely used the Database for meter addresses because its electricians usually knew the location from memory or notes. However, when we performed site inspections for a sample of 8 meters, the DPW Electrician escorted us to an incorrect location, which illustrates the risk of relying on memory.

The audit also revealed that LIPA could not readily provide a master list of meter locations but agreed to develop one. As of the date of this report, the County has not received a master list of meter locations from LIPA.

The lack of adequate address information made it difficult for the auditors to verify the existence of the meters included in the County's monthly bill, which increases the risk that an unauthorized account, or a meter related to a sold County property, may not be detected in a timely manner resulting in an overpayment by the County.

We selected eight meters from the 140 meters identified as having incomplete or missing addresses, in order to perform site inspections and confirm that the meters were located on County property. Of the eight meters selected, six were observed and the meter number for each agreed to the Database. The other two meters could not be observed because the property was locked. All meters observed during the site inspection were found on County property. As a result of the site inspections, we were able to obtain key location information that was missing from the Database and/or the County's RE List (i.e., street address number, name of town) for the six meters observed.

<u>38 Missing Meter Numbers</u>

Our analysis revealed that meter numbers were missing for 38 of the 220 LIPA meter accounts in the Summary ID, and based on our review of the information contained in the Database, it was not readily apparent why there were no meter numbers associated with these accounts.

The 38 exceptions were provided to LIPA for follow-up and resolution. As of the date of this report, LIPA stated that it had entered the meter numbers or provided an explanation for why there was no meter number. For example, accounts billed on a "dusk to dawn" basis do not have meters.

<u>46 Facility Codes did not Agree with DPW Records</u>

RE assigns a 4-digit code, known as a facility code, to County buildings and properties to function as the key identifier for locating the building and property information in its records and to allocate costs to County Departments. A comparison of the facility codes on the Database to the facility codes used by DPW for cost allocation purposes, revealed 46 instances where the facility codes did not agree. As a result, DPW personnel had to manually correct the cost allocation for the 46 accounts every month. The 46 exceptions were provided to DPW and LIPA for follow-up and resolution. As of the date of this report, LIPA indicated that it had corrected the facility codes for the 46 exceptions.

Audit Recommendations:

We recommend that:

a) DPW follow-up with LIPA to obtain the complete addresses for the 140 accounts noted in the finding. Once received, a process should be developed by the County to validate the existence of the accounts, and confirm that they are properly included in the County's LIPA bill;

b) the data discrepancies related to missing meter numbers and incorrect facility codes be formally tracked by DPW to determine that the corrections entered into TEMPO by LIPA are accurate and that any explanations provided by LIPA are satisfactory. Records evidencing that this was done should be retained; and

c) meters that cannot be accounted for as the County's responsibility, should have service disconnected or suspended.

Unauthorized Change to the Monthly Budget Payment Indicator by LIPA

There are no controls in place to ensure that unauthorized changes made by LIPA to the County's LIPA accounts are identified on a timely basis.

LIPA flags each account with a monthly budget payment indicator to distinguish which accounts are on monthly budgeting. A scan of the County's accounts for this indicator revealed that all but one account had the same indicator. A review of the one account with the different indicator revealed that it was originally set up correctly and identical to the others but was subsequently changed by LIPA. Consequently, the typical detail account calculations were not applied to this account, resulting in incorrect computations in the Database reports and potential billing errors. LIPA was unable to provide the County with an explanation of how or why it changed the indicator.

The monthly budget payment indicator flag is on the Database file, but it is not included in the queries developed by the County. Had the indicator been included in the queries, a review of the indicator for each account would have uncovered this error.

Audit Recommendations:

We recommend that:

a) the unauthorized change to the monthly budget payment indicator on the LIPA account cited in this finding be provided to LIPA for follow-up purposes to determine why and how it occurred, in order to ensure that no further unauthorized changes have been made; and

b) the billing impact of the unauthorized change, if any, be determined and the necessary corrective action be taken.

Duplicate Receipt of Paper Bills from LIPA for Accounts Already in TEMPO

Although the County is on electronic billing, the County continues to receive paper bills for some of its accounts already in TEMPO, which increases the risk that duplicate payments for the same account may occur.

The County should only receive paper bills from LIPA for accounts that have not yet been added to TEMPO. We were informed by DPW that the County still received paper bills for LIPA accounts already in TEMPO, and that DPW frequently sent emails requesting the LIPA Rep to correct the problem, however, without success. We found no evidence that this problem was escalated for follow-up and resolution.

The receipt of paper bills for accounts already in TEMPO created additional risk to the County and more work for DPW. For example, the paper bills for new accounts were commingled among all the paper bills that DPW received. DPW employees had to review all the paper bills in order to identify those attributed to new accounts to ensure the timely processing of the payment. This manual process increased the risk that new bills could be overlooked and paid late and/or a paper bill for an account already in TEMPO could be inadvertently paid, resulting in duplicate payment.

LIPA Management reported that the LIPA electronic billing system does not automatically stop sending the paper bills once an account has been added to TEMPO. A system indicator has to be changed to stop the bills from being mailed when an account is transferred to TEMPO.

Audit Recommendations:

We recommend that:

a) the County follow-up with LIPA to ensure that the required corrective action is taken by LIPA to cease mailing paper bills once an account is added to TEMPO; and

b) all future instances of receipt of paper bills for accounts already in TEMPO be documented, tracked and formally communicated to LIPA.

Duplicate Billing for a Traffic Signal and Accounts Improperly Classified as Traffic Signals

The County may be being billed erroneously for its traffic signals.

In July 2010, LIPA billed the County for 1463 traffic signals located throughout the County. The average monthly billing is approximately $150,000.

All traffic signals are grouped in one facility code and linked to one Summary ID. We were informed by DPW that the number of signal faces[8] is initially determined by DPW using the LIPA Service Classification report and requested in writing to LIPA. LIPA would subsequently dispatch a field unit to the location to verify the information and call DPW if it did not agree

[8] According to LIPA's Tariff for Electric Services, traffic signal usage is billed using published tariff rates per control mechanism and signal face per month. The control mechanism is the device that controls the signal lights and other traffic/pedestrian equipment at an intersection. Signal faces include lenses, lamps, walk lights, strobes, and warning lights and the size and wattage of the lens are factors in determining the number of faces.

with the requested number of faces. We found no evidence that a control was in place to ensure that DPW was notified when the number of signal faces it requested was changed by LIPA.

We were informed by DPW that prior to the implementation of electronic billing, the number of signal faces appeared on the paper bills and DPW was able to verify that the correct billing rates were applied. The electronic bill did not have a designated field to account for the number of signal faces; therefore LIPA had manually input this information into an address field. We were informed by DPW that the number of faces appearing in the address field was not reliable and as a result, DPW could no longer verify the accuracy of the bills.

In addition, DPW informed us of three accounts that continue to be billed incorrectly under the traffic signal Summary ID despite requests to the LIPA Rep to fix the problem.

- One account is a duplicate of an existing traffic signal account. The monthly data is identical on both accounts with the exception of the account number. According to DPW, LIPA added the duplicate account to the traffic signal Summary ID in October 2009 and it was not requested by DPW. Based on the Database reports, the duplicated amount billed to the County from October 2009 through July 2010 was $400.
- The other two accounts were not traffic signals, but DPW stated that they were most likely County accounts that should be transferred to the appropriate Summary ID. We were also informed by DPW that one of the accounts had been misclassified for several years and the other was incorrectly added to the traffic signal Summary ID in November 2009. Based on the Database reports, the amount billed to the County in the traffic signal Summary ID for August 2009 through July 2010 for these two accounts was $10,415.

<u>Audit Recommendations:</u>

We recommend that DPW:

a) investigate the three accounts noted in the finding to determine the source of their creation and how and why they were included in the traffic signal Summary ID. To the extent it is determined that the County contributed to the problem, make the necessary corrections to the County's procedures. To the extent that it is determined that LIPA caused the errors, require that LIPA make the necessary corrections to its procedures; and

b) request that LIPA:

    i. remove the two accounts that are not traffic signals from the traffic signal Summary ID and determine the extent, if any, of the County's liability with respect to charges billed to the two accounts. Pursue any disputed amount and request immediate reimbursement from LIPA where appropriate. To the extent it is determined that the accounts belong to the County, request that LIPA transfer the two accounts to the appropriate Summary ID;

    ii. remove the duplicate account from TEMPO and immediately reimburse the County for all the duplicate charges; and

    iii. develop a procedure to ensure that a change to the number of signal faces initially provided by DPW is agreed upon prior to being entered in TEMPO for all new traffic signal accounts and that subsequent changes made by LIPA to the number of faces are formally communicated to DPW, agreed upon, and updated by LIPA by manually adjusting TEMPO.

Objectives and Responsibilities for the Department Responsible for Centralizing and Managing the LIPA Billing Process

In accordance with the recommendations noted in Audit Finding (1), Lack of Oversight and Overall Accountability in the LIPA Billing Process, the newly designated department that will have overall accountability for the LIPA Billing Process should also be charged with overall responsibility for developing and implementing a controlled and coordinated effort between the departments that includes a documented review and verification of the monthly LIPA activity to ensure that the following objectives are met:

a) all accounts billed to the County relate to a County property or are otherwise considered as belonging to the County;

b) the usage is reasonable and the charges are accurate and appropriate;

c) all changes made to accounts are authorized and appropriate;

d) the review and verification of monthly activity is adequately performed and documented; and

e) a documented protocol for reporting and escalating data errors within the County and to LIPA be established and monitored to ensure it is working effectively.

This designated department would be responsible to manage the following:

a) Revise the LIPA Account Management Procedures to ensure their accuracy and completeness, including but not limited to, the suggestions recommended in this report.

b) Develop a monitoring process to ensure that all Departments comply with the LIPA Account Management Procedures.

c) Develop a formal process that enables the review of:

    i. actual electrical usage by the County for the purpose of identifying unauthorized, excessive, and/or unusual activity and charges;

    ii. the rate codes that have been linked to the LIPA accounts to determine the appropriateness of the rate codes based on the actual usage; and

    iii. the rates used in the LIPA billing calculations to ensure they match the published rates for the rate code.

d) Develop a formal review process to detect inappropriate charges, fees or taxes, such as sales taxes and non-access charges, that appear on the LIPA accounts and the follow-up steps to be taken in resolving those charges, ensuring immediate credit and/or repayment to the County when necessary.

e) Develop a formal tracking process to ensure that paper bills for new LIPA accounts are processed through Vendor Claims and the LIPA account is added to the TEMPO file accurately and on a timely basis.

f) Review the accuracy and maintenance of RE's list of County properties for purposes of ensuring that new LIPA accounts belong to County facilities and the accurate facility code is entered on the account application and ensuring that any LIPA accounts related to properties sold are removed from the County's EDT file.

g) Develop additional Database queries as needed and document the monthly process performed by IT upon receipt of the EDT file from LIPA.

h) Complete any year-end requirements as requested by Accounting, such as computation of LIPA expense accruals.

EDWARD MANGANO
COUNTY EXECUTIVE

TIM SULLIVAN
DEPUTY COUNTY EXECUTIVE
MANAGEMENT, BUDGET & FINANCE

JEFFREY NOGID
BUDGET DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET
1 West Street
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To: Joy M. Watson, Deputy Comptroller, Audits & Special Projects

From: Jeffrey Nogid

Date: May 17, 2011

Re: Response to the Limited Review of Nassau County's Utility Expenses – LIPA

First and foremost, I would like to thank the Comptroller's Field Audit division for their efforts and professionalism in conducting this review.

The County has reviewed the draft report and prepared a coordinated response, which is attached.

While we may not embrace every recommendation as practical, the County is forming a committee that will create an action plan to ensure that the weaknesses cited in the report are eliminated. In performing its mission, the committee will be empowered to revise and expand the existing procedures and identify tools to better interpret data and identify anomalies to improve the management of utility expenses and prevent waste.

CC: Tim Sullivan, Deputy County Executive for Finance
Shila Shah-Gavnoudias, Commissioner, Public Works
Ed Eisenstein, Commissioner, Information Technology
Carl Schroeter, Director of Real Estate
William Nimmo, Deputy Commissioner, Public Works
Thomas Krumpter, Acting Commissioner, Police
Michael Kelly, Deputy Director of Real Estate
Michael Sposato, Acting Sheriff, Sheriff /Correctional Center
Robert Conroy, Deputy Budget Director, Office of Management and Budget
Christopher Nolan, Manager of Fiscal Projects, Office of Management and Budget
Joann Greene, Deputy Director of Field Audit

Narrative Response to the Limited Review of Nassau County's Utilities Expenses – Long Island Power Authority Costs

1) Lack of Oversight and Accountability in the LIPA Billing Process.

The County seeks to improve its oversight and control over all aspect of the LIPA Billing, Account Review and Payment Processes and, to that end, it will revise and reissue its procedures to incorporate several of the recommendations set forth in the Comptroller's Audit, including those recommendations related to the annual reconciliation and settlement calculation procedures and the calculation of the amount of the monthly balanced payments.

Furthermore, the County is looking into its existing technology toolset to provide better reporting and analysis of the data.

The County continually looks to improve management through any means including consolidation and centralization of functions. However, at this time, due to the diverse nature of the functions and the multiple agencies involved, the County will not seek to designate a sole department as recommended. The County believes better more expansive procedures with added tools can accomplish the same or similar results.

2) Administrative Weaknesses By County Departments May Result in Erroneous or Unauthorized Charges to the County.

The County acknowledges that its LIPA Account Management Procedures should be more expansive and, as noted above, the procedures will be revised and reissued to address certain specific weaknesses that were identified.

The audit report highlighted the fact that there are a large number of detail accounts with LIPA. Understandably, this high volume of data creates enormous difficulty with respect to conducting an account by account review on a monthly basis. The County has always been mindful of the risks associated with balancing the need and depth of data analysis with the exorbitantly high volume of data that exists. To this end, the County is revisiting its technology toolset to identify a means of verifying accounts based on the reasonableness of the usage, verifying the appropriateness of rate codes and developing a more efficient means of identifying discrepancies. In addition, the County is currently conducting a comprehensive survey of its real estate holdings to verify the ownership of those properties listed as owned by the County. Once completed, this survey can be used by the departments listed in the Audit to verify LIPA bills.

With respect to the findings under the heading "Lack of Controls Over the Opening of New LIPA Accounts", the County cannot control how LIPA processes applications through its customer service center nor does it have the authority to exert influence over its operations. However, the County

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will continue to collaborate with LIPA to improve communication, limit the number and severity of discrepancies and craft an issue resolution procedure.

3) Errors and Data Discrepancies Were Noted in LIPA Billings

The Audit report pointed to several instances where the County was charged, erroneously, for sales tax. It was noted that the County was billed $2,651 in sales tax between January 2010 and June 2010. The total sales tax charges calculated during the reconciliation of the TEMPO billings and payments for the period of July 2009 through June 2010 was $4,370.08. This amount was factored into the annual reconciliation as a credit thereby negating the charges. Despite numerous discussions with LIPA regarding the County's exempt status, LIPA has continued to charge the County sales tax on a handful of accounts. There has been progress in this area, so the County will continue to pursue LIPA to make the necessary corrections. It has been the position of the County that the County as a purchaser of goods and services is not liable for sales tax.

With respect to the County incurring Non-access to Meter Charges, the County agrees that a better procedure must be put in place to ensure that timely access is provided to LIPA. During the audit, a preliminary solution was provided whereby non-access notifications would be forwarded to the Director of Facilities Management. The effectiveness of this measure will be reviewed and a formal protocol will be included in the revised procedures.

The County will follow-up on the recommendations in the report involving the noted data discrepancies with incomplete street addresses, missing meter numbers and incorrect Facility Codes.

The issue of LIPA's unauthorized change in the "budget payment" indicator was also raised and discussed during the Audit. In fact, the issue came to light as a result of the County's annual reconciliation exercise. It was determined that there was no billing impact as a result of the change.

The fact that the County receives paper bills duplicating the accounts in TEMPO is an issue outside the control of the County and speaks to the flawed billing systems and practices of LIPA. The County will continue to urge LIPA to take steps necessary to automate the process of discontinuing paper bills. Furthermore, the procedures will be revised to incorporate the appropriate actions should this occur in the future.

Finally, with respect to the issues noted Traffic Signals Summary account, the County will investigate and, if necessary, pursue the removal and refund of charges for the suspected duplicate account. Coding errors will also be addressed and, as noted earlier, an issue resolution procedure will be crafted to include similar instances.

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Auditors' Follow Up

We concur with the actions stated in the response to improve the management of utility expenses and prevent waste, including:

- *the formation of a committee of the departments to create an action plan which ensures that the weaknesses cited in the report are eliminated;*
- *the revision and reissuance of the oversight procedures over the LIPA billing, account review and payment processes; and*
- *collaboration with LIPA to implement an effective issue resolution procedure.*

We reiterate our recommendation for centralized oversight of the management of the County's LIPA accounts to ensure that the County's LIPA Account Management Procedures are being followed by its Departments and that account billing or payment errors are identified and resolved in a timely manner.

We encourage the County to insist that LIPA resolve the County's ongoing open issues and only open a new account on behalf of the County with the appropriate County authorization.