

# **Final Audit Follow Up**

*As of September 30, 2006*



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## **City Energy Loan Program**

*(Report #0613, Issued May 19, 2006)*

**Report #0704**

**November 21, 2006**

### **Summary**

Applicable City departments have completed 11 of the 13 action plan steps developed to address issues identified in audit report #0613, "City Energy Loan Program." Substantial progress has been made in completing the remaining two action plan steps. Responsibility for ensuring final completion of those two steps is turned over to management.

In audit report #0613, we found that, overall, loan participants were eligible and loans were properly established and participants properly billed through the City's utility billing system. However, we determined that significant improvements were needed in regard to proper and timely recording of property liens and loan satisfactions. We also recommended that efforts be made to ensure reconciliations are properly performed, tax forms are prepared and distributed, and loan documentation is retained.

Thirteen action plan steps were developed to address the issues identified in the audit. Energy Services, Utility Accounting, and Utility Customer Services have been prompt in initiating and completing action plan steps. We commend those departments for their efforts.

### **Scope, Objectives, and Methodology**

The initial audit and this subsequent follow up were conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing.

#### **Report #0613**

The scope of report #0613 included a review of all energy loans with activity from October 1, 2003, through May 31, 2005. Additional analytical procedures were performed for loans existing during the time of our audit fieldwork in winter 2006. To address the stated objectives, we selected samples of loans for each process and reviewed the related supporting documentation, completed analytical procedures, interviewed staff, and made observations as necessary.

The objectives of the audit were to determine if (1) energy loans granted to utility customers were made in accordance with established policies and procedures; (2) disbursements of energy loan proceeds were accurate and properly recorded in the City's financial records; and (3) energy loans were properly and adequately administered and accurately accounted for in the City's PeopleSoft Customer Information System (CIS).

**Report #0704**

The purpose of this follow up is to report on the progress and status of efforts by applicable City departments to complete action plan steps due for completion during (or prior to) the period April 1, 2006, through September 30, 2006. To obtain information, we conducted interviews with key staff, made observations, and reviewed relevant documentation. As a result of prompt corrective action taken by management, this is our first and final follow up on action plan steps identified in audit report #0613.

**Previous Conditions and Current Status**

In report #0613, we identified issues that indicated the need for management to strengthen internal controls and improve processes. We reported that significant improvements were needed in regard to proper and timely recording of property liens and loan satisfactions. We also noted that efforts should be made to ensure that reconciliations are properly performed, tax forms are prepared and distributed, and loan documentation retained. Specific issues identified included:

- Liens were often not timely recorded at the Leon County Clerk of Courts after

- the related loan proceeds had been distributed.
- The reconciliation process, performed for the purpose of ensuring that each executed energy loan was properly recorded in the PeopleSoft CIS and Financials Systems, was not adequate.
- A process was not in place to identify and provide customers, who paid \$600 or more in interest per year on their individual Utility Services loan programs, 1098 statements as required by the Internal Revenue Service.
- Loan satisfactions resulting in lien removals were often not timely prepared and recorded for loans that had been paid in full. Conversely, instances were identified where loans were incorrectly recorded as “satisfied” at the Leon County Clerk of Courts when the loans had not been paid in full.
- Instances were noted where critical loan documentation was not maintained.

Thirteen action plan steps were developed to address the identified issues. Table 1 below provides a summary of those 13 action plan steps and their current status.

**Table 1  
Action Plan Steps from Report #0613  
due as of September 30, 2006, and Current Status**

Action Plan Steps	Current Status
<b>Ensure that energy loans are timely processed</b>	
<b>Energy Services</b>	
<ul style="list-style-type: none"> <li>• Establish written procedures to address the timeframe for which lien agreements are to be prepared and recorded with the Leon County Clerk of Courts.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Existing written procedures for the Energy Loan Program were revised to provide for liens to be prepared and submitted to the Leon County Clerk of Courts within 30 days after the final vendor check request has been submitted to the Accounts Payable section</li> </ul>

<ul style="list-style-type: none"> <li>• Management will periodically review the timeliness in which lien agreements are recorded with the Leon County Clerk of Courts to ensure adherence to the written procedures established pursuant to the preceding action plan step.</li> </ul>	<p>for processing and the loan agreement has been established in the PeopleSoft CIS.</p> <ul style="list-style-type: none"> <li>✓ Staff prepares reports that show for each new loan, among other information, the number of days between (1) the date the final vendor check request was submitted/loan created in the system and (2) the date the lien agreement was submitted to the Leon County Clerk of Courts for recording. Management’s review of those reports is documented.</li> </ul>
<p><b>Ensure that energy loans are timely and correctly recorded</b></p>	
<p><b>UBCS – Utility Accounting</b></p>	
<ul style="list-style-type: none"> <li>• Monthly reconciliations will be modified to clearly document all outstanding and unresolved differences.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Monthly reconciliations performed by Utility Accounting were modified to clearly identify and document all outstanding differences.</li> </ul>
<ul style="list-style-type: none"> <li>• Outstanding and unresolved differences identified during the monthly reconciliations will be timely researched and resolved. This will include making timely adjustments in the PeopleSoft Financials and CIS systems, when appropriate. Documentation will be maintained to demonstrate the appropriate and timely resolution of those items.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Outstanding and unresolved items identified during the monthly reconciliations are now timely researched and resolved. As appropriate, those items are resolved through combinations of management decisions and recording of adjusting and correcting accounting entries. Adequate documentation is maintained supporting those decisions and entries.</li> </ul>
<ul style="list-style-type: none"> <li>• Supervisory reviews and approvals of the monthly reconciliations will be performed and documented.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Utility Accounting created a standard form that is being used by management to document their review and approval of the monthly reconciliations.</li> </ul>
<p><b>Ensure that mortgage interest is reported as required by the IRS</b></p>	
<p><b>UBCS – Utility Accounting</b></p>	
<ul style="list-style-type: none"> <li>• Prepare and submit 1098 forms to the two commercial energy loan customers that paid the City more than \$600 in interest during calendar year 2005 on their energy program loans. Amend the calendar year 2005 form 1096 for those additional 1098 forms, and resubmit that amended 1096 form to IRS.</li> </ul>	<ul style="list-style-type: none"> <li>✓ 1098 forms were prepared and submitted to the two commercial customers. An additional 1096 form was prepared and submitted to the IRS to report those additional amounts.</li> </ul>
<ul style="list-style-type: none"> <li>• Establish a process to timely identify Utility Services loan customers that pay interest in excess of \$600 in a calendar year. For those customers, develop a process whereby 1098 forms are timely prepared and issued.</li> </ul>	<ul style="list-style-type: none"> <li>✓ A query has been developed to identify customers of Utility Services loan programs that pay more than \$600 in interest on their loans in a calendar year. Procedures provide for preparation and submission of 1098 forms for loans identified by that query.</li> </ul>

Ensure that loan satisfactions are properly and timely recorded	
<b>UBCS – Utility Customer Service</b>	
<ul style="list-style-type: none"> <li>• For the 22 loans satisfied in error, (1) letters will be sent notifying the applicable individuals/entities of the error and, (2) to the extent practicable, the liens will be reestablished with the Leon County Clerk of Courts.</li> </ul>	<ul style="list-style-type: none"> <li>√ For all but one of the 22 loans with remaining balances, UCS submitted letters to the customers notifying them that their energy loans had been satisfied in error and that the City was filing a “rescission of satisfaction of note and lien” with the Leon County Clerk of Courts to reestablish the lien. The rescissions of satisfaction were filed and recorded as indicated. For the one remaining customer, management, in conjunction with the City Attorney’s Office, made a decision not to reestablish the lien due to the customer’s circumstances resulting from the City’s erroneous recording of the loan satisfaction.</li> </ul>
<ul style="list-style-type: none"> <li>• Additional training will be provided to staff responsible for preparing loan satisfactions. That training will emphasize the importance of verifying that loans are paid in full before preparing and recording the loan satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>√ UCS management provided training to the employee working in the position responsible for processing and administering energy loans at UCS. That training involved identifying and researching loan balances, organizing and tracking documents, navigating in the PeopleSoft CIS, and preparing and filing satisfactions of loans that were identified as paid in full. (Note: The applicable employee terminated employment with the City immediately prior to audit follow up fieldwork in late October 2006. UCS management indicated that appropriate training on these issues would be provided to the individual subsequently hired to fill that position.)</li> </ul>
<ul style="list-style-type: none"> <li>• Written procedures will be established requiring the timely preparation and recording of loan satisfactions for loans that have been paid in full. Those procedures will address all aspects of the process, including identifying, researching, satisfying, and monitoring loan activity for this purpose.</li> </ul>	<ul style="list-style-type: none"> <li>◇ UCS management has drafted written procedures for satisfying energy loans that are paid in full. Those procedures address applicable aspects of identifying loans to be satisfied and timely preparing and submitting loan satisfactions to the Leon County Clerk of Courts. Those procedures provide that the loan satisfaction process is to be initiated and completed within three days after a loan has been verified as paid in full. UCS indicated that those procedures are currently being reviewed and should be updated and completed in the near future. (For example, management plans to revise the draft procedures to address the database established to track loan records and status.)</li> </ul>

<b>Ensure that adequate loan records are retained</b>	
<b>Energy Services</b>	
<ul style="list-style-type: none"> <li>The delivery and receipt of all loan files to/from UCS and any other entity will be documented for the purpose of providing an audit trail for the location of those documents.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Energy Services now prepares a summary record showing the loan folders and recorded promissory notes (lien agreements) transferred to/from UCS. Energy Services staff obtains the signature of the designated UCS staff to whom those records are transferred. That signed record is maintained by Energy Services to document the transfer of those records and liens.</li> </ul>
<b>UBCS – Utility Customer Service</b>	
<ul style="list-style-type: none"> <li>The receipt and delivery of all loan files from/to Energy Services, other City departments/offices, or non-City entities will be documented as a means of providing an audit trail for the location of those records.</li> </ul>	<ul style="list-style-type: none"> <li>◇ As noted above, UCS staff sign summary records acknowledging their receipt of loan records from Energy Services staff. In addition, UCS has developed a software database to identify and track loan records received from Energy Services. As of the end of our follow up fieldwork in October 2006, UCS had not fully implemented that database as only 63 of approximately 1,700 active loan records had been entered. Furthermore, UCS management acknowledged that modifications are needed to provide for tracking of the physical location of each loan record. Final implementation of this action step is contingent upon UCS hiring a new employee in the position (currently vacant) responsible for managing and administering the energy loan files.</li> </ul>
<ul style="list-style-type: none"> <li>Loan records will be retained in accordance with City record retention requirements.</li> </ul>	<ul style="list-style-type: none"> <li>✓ As noted above, training was provided to responsible staff to ensure proper organization of loan records as a means of ensuring record retention and availability. UCS management indicated that training would also be provided to the individual that is subsequently hired to fill the position (currently vacant as former employee recently resigned) assigned responsibility for administering and processing loan records. Although not a requirement to ensure adequate record retention, UCS management also is considering using the City’s electronic imaging system to store loan records. Nothing came to our attention during our follow up fieldwork to indicate that loan records were not adequately and properly retained.</li> </ul>

**Table Legend:**

- Issue addressed in the original audit.
- √ Issue addressed and resolved.
- ◊ Issue being addressed with substantial progress made towards completion of action step. Following up to ensure final completion and implementation turned over to management.

**Conclusion**

Applicable City departments have completed 11 of the 13 action plan steps developed to address the issues identified in the initial audit. For the remaining two steps, management has either substantially completed or made substantial progress towards completing the required action. The final action steps turned over to management to ensure completion involve UCS and include:

- Updating and finalizing written procedures for timely satisfying energy loans that have been paid in full.

- Completing and using the database established to track loan records.

We recommend that UCS finalize completion of those two action plan steps.

We appreciate the response and assistance provided by staffs of Energy Services, Utility Accounting, and UCS during this audit follow up.

**Appointed Official's Response****City Manager:**

The results of the audit follow up reflect management's commitment to internal control. We will complete the remaining two steps shortly.

Copies of this audit follow up or audit report #0613 may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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