UTA

INTERNAL AUDIT

Audit of Utilities Management

R-21-02

July 15, 2022

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action[1]	For Information	Reviewed prior to release
Audit Committee		*	
Executive Director		*	*
Chief Operating Officer	*		
Chief Financial Officer	*		
Director of Supply Chain	*		
Comptroller		*	
Director of Asset Management		*	
Facility Maintenance Manager	*		
Facilities Utilities Project Administrator	*		
Accounting Supervisor		*	
Records Manager			*

[1]For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

Executive Summary

Introduction

In conjunction with the Audit Committee, Internal Audit (IA) developed a risk-based annual audit plan. This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors (IIA).

IA was directed by the Audit Committee to conduct an audit over the management of utilities to determine whether adequate controls were in place to process UTA's utility payments and monitor its utility expenses in support of management objectives.

Background and Overview

A new position was filled in October 2021 to manage UTA utilities called Facilities Utilities Project Administrator ("FUPA"). The position is part of the Maintenance Support department, a subdivision of the Operations office.

UTA has utilities in over 600 meters with 33 different vendors. The locations include bus stop facilities, railroad crossings, track switches and signals, streetlamps, irrigation, substations, platforms, and UTA facilities.

The 2021 actual spend for the primary utilities considered in this audit are shown below in Figure 1.

Figure 1.

2021 Utility Actual Spend	
Water/sewer	$ 922,159
Natural gas service	$ 765,285
Electrical service	$ 2,023,792
Electrical propulsion power	$ 5,304,577
Electrical non-propulsion power	$ 1,005,739
Total	**$ 10,021,552**

Source: General ledger accounting data

Objectives and Scope

The audit focused on periods from June 1, 2021, through April 30, 2021. The audit stage was concluded July 7, 2022.

The primary areas of focus were:
- Governance
- Utility payment process
- Utility account verification process
- Utility rate verification process
- General ledger posting

IA reviewed internal policies and procedures, interviewed department managers and staff, and conducted tests of internal controls. The following conclusions are based on these audit activities.

Summary

IA determined that UTA does not have standard operating procedures ("SOP") to memorialize key controls and activities of managing utility payments, though drafting has been started. Additionally, this report documents an opportunity to improve payment efficiency by increasing the monthly spend limit on the FUPA's purchase card.

IA reviewed without exception the following:

- A sample of utility payment documentation was reviewed. Utility payments are reviewed, proper documentation is retained, and all payments were coded to the correct general ledger account.
- The FUPA position was created to better manage UTA utilities.
- New controls have been implemented to ensure only valid accounts are paid, opportunities for enacting savings are pursued, and utility bills are reviewed before payment.
- UTA policy has been updated to reflect the approval role of the FUPA.

Finding R-21-02-03 Purchase Card Limit	**Risk Level: Medium**

Criteria:
Utah Transit Authority Policy Number 02.01 Spending Authority, section 3).A.1 states,

Using a UTA issued Purchasing Card (P-Card), department staff will make company purchases under $5,000 (per occurrence) from a vendor they have determined can perform the work or provide the item(s). UTA has provided the P-Card program as an efficient and effective method for payment for these types of transactions. For vendors that accept credit cards, this should be the first payment choice for departments

Details:
During the audit, Internal Audit discussed with the FUPA and Accounting Supervisor various pain points and inefficiencies. A significant barrier is the monthly spending limit on the FUPA's purchase card. Currently his monthly limit is $15,000. This limit is low compared to the utilities billed and prevents him from paying for many utility bills on card. Instead, payment must go through the Accounts Payable team.

Cause:
Not applicable.

Effect:
The expected benefits of increasing the FUPA's monthly limit include reducing the amount of paperwork to complete payment, reducing the risk of double payments, reducing the risk of service disruptions from late payments, reducing the risk of late fees, and reducing the administrative burden on the Accounts Payable team.

Recommendations:
1. The limit on the FUPA's purchase card should be increased to $50,000 monthly.

Management Response and Action Plan:
To satisfy the Auditor's recommendation and gain the above-mentioned benefits for UTA, a formal request will be sent to the Director of Supply Chain to increase the FUPA's Monthly P-Card limit from $15,000 to $50,000.

Target Completion Date:
A formal request will be sent to the Director of Supply Chain to increase the FUPA's monthly limit to $50,000 NLT 1700L 1 October, with a requested effective date of 1 November 2022.

Finding R-21-02-04 Standard Operating Procedures	**Risk Level: Medium**

Criteria:
Enterprise governance is an overarching system, which seeks to align priorities, funding, and resources and elevates decision-making responsibility, authority, and accountability to the appropriate levels. Governance principles include: o Management establishes reporting lines, with board oversight, of the development and performance of internal control. o Individual accountability is in place for internal control responsibilities that support entity objectives.

Sources: COSO Enterprise Risk Management: Establishing Effective Governance, Risk, and Compliance (GRC) Processes, Robert R Moeller COSO: How the COSO Frameworks Can Help, James DeLoach and Jeff Thomson

Details:
Management has drafted a standard operating procedure ("SOP") to address key aspects of utility payments and the key responsibilities of the Facilities Utilities and Project Administrator ("FUPA").

The following weaknesses of the SOP were observed:
1. The SOP is not finalized and adopted.
2. The draft SOP is written to be included with the Treasury department SOP. The topic is more closely related to the Accounts Payable function.
3. The FUPA has developed a key processes to organize new accounts and review rate schedules but the processes are not described in the draft SOP. Properly executed these controls reduce the risk of fraudulent new accounts and overpaying for service.

Cause:
The FUPA position is new as of October 2021 and processes are still being refined and memorialized.

Effect:
The absence of SOPs over utility payment processes degrades the strength of the control environment, increasing the risk of erroneous payments, erroneous accounting, overpayment for utility services, and fraudulent utility accounts being paid by UTA.

Recommendations:
1. Drafted SOPs should be finalized and adopted.
2. The FUPA should coordinate with the Accounting department to properly align the new SOP with existing policies and procedures.
3. The process of verifying and organizing accounts and reviewing rate schedules should be codified in the final draft.

Management Response and Action Plan:
Action Plan for correcting weaknesses in the Draft SOP follow:
a) The Draft SOP will be finalized and adopted
b) The final draft of the SOP will define the process of verifying and organizing accounts and reviewing rate schedules.
c) The FUPA will coordinate with the Accounting Department and properly align the adopted SOP with existing policies and procedures.
Incorporation of these changes in the Draft SOP will eliminate weaknesses identified during the Audit.

Target Completion Date:
A Draft copy of the SOP addressing the changes in section 2, above, will be completed NLT 15 November 2022. A final draft of the SOP will be submitted for review/approval NLT 15 March 2023. Upon formal adoption of the revised SOP, the FUPA will coordinate with the Accounting Department to align the SOP with existing policies and procedures.

Attachment B: Status of Preliminary Assessment Recommendations

Finding R-21-02-01 Utility Rates	Risk Level: Medium

Criteria:
According to the Institute of Internal Auditors (IIA), a control environment is the foundation on which an effective system of internal control is built and operated in an organization that strives to 1) achieve its strategic objectives, 2) provide reliable financial reporting to internal and external stakeholders, 3) operate its business efficiently and effectively, 4) comply with all applicable laws and regulations, and 5) safeguard its assets. (*Source: Adapted from the Committee of Sponsoring Organizations (COSO) "Internal Control – Integrated Framework"*)

Details:
The UTA Facilities Management department relied on Utilitem, a utilities audit service, from 2014 through March 13th of 2020. The third-party company identified a net savings of $1,908,188.

Utility rate audits can be very complex due to the wide range of account types from track switches to buildings. This complex array of accounts requires utility expertise to understand and optimize the best available rates. Account complexity also requires systematic tracking to effectively manage the operational and regulatory changes that can affect energy bills.

UTA has not retained a new company to provide this service, nor has the responsibility to review rates been absorbed by any department within UTA.

Inherent Risk:
Without a control framework for reviewing utility account information, UTA misses opportunities to identify potential cost savings and invoice errors.

Recommendations:
IA recommends Management should establish a process to ensure that UTA is not overpaying for utility services by either:
- the Facilities Management department involve the Procurement department to contract a new third-party utility audit service, or
- UTA should develop procedures to identify the lowest eligible utility rates and guidance on what procedures Accounts Payable should use to review utility bills for accuracy and establish oversight monitoring responsibility for ensuring the account rate analysis process operates as intended and appropriate utility invoice reviews are conducted. In this instance, the benefits of hiring dedicated staff of one or two FTEs knowledgeable in utilities management would outweigh the costs based on the savings identified by the prior firm.

Management Response and Action Plan:
Management is currently working with a third-party utility consultant to provide a recommendation on a utility management/oversight process. The consultant is using current client information and reaching out to other large government users to determine best practices. Once the report is received, management will provide alternatives to the Board of Trustees no later than June 21, 2021. Based on preliminary conversations with the consultant, the report will likely recommend procuring a third-party utilities service consultant and dedicated UTA support staff,

or a combination of the two to properly manage the utility program. Based on guidance from the Board of Trustees, management will implement the preferred solution no later than September 30, 2021

Target Completion Date:
09/30/2021

Current Status:
Management decided against hiring a new third-party utility audit. They were unable to find an auditor that covered all the different utilities and from previous experience they believe it was not cost effective. This is a choice of management, and they can be considered to have accepted the risks.

On the second recommendation, the following actions reduce the associated risk:

- UTA now has a dedicated staff employee to handle utility accounts and billing.
- Management has instituted the practice of consolidating utility bills and organizing them to fit UTA budget accounts.
- Management reviews paperless bills and approves them for payment, including what account to code amounts to in the general ledger.
- Bills are reviewed for opportunities to enact savings, such as finding favorable rate schedules and reducing administrative fees.

Management has reduced the risks to acceptable levels. This issue will be considered closed.

Audit Finding R-21-02-02 Governance	Risk Level: Medium

Criteria:
Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. (*Source: Adapted from the COSO "Internal Control – Integrated Framework"*)

Details:
UTA does not provide guidance, restrictions, or ownership of utilities. The UTA policy "Spending Authority" states Utility payments require post review and analytics of Payments by Facilities (or assigned Department) for disbursement. However, the practice is only used in cases where the utility charge is not comparable to the previous months.

Per Rocky Mountain Power, anyone can open an account if they have the tax ID number and billing address. Annually, the Environmental Compliance Administrator, compiles a report on electric and gas usage. Any accounts that have been added or removed from the list are verified. This process is not documented.

When electric, water or gas invoices are received by the Accounts Payable department (AP), the information is entered into the AP Utility spreadsheet. This allows for employee to check if amount is comparable to previous amount and to add new accounts. If the current charges are within reason, it is submitted for payment, if not, the invoice is sent to Facility Management, for payment approval. New accounts are sent to Facility Management for verification and approval.

Facility Management will investigate utility charges by physically checking meters, addresses and buildings. While the existing controls are reasonable, there are no requirements or guidelines to follow regarding the review and verification of utility accounts to ensure consistency in the process and adequate documentation (for example meter readings or address checks).

Inherent Risk:
- UTA could pay accounts not owned by UTA.
- Billing errors are not identified and corrected in timely manner.

Recommendations:
- IA recommends improving controls over account validity by documenting an account verification process for utility accounts to ensure follow up.
- IA also recommends revising the UTA policy "Spending Authority" to reflect current practice as to not provide a false sense of utility management.
- IA recommends UTA provide each utility provider with a list of persons authorized to open, close, and manage accounts for UTA.

Management Response and Action Plan:
- As stated above, in response to Finding R-21-02-01, management is currently working with a third party utility consultant to provide a recommendation on a utility management process. Once the report is received, management will provide alternatives to the Board of Trustees no later than June 21, 2021 and implement the preferred solution no later than September 30, 2021.
- The UTA Policy "Spending Authority" cited in the recommendations section above is still in draft format. This policy will be updated to reflect the new practice.
- Management will provide utility providers with a list of persons authorized to open, close, and manage accounts for UTA.

Target Completion Date:
09/30/2021

Current Status:
Management has addressed the first recommendation through the process of account organization previously described. Rocky Mountain Power bills can be considered the highest risk because they have the most meters by a significant margin. When a new electricity account first appears on a bill it goes to an ungrouped area at the top of the bill because the FUPA has not yet grouped it. This serves as a detection control for the risk that an unauthorized account is added.

The control design is not foolproof. For example, it relies on the FUPA manually checking and going through the steps of vetting the account. However, the design is sufficient for the level of risk. The audit will recommend that the process be documented in a standard operating procedure along with other utility payment processes – see issue R-21-02-04.

Management has adequately addressed the second recommendation. The Spending Authority policy clearly states that the "Utility Manager" is responsible for approving all payments made to a utility company.

On the third recommendation, the risk of unauthorized utility accounts as stated in the preliminary assessment is overstated. First, the potential impact is likely relatively small. The most likely scheme involves an individual moving their private residence utilities to a UTA account. Even if undiscovered, the impact is going to be relatively small relative to total utility spend. Second, the FUPA reviews utilities for payment and identifies new accounts. Management has appropriate controls relative to the risk.