
PERFORMANCE AUDIT OF CITY GAS AND ELECTRIC UTILITY BILLING

The City Needs to Develop a
Comprehensive Control Environment
for Managing Gas and Electric Utility
Charges

Office of the City
Auditor

City of San Diego



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THE CITY OF SAN DIEGO

April 4, 2017

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit report of City Gas and Electric Utility Billing. This report was conducted in accordance with the City Auditor's Fiscal Year 2017 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief are presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 38 of this report.

We would like to thank staff from the Environmental Services Department for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Nick Ketter, Arlys Erickson, and Kyle Elser.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Mara Elliot, City Attorney
Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Mary Lewis, Chief Financial Officer
Rolando Charvel, City Comptroller
Paz Gomez, Deputy Chief Operating Officer, Infrastructure/Public Works
David Graham, Deputy Chief Operating Officer, Neighborhood Services
Kris McFadden, Director, Transportation and Storm Water Department
Mario Sierra, Director, Environmental Services Department
Halla Razak, Director, Public Utilities Department
Herman Parker, Director, Park and Recreation Department
Erik Caldwell, Director, Economic Development Department
Todd Cahill, Director, Business Services, San Diego Gas & Electric



OFFICE OF THE CITY AUDITOR
1010 SECOND AVENUE, SUITE 555 • SAN DIEGO, CA 92101
PHONE (619) 533-3165 • FAX (619) 533-3036

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Results In Brief

The City of San Diego manages a vast real estate and infrastructure asset portfolio to provide essential services to San Diego residents. To support the City's many services, approximately \$51 million has been budgeted in Fiscal Year (FY) 2017 for gas and electric utilities expenses, and the City plans to spend about \$46 million in FY 2018. Managing the gas and electric utility needs for the City's immense asset portfolio presents challenges. The City has approximately 3,500 gas and electric utility accounts with SDG&E, which cover nearly every available utility rate type offered by SDG&E.

Appropriate bill payment, billing dispute management, and consumption analysis is an important part of the City's efforts to manage utility accounts and energy efficiency. We found that the City has not developed a sufficient internal control framework over gas and electric utility account management. We determined that the City does not have a program to provide assurance that the City is charged the lowest qualifying utility rate. Furthermore, the City has not developed a comprehensive program to evaluate the accuracy of utility invoices prior to authorizing payment.

Without a comprehensive control framework for reviewing gas and electric utility account information, the City misses opportunities to identify potential cost savings and SDG&E invoice errors. City management should establish a comprehensive control framework to ensure the City is not overpaying for gas and electric utility services. As part of the framework, management should develop policies and procedures to ensure the City establishes the responsibility and methodology for periodic review of utility rates assigned to City accounts, and responsibility and methodology for reviewing utility invoices for accuracy. The City should also coordinate with San Diego Gas & Electric (SDG&E) to clarify roles, responsibilities, and information sharing needs in order to improve the exchange of information and data related to utility account management.

We also identified utility account management concerns specific to street lights. The City has approximately 60,000 street lights providing illumination for the public right of way. The City has approximately 100 accounts for street lights, which are assigned one of two billing rate codes. Based on our review, we identified several billing and account management concerns. We determined that neither the Environmental Services Department's (ESD) Energy and Sustainability Division nor the Transportation and Stormwater Department's Street Division adequately review street light billing for accuracy. Furthermore, there is no established process to ensure that new streetlights are billed to the correct street light account.

Street light billing issues can be attributed to unclear responsibilities for verifying the accuracy of street light utility billing, and insufficient coordination among departments with street light management responsibilities. City management needs to develop additional policies and procedures, and improve coordination to ensure the four City departments with street light account responsibilities manage accounts efficiently.

We made a total of three recommendations to address the issues outlined above, and management agreed to implement all recommendations.

Background

Introduction The City of San Diego manages a vast real estate and infrastructure asset portfolio to provide essential services to San Diego residents. The City owns more than 1,600 properties that total an estimated 120,000 acres. The City also owns approximately 60,000 street lights, and has over 1,500 intersections regulated by traffic signals. To power various assets, the City has budgeted about \$51 million for gas and electric utilities for FY 2017, and plans to spend about \$46 million in FY 2018.

In accordance with the Office of the City Auditors FY 2017 Work Plan, we conducted a performance audit of street light utility billing. The City Auditor expanded the audit to include Citywide gas and electric utility billing review and whether opportunities to reduce utility costs exist by reviewing the utility rates associated with City accounts. Specifically, our audit objective was to determine whether the City is evaluating gas and electric utility accounts to obtain the lowest eligible rates, and whether the City is verifying the accuracy of utility account invoices. We also assessed electricity account management for street lights. See **Appendix B** for detailed objective, scope, and methodology statements.

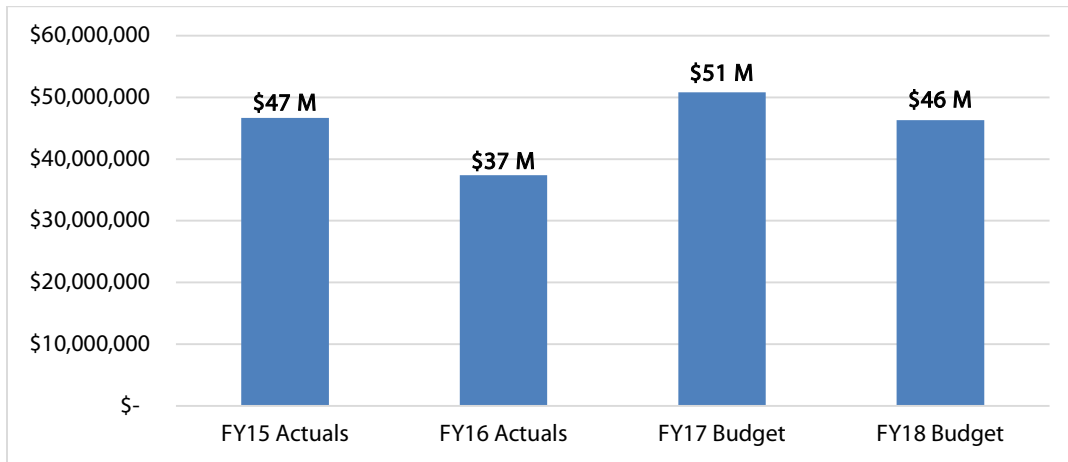
We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

City Gas and Electric Utility Billing

The City budgeted \$51 million for gas and electric utilities, including \$2 million for street lighting for FY 2017. ¹ The City's primary utility provider is San Diego Gas & Electric Company (SDG&E). SDG&E is a regulated public utility that provides energy service to 3.6 million people in San Diego and southern Orange County. Only about \$5 million worth of energy costs are provided by other entities. During the audit, the City had about 3,500 utility accounts with SDG&E. SDG&E provides monthly utility bills for each account. SDG&E breaks the account invoices into weekly batches provided to the City. For August 2016, the City received four weekly billing batches that ranged from 722–1,042 invoices. The City's gas and electric utility charges have fluctuated over the past few years due to a combination of billing errors resolved through credits that were processed in the next fiscal year, increases in energy costs, and other factors such as energy efficiency projects. The variation in cost is shown in **Exhibit 1** below.

Exhibit 1

City of San Diego Energy Spending



Source: ESD, Energy and Sustainability Division.

Approximately 100 of the 3,500 City utility accounts were for street lights. Street lights are assigned one of two rate codes.

¹ Approximately \$3 million, or about 6 percent, of the budgeted amount was allocated for gas services. Street lighting includes street lights and other safety related lighting such as flashing beacons and cross walk lighting. In addition, \$4 million is budgeted for traffic signals which includes the associated street lights. Additional outdoor lighting fixtures can be found at multiple facilities and buildings which are charged to the meter at that particular facility (e.g. parking lot lighting).

The Environmental Services Department's (ESD) Energy and Sustainability Division cannot determine the exact amount spent on street light electricity because some street lights are attached to traffic signals, which are billed on separate metered SDG&E accounts.

Street Light Utility Bill Review

The Energy and Sustainability Division reviews and approves all City utility bills for payment. The division is primarily responsible for energy conservation and renewable energy programs, sustainability initiatives, and management of the City's energy budget. In addition to approving utility bills for payment, Energy and Sustainability Division also has additional responsibilities related to street lights. The division is currently managing an initiative to replace street light lamps with light emitting diode (LED) technology. Under the initiative, the City has installed approximately 3,600 LED lights, and plans to install another 14,000 beginning in the summer of 2017. The ongoing transition to LED technology is intended to reduce energy costs, carbon dioxide emissions, and maintenance. The City's LED retrofits have taken place primarily in downtown San Diego, and cover a geographic area associated with five SDG&E accounts.

SDG&E Utility Rates

SDG&E can develop and propose billing rates, but the rates only become effective when approved by the California Public Utilities Commission. The City has about 30 different SDG&E rate codes for utility bills. Energy and Sustainability Division reported that from FY 2013 through FY 2016, rates changed an average of four times per year. As a result, although rate increases can occur at any time, SDG&E is attempting to increase rates annually in January. According to SDG&E data provided by ESD, SDG&E electricity rates have increased by approximately 35 percent since FY 2010, or an average of 5.4 percent annually.

According to SDG&E, City utility rates are complex because of the wide range of account types. City account types range from commercial buildings to street lights and wastewater treatment facilities to power generation for the grid. As a result, the City of San Diego's approximately 3,500 accounts touch almost every rate type available to SDG&E customers. 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.

**ESD Efforts in Relation to
General Rate Cases**

A General Rate Case is a California State-mandated process that investor-owned electric and gas companies such as SDG&E go through to request increased revenues for distribution and generation costs. The utility is required to provide a detailed forecast of how they will structure their operations and make investments for the upcoming three-year period. The California Public Utilities Commission reviews the information and obtains input from customers, business groups, cities, and other agencies before making a decision.

As a General Rate Case stakeholder, the Energy and Sustainability division works with an energy consultant and the City Attorney's Office to minimize the impact of rate changes on City accounts. According to the Energy and Sustainability Division, the work includes analysis of proposed rate changes, and developing written and verbal testimony for the General Rate Case. Energy and Sustainability Division reported several recent examples where its analytical and advocacy efforts help to reduce the impact of utility rate changes on the City. For example, the division advised that during one rate case proceeding, the City succeeded in classifying water and sewer pump stations changed from the Medium and Large Commercial/Industrial Customer Class to the Agriculture Customer Class, which lowers the per unit electricity cost by approximately 10 percent. During another rate case proceeding, the City successfully advocated for a delay in the implementation of Time of Use period changes, which would have been detrimental to existing and proposed solar projects.

We should note that Energy and Sustainability Division's general energy management system and energy efficiency projects were outside the scope of this review. Our audit objective was to determine whether the City is evaluating utility accounts to obtain the lowest eligible rate and verify accuracy of utility account invoices.

SDG&E Billing and Rate Controls

SDG&E has a responsibility to ensure invoices it provides to the City are accurate. According to SDG&E, the utility billing system they use generates a “billing work item” if there is a large energy or demand spike. The billing system will create an “approval work item” if there is a large spike in the invoice amount. SDG&E advised that they notify customers, including the City, when a large consumption or demand variation is identified.

SDG&E said that when the system generates a billing work item, an SDG&E employee will manually review the account and its consumption and demand. If the change in consumption or demand is outside of historic usage, the SDG&E employee will place a hold on the work item until the change is confirmed with the customer. When the system generates an “approval work item,” a supervisor will review the account. SDG&E places a hold on the work item until the invoice increase has been verified. SDG&E cited one example where the billing system generated a “work item” for a Public Utilities Department account. SDG&E relayed the information to Public Utilities Department staff, and the staff confirmed that the spike occurred because power generation at a particular site went down.

The City also has some specialized accounts. Due to the complexity of those accounts, an SDG&E employee must manually generate bills. In addition, an SDG&E billing auditor reviews the account invoices to ensure accuracy. An example of a complex account is one where the City has solar co-generation installed behind a billing meter.

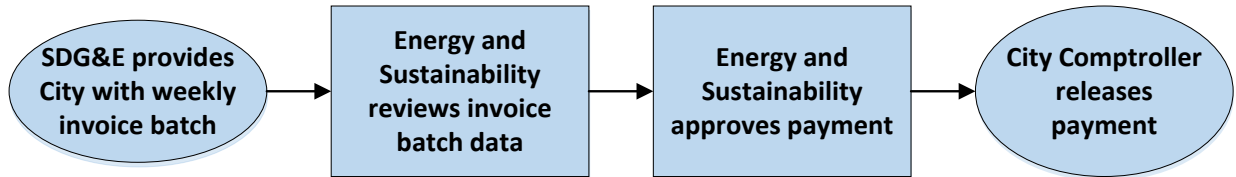
Energy and Sustainability Division Utility Billing Reviews

The current Energy and Sustainability Division bill review process is the same for all utility bills. SDG&E sends the City a weekly batch of utility invoices. Energy and Sustainability Division personnel review invoice batches for anomalies. When necessary, Energy and Sustainability Division personnel can also access each bill through the SDG&E Enterprise Energy Advisor (commonly referred to as C3), an energy analysis system, that provides additional billing and consumption details for each bill. The system includes historical data for the account. Energy and Sustainability Division reported that they

identified data reliability issues with the new system and they are working with SDG&E to resolve the issues. After the invoice batch review, Energy and Sustainability Division authorizes payment by providing the “OK to pay” through SAP, and the Comptroller releases funds. See **Exhibit 2** below for a summary of the utility invoice payment process.

Exhibit 2

City Payment Approval Process



Source: OCA analysis of billing process.

In addition, the Energy and Sustainability Division also provides nine departments with monthly utility bill reports. However, there are no requirements or guidelines for departments to follow regarding the review and verification of billing accuracy.

Audit Results

Finding 1: The City Needs to Develop a Comprehensive Control Environment for Managing Gas and Electric Utility Charges

To support the operations of the City's vast real estate and asset portfolio, the City has budgeted approximately \$51 million for gas and electric utilities for FY 2017. Managing the gas and electric utility needs for the City's immense asset portfolio presents challenges. Over the years, the City has amassed approximately 3,500 gas and electric utility accounts with SDG&E. Furthermore, based on the complexity of the San Diego's assets, the City's various accounts cover nearly every available utility rate type offered by SDG&E.

Appropriate bill payment, billing dispute management, and consumption analysis is an important part of the City's efforts to manage utility accounts and energy efficiency. Based on our review of how the City manages gas and electric utility accounts, we found that the City has not developed a sufficient internal control framework over gas and electric utility account management. Specifically, we identified the following control framework weaknesses:

- The City does not have a program to provide assurance that the City is charged the lowest qualifying utility rate; and
- The City has not developed a comprehensive program to evaluate the accuracy of utility invoices prior to authorizing payment.

We also identified control weaknesses related to the City's use of the SDG&E web portal that is used to manage City accounts.

The Government Accountability Office *Standards for Internal Control in the Federal Government*, and the California Controller *Internal Control Guidelines, California Local Agencies*, highlight the need for City management to develop appropriate control activities to ensure the implementation of a comprehensive control framework for managing gas and

electric utility accounts. Management must establish an appropriate organizational structure, assign responsibility, and delegate authority to implement the program and monitor the effectiveness.

Without a comprehensive control framework for reviewing gas and electric utility account information, the City misses opportunities to identify potential cost savings and SDG&E invoice errors. Our review identified modest potential bill reductions totaling approximately \$17,000 in 19 of 48 City accounts that SDG&E said were eligible for lower rates. Without adequately reviewing bills for accuracy, the City is unable to determine when it is being billed inappropriately. SDG&E has billed the City incorrectly in the past. Public Utilities Department identified an incorrect billing that overcharged the City by \$1.7 million.

City management should establish a comprehensive control framework to ensure the City is not overpaying for gas and electric utility services. As part of the framework, management should develop policies and procedures to ensure the City establishes the responsibility and methodology for periodic review of utility rates assigned to City accounts, and responsibility and methodology for reviewing utility invoices for accuracy. The City should also coordinate with SDG&E to clarify roles, responsibilities, and information sharing needs in order to improve the exchange of information and data related to utility account management.

There is No Formal Program Exists for Evaluating Utility Accounts

We found that the City does not have a program to provide assurance that the City is charged the lowest qualifying billing rate. Furthermore, the City has not developed a comprehensive program to evaluate the accuracy of utility invoices.

The City Does Not Have a Program to Identify the Lowest Available Utility Account Rates

The City has not developed a comprehensive program to identify the lowest available utility account rates. Energy and Sustainability Division does not have an organized or methodical process for reviewing account billing rates. Only one of the nine departments that receive utility billing information has reviewed rates assigned to their accounts. See **Appendix C** for a summary of how departments review utility rates.

The Public Utilities Department is the only department reviewing account rates. The department analyzes the rates of its largest accounts, which are accounts that receive monthly invoices of \$8,000 or more. Public Utilities Department noted that three major wastewater pump stations with backup electrical service lines were being charged SDG&E demand charges for both the primary and backup lines. It is possible the department can avoid some of these charges, since only one line is normally in use at a time. Public Utilities Department engineers then sought to eliminate or reduce these charges in the future by two methods: requesting that SDG&E place these accounts under conjunctive billing, and working with operations staff to ensure the backup lines are never used outside of emergencies.

Since 2015, Public Utilities Department has requested major rate changes that could be more cost effective for the department's accounts. As part of Public Utilities Department's analysis of energy accounts, alternative rates were identified for 13 pump station accounts that resulted in an estimated annual savings of \$984,000. Also they have requested rate code changes for an additional eight accounts for an estimated annual savings of \$155,200.

The City Does Not Have a Program to Ensure the Accuracy of Utility Account Invoices

The City has not developed a program to evaluate the accuracy of utility account invoices. Energy and Sustainability Division has not developed a formal process to review utility invoices for accuracy. The Public Utilities Department is the only City department that has an established methodology for reviewing utility invoices.

SDG&E submits invoices to the City through ESD's Energy Electronic Data Interchange application.² After the application conducts initial quality assurance on SDG&E invoice data, Energy and Sustainability staff review invoice batch reports for anomalies. The Energy and Sustainability Division estimates that approximately 1.5 full-time equivalent employees' time is spent on City utility account management, including reviewing

² Energy Electronic Data Interchange is the utility bill invoice processing application used by Energy and Sustainability Division. Energy and Sustainability staff receive SDG&E invoice batches through the application.

invoice accuracy, ensuring the lowest eligible account rate, and managing the City's energy budget. An Energy and Sustainability Division analyst spends approximately one hour per week performing "quality control" prior to requesting payment approval for approximately 700–1,000 accounts. According to Energy and Sustainability Division staff, the analyst focuses on large charges and tries to identify large fluctuations during the review. Energy and Sustainability Division staff explained that if fluctuations are identified, the analyst reviews historical consumption and charges, the duration of the billing period, and other variables that may affect the account. This review process may also include additional staffing support when necessary. According to the Energy and Sustainability Division, staff sometimes spend up to 20 hours per week working with SDG&E to define the scope of errors and ensure they are resolved appropriately. Lastly, Energy and Sustainability Division managers approve the utility bills for payment by the Comptroller. See **Appendix D** for the process map of the Energy and Sustainability bill review process.

*Departmental Reviews of
Utility Account Invoices*

There are no formal procedures or requirements for departments to review invoices for utility accounts related to their organizations. However, Energy and Sustainability Division distributes monthly invoice reports to nine of the City's departments. Departments can notify Energy and Sustainability Division if they identify potential errors in those reports. Billing reports for those nine departments in November 2016 accounted for over \$2.7 million. These departments' monthly billing reports amount to approximately 65 percent of the \$51 million FY 2017 energy budget. Furthermore, the rate included on the billing reports does not represent the actual billing rate and associated rate code charged by SDG&E. Instead, it represents the invoice amount divided by the consumption units. The billing reports were sent to five email addresses that are no longer active within the City and two employees that are no longer assigned to the departments for the attached reports. A process to identify staffing changes that impact invoice report distribution has not been developed. Energy and Sustainability Division has provided no instructions to the department representatives for reviewing or verifying utility

bills. See **Exhibit 3** for a list of departments that receive monthly utility billing reports.

Exhibit 3

Distribution of Monthly Utility Billing Reports to Departments

Departments Receiving Monthly Billing Reports		
Environmental Services Fire Rescue Library	Park and Recreation Police Public Works	Public Utilities Real Estate Assets Transportation and Storm Water

Source: OCA Analysis of Energy and Sustainability Division Invoice Reports.

We reviewed the utility billing verification process of the nine departments that receive the monthly billing reports. Only one department, the Public Utilities Department, has an established process to utilize the billing information to identify potential invoice errors. However, that process is not documented in a formal standard operating procedure. The remaining eight departments only conduct a cursory review of the data and investigate anomalies as necessary. See **Appendix E** for a summary of how departments reviewed the billing reports.

Guidance for Establishing a Comprehensive Control Framework Over Utility Billing

With no City or departmental policies or procedures outlining roles, responsibilities, and processes for identifying the lowest qualifying billing rates and accessing utility bill reviews for accuracy, we relied on the California Controller *Internal Control Guidelines*, *California Local Agencies* and the Government Accountability Office *Standards for Internal Control in Federal Government* for guidance on how the City should develop procedures to identify the lowest eligible utility rates and guidance on what procedures the City should use to review utility bills for accuracy. Both account rate and invoice review programs should provide reasonable assurance that City operations are cost effective and identify instances where the City is paying more than necessary for energy.

According to the internal control guidance, local governments should establish policies and procedures to implement control activities that achieve management directives and respond to identified operational risks. The control activities should

include monitoring to evaluate the effectiveness of established controls on a recurring basis and taking remedial actions when necessary. Cities should also build on-going monitoring procedures into their normal recurring activities and determine if the controls are operating as intended. If controls do not operate as intended, the City should make appropriate modifications.

Both the California Controller and the Government Accountability Office provide the framework for internal control in government entities. The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the entity. The governing board and management establish the “tone at the top” regarding the importance of internal control, which then cascade down throughout the various levels of the organization and have a pervasive effect on the overall system of internal control. An adequate control environment is required to ensure appropriate application of internal controls.

*City Responsibilities for
Internal Control
Development*

The San Diego City Charter stipulates that the “Chief Financial Officer shall ensure that proper controls exist in all City Departments to support accurate and timely disbursements of City funds.” The Chief Financial Officer is responsible for the City's accounting and financial reporting functions, vendor payments, payroll, debt issuance, risk management, treasury and investments, and establishment of internal controls over financial reporting. The Chief Financial Officer oversees the development and implementation of internal control policies and procedures related to these functions and has oversight responsibility over financial transactions Citywide. Specifically, the disbursements section in the Office of the City Comptroller is responsible for developing the internal control framework for vendor payments.

Without a Comprehensive Control Framework, the City May Miss Opportunities to Identify Lower Utility Account Rates and Potential Invoice Errors

Without a comprehensive control framework over the City's management of utility accounts, the City may miss opportunities to identify lower utility account rates and potential invoice errors. In the past, Public Utilities Department has identified both SDG&E billing errors and cost saving opportunities. During our audit, we also identified the potential for modest cost savings by using an SDG&E rate analysis tool.

Opportunities Exist to Review Accounts for Eligible Rate Codes to Reduce Energy Costs

Without a program to assess whether the City receives the lowest eligible rate, the City may miss opportunities to identify cost savings. For example, in June of 2016, SDG&E staff suggested the City review 130 accounts with default Capacity Reservation Charge rates of 50 percent that could be changed to receive lower billing rates. Energy and Sustainability Division personnel did not respond to reduce the Capacity Reservation Charge to zero, until January 24, 2017, resulting in a possible missed opportunity for reducing the electric bills. Changes to these accounts are protected by an SDG&E no risk pricing policy. If the City does not realize cost savings after making an account change based on the "My Pricing Plan" tool data, the City would receive a credit for the difference after the end of the first year.

SDG&E provides a tool available to all customers called "My Pricing Plan." The tool was not designed to assess sophisticated rates, such as some Public Utilities Department accounts, but according to SDG&E personnel the tool can be applied to most City accounts with simple rate codes. The example provided by SDG&E for one account demonstrated that four rate codes were available for use by the City. The annual cost could vary by \$7,586, from a low of \$181,676 to a high of \$189,262 based on the rate code chosen by City personnel. See **Appendix F** for an example of the SDG&E "My Account" page and "My Pricing Plan" tool.

We should note that Energy and Sustainability Division staff expressed concerns about the reliability of the "My Pricing Plan" tool. Energy and Sustainability Division tested the tool on two City accounts and found that the "My Pricing Plan" tool annual cost estimates were 39 and 37 percent higher than actual costs for those accounts.

We reviewed 48 accounts that SDG&E recommended the City analyze using the pricing tool. Based on Energy and Sustainability Division concerns, we also compared the tool's estimated annual costs to actual costs provided by Energy and Sustainability Division staff. The average difference between estimated and actual costs was only negative 1.7 percent for the 48 accounts tested. We identified modest potential bill reductions in 19 (39 percent) of the accounts reviewed, totaling \$17,009. The bill reductions ranged from a high of \$4,315 to a low of \$15 per account annually. Energy and Sustainability Division should conduct additional analysis in conjunction with City departments provided the energy to ensure the pricing tool's lowest rates are in fact the most cost effective rate based on consumption and usage for each account.

Lack of Controls Over the City's SDG&E Web Accounts

During the audit, we identified control weaknesses related to Energy and Sustainability Division's management of SDG&E web portal access. The City can manage energy accounts through the SDG&E web portal "My Account" by establishing customer accounts. To establish customer accounts, City personnel have to create a login and password that are used to gain access to information on specific City accounts. However, the City cannot maintain the 3,500 SDG&E accounts under one user login and password. According to Energy and Sustainability Division staff, one user login to the portal can have approximately 100 accounts. As a result, the City has established multiple user logins and passwords for an unknown number of accounts. Each user login can include information for accounts from multiple departments, and accounts have been established with no standardized method for naming the account information.

We could not use the "My Pricing Plan" tool for the other 83 accounts SDG&E had recommended for analysis because Energy and Sustainability Division personnel had already established logins and passwords for those accounts. In order for employees at other City departments to have the ability to review account information, Energy and Sustainability Division provided login and password information to other personnel within ESD and other departments. However, division

personnel had not maintained records of this user account information. Without records of those logins or accounts, Energy and Sustainability Division is unable to determine how many current and former City employees may have access to those accounts. This is a risk to the City because individuals with access to those accounts can now change rate types and other information for City accounts, which could increase account costs.

During the audit, the Energy and Sustainability Division took action to address "My Account" access control concerns. The division is working with SDG&E to obtain a list of the City's user accounts and the related active and inactive SDG&E accounts. The division is also in the process, of revising "My Account" passwords associated with City accounts. The division plans continue to update the passwords on a recurring basis. Energy and Sustainability Division is also coordinating with SDG&E and the Public Utilities Department to determine what additional account controls may be necessary.

There is No Reasonable Assurance That the City Identifies Invoice Errors

City departments should analyze utility billing information because unidentified billing errors can result in unnecessary financial expenditures for the City. For example, in 2015, the Public Utilities Department identified an incorrect invoice amount that was causing the City to overpay for electricity. The amount was incorrect because when SDG&E swapped out and moved the location of three meters at a sewer pump station, the meters were assigned a default rate code instead of the correct rate code for the account. SDG&E agreed to provide a credit of over \$1.7 million in October 2016. An image of a City of San Diego pump station is shown in **Exhibit 4** below.

Exhibit 4

Public Utilities Department Pump Station



Source: City Website.

Without adequately reviewing bills for accuracy, the City is unable to determine when it is being billed inappropriately, despite improper payments in the past. The reconciliation of errors can take months.

The Energy and Sustainability Division is planning for the acquisition of a new analytics and reporting system to replace the current energy account management application, the Energy Electronic Data Interchange. The Energy and Sustainability Division business requirements for the new system will include improved analytical tools which will allow Energy and Sustainability Division to identify anomalies. The Energy and Sustainability Division initiated the procurement process in FY 2016, and finalized the business requirements with the Department of Information Technology in December 2016. The division anticipates that the Request for Proposal will be published in April 2017.

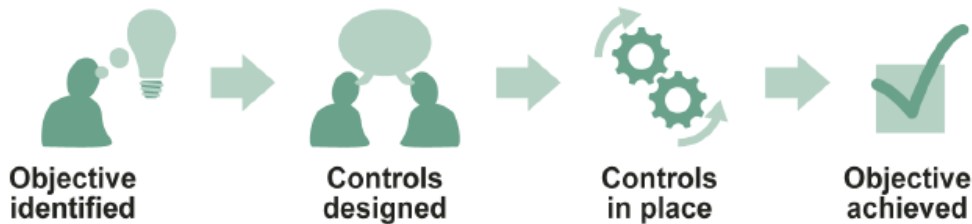
Energy and Sustainability Division personnel accept the responsibility for approving utility bills for payment. Energy and Sustainability Division personnel further stated that they rely on departments to report changes to a building asset that consumes energy or changes in energy consumption habits. The Comptroller should assist Energy and Sustainability Division with establishing an internal control framework that includes an appropriate level of review by the City departments that consume energy.

Insufficient Review of Billing Accuracy and Rate Cost Effectiveness is Caused by the Lack of a Comprehensive Control Framework

City officials have not developed a comprehensive control framework for the management of gas and electricity utility accounts. It is in the City’s best interest to ensure the City receives the lowest qualifying billing rate and ensure that proper payments are made for gas and electric services. However, no formal, documented program exists for determining whether the City is billed at the lowest qualifying rate, and the process for verifying the accuracy of SDG&E invoices is inadequate. **Exhibit 5** below depicts how controls can help an organization achieve its objective.

Exhibit 5

Achieving Objectives Through Internal Controls



Source: Government Accountability Office.

Citywide Policies and Procedures are Needed for the Review of Utility Charges

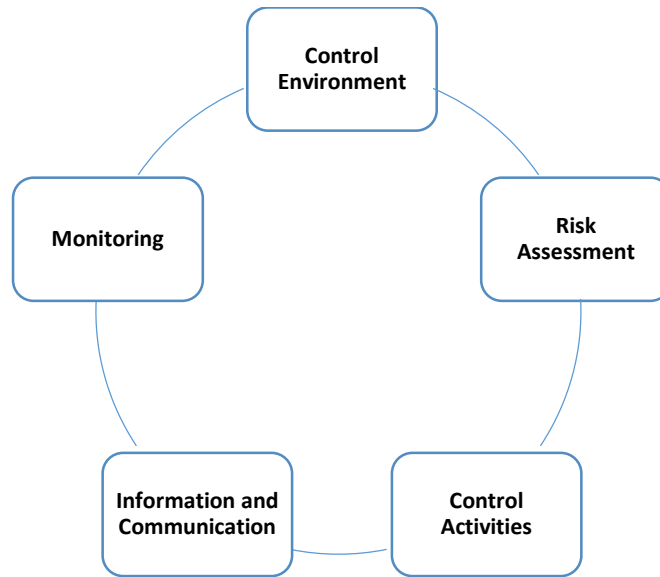
City leadership has not established Citywide policies or directives that establish responsibility for a comprehensive control framework related to the review of gas and electric utility charges. The Energy and Sustainability Division within ESD has been assigned the responsibility of approving Citywide utility bills for payment. However, without Citywide policies or directives, ESD does not have adequate authority or guidance to direct the utility invoice and rate analysis activities of other City departments. The lack of policies and procedures demonstrates that a sufficient Citywide control environment has not been established for the review of utility invoices.

Furthermore, the responsibilities of City departments for verifying the accuracy of utility billing related to their assets are decentralized and unclear. The Chief Financial Officer (CFO) is responsible for overseeing the development of internal control policies and procedures for financial transactions in all City departments. The Comptroller, who reports to the CFO, has a

division that is responsible for reviewing internal controls. However, the responsibility of establishing a utility bill review process has been delegated to the Energy and Sustainability Division and ESD has not developed documented policy and procedures which establish programs for rate analysis or reviewing utility bills for accuracy. **Exhibit 6** below shows the five components of an effective internal control program.

Exhibit 6

Five Components of Internal Control



Source: Government Accountability Office.

For an effective control environment, management must establish an appropriate organizational structure, assign responsibility, and delegate authority. The Energy and Sustainability Division would benefit from internal control expertise from the Comptroller’s Office to develop and direct a Citywide program to properly manage and control the approximately 3,500 City utility accounts with SDG&E. The Comptroller’s office can also assist ESD with verifying the effectiveness of controls.

The City Has Not Developed Adequate Controls for Reviewing Invoice Accuracy and the Associated Account Rates

The City has not established a designated rate analysis function to analyze energy account rates and consumption for all City accounts on an ongoing basis, and has not established a comprehensive program to ensure it makes proper payments for utility services. While the Energy and Sustainability Division is responsible for utility account management, and reviewing bills for accuracy, the division does not have sufficient information technology resources to assess the accuracy of every invoice.

The Energy and Sustainability Division explained that due to current information technology constraints, staff can only focus on invoices for a limited number of high dollar value accounts because the current system cannot sufficiently compare data over time. Furthermore, the department personnel that receive monthly billing reports are not provided rate code information, and do not have the expertise to analyze whether an account is on the lowest available rate. The Energy and Sustainability Division noted that prior to this audit, the division was taking steps to strengthen oversight by adding a Program Coordinator position, replacing the current energy billing system, and extending the contract with an energy consultant. The Energy and Sustainability Division stated it was also working to review and formally capture internal processes.

In addition to the internal control issues we identified, both City and SDG&E staff expressed frustration with the lack of resources necessary to conduct regular utility account reviews and the level of effort those reviews require. These personnel also expressed concern that the interaction between the staff of both entities was not always effective or efficient.

Furthermore, personnel from both entities expressed concerns related to the lack of a standardized process for resolving issues related to utility billing. Specifically, staff stated that responses from both organizations did not always contain sufficient information to accomplish the requested action, and that responses were not always timely. Both organizations indicated that a formalized method for exchanging data and information could improve the efficiency of the utility billing review process.

Recommendation #1

The Chief Operating Officer should direct the Environmental Services Department Director and the Chief Financial Officer to implement an internal control framework for utility rate analysis and utility billing review of City gas and electric utility accounts. The Environmental Services Department Director, in coordination with the Chief Financial Officer, should:

- Develop a written process that establishes responsibility among various departments and a methodology for periodic review of utility rates assigned to City accounts and for review and payment of utility bills;
- Establish procedures to provide utility reports with appropriate information to the appropriate personnel for review;
- Provide training for personnel responsible for reviewing gas and electric utility rates and accuracy of utility invoices; and
- Establish oversight monitoring responsibility for ensuring the account rate analysis process operates as intended and appropriate utility invoice reviews are conducted. (Priority 2)

Recommendation #2

The Environmental Services Department Director should coordinate with SDG&E to:

- Establish a formal process clarifying roles and responsibilities related to utility rates and potential billing issues;
- Create a standardized mechanism to provide all required account and billing information necessary to request rate changes and resolve potential rate issues; and
- Develop acceptable timeframes for rate and billing resolutions. (Priority 2)

Finding 2: The City Needs Additional Coordination to Appropriately Manage and Review Street Light Electricity Bills for Accuracy

The City has approximately 60,000 street lights providing illumination for the public right of way.³ Street lighting is an important part of San Diego's infrastructure. Street lights improve traffic safety, pedestrian safety and visibility, and personal security by allowing pedestrians and motorists to better see one another. The City has approximately 100 accounts for street lights, which are assigned one of two billing rate codes. The City spends approximately \$2 million a year on street light electricity. Energy and Sustainability Division cannot determine the exact amount spent on street light electricity because some street lights are attached to traffic signals, which are billed on their own metered SDG&E accounts.

Based on our review, we identified several billing and account management concerns specific to street lights. We determined the following:

- Neither the Energy and Sustainability Division nor Street Division adequately review street light billing for accuracy;
- The Energy and Sustainability Division discovered the City was overpaying for approximately 3,700 street lights; and
- There is no established process to ensure that new street lights are billed to the correct street light account.

The Government Accountability Office *Standards for Internal Control in the Federal Government*, and the California Controller *Internal Control Guidelines, California Local Agencies*, highlight the need for City management to develop appropriate control activities to ensure the implementation of a comprehensive control framework for managing gas and electric utility accounts. Local governments should establish policies and procedures to implement control activities that

³ This figure includes some lights in City parking lots and parks.

achieve management objectives and respond to identified operational risks. The control activities should include monitoring to evaluate the effectiveness of established controls on a recurring basis and taking remedial actions when necessary.

Street light billing issues can be attributed to unclear responsibilities for verifying the accuracy of street light utility billing, and insufficient coordination among departments with street light management responsibilities. Furthermore, the City has not established an effective framework for managing electric accounts associated with the City's street light infrastructure. City management needs to develop additional policies and procedures, and improve coordination to ensure the four City departments with street light account responsibilities manage accounts efficiently.

There is No Formal Program to Evaluate Street Light Bill Accuracy

ESD's Energy and Sustainability Division and Transportation and Storm Water Department's Street Division do not adequately review street light billing for accuracy. The City is unable to isolate street lights bills because many street lights are attached to traffic signals, and the City does not have an accurate street light asset inventory.⁴ Furthermore, the Energy and Sustainability Division reviews street light invoices as part of the general utility billing review process described in Finding 1. Also, Street Division staff conduct only a cursory review of electricity billing data. However, based on the complexity of the City street light infrastructure and the large number of street light accounts, additional actions are necessary to ensure proper billing and payment of electrical bills.

For example, the City manages several special lighting districts.⁵ While the management of lighting district street lights involves Economic Development and Park and Recreation Departments, the City does not have a formal

⁴ In an FY 2017 performance audit of street light repair operations (OCA 17-009 Performance Audit of Street Light Repair), the office of the City Auditor determined that the City's street light inventory was inaccurate, and that the Street Division needed to update and maintain the street light asset inventory data.

⁵ Special lighting districts, are a type of Maintenance Assessment District. A Maintenance Assessment District is a legal mechanism by which property owners can vote to assess themselves to pay and receive services above-and-beyond what the City of San Diego normally provides. This above-and-beyond service level is called a "special benefit." This includes certain "special benefit" street lights.

process for determining whether a new streetlight should be billed to an existing lighting district account.

An internal Street Division guide with instructions for processing street light Electrical Service Orders, notes that staff should check to see if the street light is within a Maintenance Assessment District.⁶ According to the guideline, if the light is new, Street Division personnel should add the street light to the general account until it is identified as a Maintenance Assessment District light. However, the guideline does not specify department responsibilities for notifying Street Division that lights should be billed to a lighting district account, or address the City's methodology for the determination. Without a process, the Transportation and Storm Water, Park and Recreation, and Economic Development Departments are not coordinating to ensure street lights are added to the appropriate electrical account.

**State and Federal
Guidance for
Establishing a
Comprehensive Control
Framework**

With no City or departmental policies or procedures to access street light bills for accuracy, we again relied on the California Controller *Internal Control Guidelines, California Local Agencies* and the Government Accountability Office *Standards for Internal Control in Federal Government* for guidance on what procedures the City should use to review street light electricity bills for accuracy. The guidelines state that local governments should establish policies and procedures to implement control activities that achieve management directives and respond to identified operational risks. The control activities should include monitoring to evaluate the effectiveness of established controls on a recurring basis and taking remedial actions when necessary. **Exhibit 7** below shows some various types of City of San Diego street lights.

⁶ An Electrical Service Order is a standard form used by the City to request changes to SDG&E accounts.

Exhibit 7

Various City Street Light Types



Source: OCA and Google Maps.

Energy and Sustainability Division Has Identified Cost Savings

The Energy and Sustainability Division, through a contractor, identified 3,712 streetlights in SDG&E’s inventory being billed to the City which either do not exist or are duplicates. The Energy and Sustainability contractor completed the inventory of City street lights in 2013 by reconciling SDG&E and City of San Diego inventory data. The Energy and Sustainability Division developed the new inventory data because it required an accurate street light inventory to accomplish a LED retrofit project. The Energy and Sustainability Division provided its inventory data to SDG&E and has formally requested that the utility remove the lights from billing, and provide an appropriate credit. However, SDG&E does not believe Energy and Sustainability Division’s figure is accurate, and is currently coordinating with City staff to validate the information.

The City Has Not Developed a Comprehensive Program to Manage and Review Street Light Utility Bills

The control weaknesses in the City’s utility rate analysis and billing review process was caused by decentralized and unclear responsibilities for City departments, which has affected the City’s ability to effectively manage street light utility accounts. Departmental responsibilities for verifying the accuracy of

street light utility billing are unclear, and coordination among departments with street light management responsibilities is insufficient. Furthermore, the City has not developed specific policies and procedures addressing the addition of new street lights to City utility accounts and the verification for payment of street light utility bills.

While many of the policy and procedural weaknesses for street light electrical bill reconciliation are addressed in Recommendations 1 and 2, additional actions are required for street light bills.

Recommendation #3

The Environmental Services Department Director, in coordination with the Transportation and Storm Water Department, the Park and Recreation Department, the Economic Development Department, and the Chief Financial Officer, should:

- **Develop Citywide procedures for energizing street light accounts, including processes to ensure new lights are added to the appropriate account; and**
- **Establish a requirement to review all street light bills to ensure lights are assigned to the correct account, once Street Division has established an accurate street light inventory. (Priority 2)**

Conclusion

Appropriate bill payment, billing dispute management, and consumption analysis is an important part of the City's efforts to manage utility accounts and energy efficiency. Based on our review of how the City manages gas and electric utility accounts, we found that the City has not developed a sufficient internal control framework over gas and electric utility account management. The City lacks policies and procedures, which demonstrates that a sufficient control environment has not been established. For an effective control environment to review and approve utility bills, management must establish an appropriate organizational structure, assign responsibility, and delegate authority.

Specifically, the City does not have an established program to periodically evaluate account rates, which could reduce energy costs. The Public Utilities Department has requested rate changes for the department accounts amounting to estimated savings over \$1.1 million since 2015. Our review of 48 other accounts identified a possible savings in 19 accounts of \$17,009. The City should develop an account rate analysis program to provide reasonable assurance that the lowest available rates are being used, and management should monitor the program to evaluate effectiveness.

The City has not developed a comprehensive program to evaluate the accuracy of utility bills. Without adequately reviewing bills for accuracy, the City is unable to determine when it is being billed inappropriately. The Public Utilities Department identified an incorrect billing that caused SDG&E to over bill the City by \$1.7 million. City management should develop appropriate control activities to ensure the implementation of a policy to review utility bills for accuracy, and monitor the program to evaluate effectiveness.

We also identified program management concerns related to the City's management of street light utility accounts. Neither the Energy and Sustainability Division nor the Street Division adequately review street light billing for accuracy. We identified additional utility billing concerns specific to street

light accounts. Furthermore, there is no established process to ensure that new street lights are billed to the correct street light account.

Recommendations

Recommendation #1

The Chief Operating Officer should direct the Environmental Services Department Director and the Chief Financial Officer to implement an internal control framework for utility rate analysis and utility billing review of City gas and electric utility accounts. The Environmental Services Department Director, in coordination with the Chief Financial Officer, should:

- Develop a written process that establishes responsibility among various departments and a methodology for periodic review of utility rates assigned to City accounts and for review and payment of utility bills;
- Establish procedures to provide utility reports with appropriate information to the appropriate personnel for review;
- Provide training for personnel responsible for reviewing gas and electric utility rates and accuracy of utility invoices; and
- Establish oversight monitoring responsibility for ensuring the account rate analysis process operates as intended and appropriate utility invoice reviews are conducted. (Priority 2)

Recommendation #2

The Environmental Services Department Director should coordinate with SDG&E to:

- Establish a formal process clarifying roles and responsibilities related to utility rates and potential billing issues;
- Create a standardized mechanism to provide all required account and billing information necessary to request rate changes and resolve potential rate issues; and
- Develop acceptable timeframes for rate and billing resolutions. (Priority 2)

Recommendation #3

The Environmental Services Department Director, in coordination with the Transportation and Storm Water Department, the Park and Recreation Department, the Economic Development Department, and the Chief Financial Officer, should:

- Develop Citywide procedures for energizing street light accounts, including processes to ensure new lights are added to the appropriate account; and
- Establish a requirement to review all street light bills to ensure lights are assigned to the correct account, once Street Division has established an accurate street light inventory. (Priority 2)

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration’s responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration’s official response to the audit findings and recommendations.

Priority Class ⁷	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls.
3	Operation or administrative process will be improved.

⁷The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

Appendix B: Objectives, Scope, and Methodology

Objective In accordance with the Office of the City Auditor’s FY 2017 Work Plan, we conducted a performance audit of City utility accounts. We initiated this audit in September 2016 to review the City’s street light utility billing. While conducting the audit, we found that the department responsible for approval of street light utility bill payments, ESD, is responsible for managing and reviewing utility bills for all City accounts. During the audit, we also identified opportunities to reduce utility costs by reviewing the utility rates assigned to City accounts and requesting rate changes beneficial to the City.

Government Auditing Standards Section 6.07 stipulates that auditors may adjust the audit scope and objectives based on ongoing audit work. Given that the City has budgeted more than \$51 million in FY 2017 for utility costs, the City Auditor expanded the scope of the audit in January 2017 to include an assessment of the City’s overall control framework related to utility accounts. Additionally, we reviewed whether the City is adequately reviewing the billing information for all utility accounts and evaluating the cost effectiveness of utility account rates.

Scope and Methodology We initiated this audit in September 2016, and completed field work in January 2017. To achieve our objective, we:

- Interviewed managers and staff from the Environmental Services, Public Utilities, Transportation and Storm Water, Park and Recreation, Fire Rescue, Police, Public Works, and Real Estate Assets Departments. We also interviewed managers and staff from the Office of the Chief Financial Officer, the San Diego Public Library, and San Diego Gas & Electric;
- Reviewed applicable Administrative Regulations, department policies, and the City’s organizational structure to assess the overall internal control framework related to utility billing;

- Analyzed ESD's FY 2017 utility account data and utility invoice reports to assess whether City staff sufficiently review billing information prior to authorizing payment;
- Developed process maps to determine Citywide processes related to the review of utility account billing information;
- Reviewed SDG&E accounts to identify opportunities in which the City may reduce energy costs by changing to a more cost effective billing rate;
- Analyzed relevant policies, procedures, and processes related to the management of Maintenance Assessment District street lights to determine processes for adding street lights to correct utility accounts; and
- Analyzed financial and asset management data related to ESD's ongoing Light Emitting Diode street light retrofit project to assess the City's efforts to reconcile SDG&E street light inventory data with the City's inventory data.

Appendix C: Department Reviews of Utility Account Rates

City Department ⁸	Department Analysis of Utility Account Rates
Public Utilities ⁹	Reviews rate codes on largest accounts (billed over \$8,000 per month) when: <ul style="list-style-type: none"> • Account charges increase significantly, • Rate codes are changed, and • Rate codes are discontinued.
Environmental Services ¹⁰	No rate code reviews are conducted.
Fire Rescue	No rate code reviews are conducted.
Library	No rate code reviews are conducted.
Park and Recreation ¹¹	No rate code reviews are conducted.
Police	No rate code reviews are conducted.
Public Works	No rate code reviews are conducted.
Real Estate Assets ¹²	No rate code reviews are conducted.
Transportation and Storm Water ¹³	No rate code reviews are conducted.

Source: OCA review of department analysis.

⁸ Other City departments do not receive monthly utility billing information.

⁹ The Public Utilities Department utilizes a consultant to analyze some accounts.

¹⁰ Collection Services, Landfill and Ridge Haven.

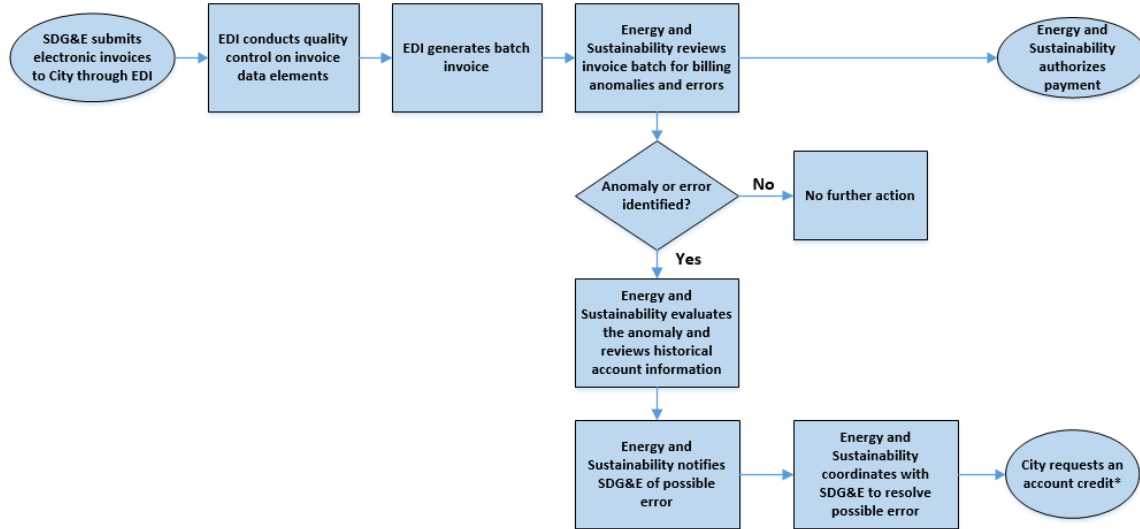
¹¹ Community Parks I and II, Developed Regional Parks, Golf, Maintenance Assessment Districts, and Open Space.

¹² Airports.

¹³ Streets and Storm Water.

Appendix D: Utility Bill Review Process

Energy and Sustainability Division Utility Bill Review Process



Source: OCA analysis of Energy and Sustainability Division review procedures.

* In some cases, the Energy and Sustainability Division resolves billing anomalies or errors with SDG&E within the one week billing cycle. If an issue is not corrected during the billing cycle, the Energy and Sustainability Division will pay the invoice amount, and request a retroactive credit for the affected account.

Appendix E: Department Reviews of Utility Billing Reports

City Department	Department Analysis of Monthly Utility Billing Reports
Public Utilities	Staff review includes: <ul style="list-style-type: none"> • Energy Waves to prepare reports showing month over month energy usage and invoice amount data.¹⁴ • For accounts with a monthly change of approx. 20 percent or more without a major energy consumption change, staff will review the full invoice to determine the cause. • For accounts reflecting large consumption changes, staff will contact facility operators to determine the cause.
Environmental Services ¹⁵	Staff conduct a cursory review of utility billing data and investigate anomalies as necessary.
Fire Rescue	Staff conduct a cursory review of utility billing data and investigate anomalies as necessary.
Library	Staff conduct a cursory review of utility billing data and investigate anomalies as necessary.
Park and Recreation ¹⁶	Staff conduct a cursory review of utility billing data and conduct additional research as necessary. <ul style="list-style-type: none"> • The Maintenance Assessment District program supervisor distributes billing reports to ground maintenance supervisors for their review and identification of anomalies or potential errors. • Golf Program Supervisor investigates anomalies as necessary.
Police	A Management Analyst and the department's electrician conduct a cursory review of utility billing data.
Public Works	Staff conduct a cursory review of utility billing data and investigate anomalies as necessary.
Real Estate Assets ¹⁷	Staff conduct a cursory review of utility billing data and investigate anomalies as necessary.
Transportation and Storm Water ¹⁸	Staff conduct a cursory review of utility billing data and investigate anomalies as necessary.

¹⁴ Public Utility Department began preparing the month over month billing reports in October 2016 after adding a new position. The department was previously analyzing and reviewing year over year energy consumption and billing information on a quarterly basis.

¹⁵ Collection Services, Landfill and Ridge Haven.

¹⁶ Community Parks I and II, Developed Regional Parks, Golf, Maintenance Assessment Districts, and Open Space.

¹⁷ Airports.

¹⁸ Streets and Storm Water.

Appendix F: SDG&E “My Account” Portal

The screenshot displays the SDG&E 'My Account' portal interface. At the top, the SDG&E logo is on the left, and navigation links for 'SDGE.com', 'Contact Us', and 'Manage My Account' are on the right. A 'Log Out' button is also present. Below the header is a blue navigation bar with tabs for 'Home', 'Bills and Payments', 'Service Requests', 'My Energy', and 'Alerts and Subscriptions'. The main content area is titled 'My Pricing Plan' and includes a 'Download Pricing Plan Report (PDF)' link. Account information shows 'Account: 3750 JOHN J MO' and 'Account Number: 3063565607'. An 'Electric Meter: 06696017' is also listed. A notification states 'You are eligible to enroll in a new plan!' and provides information about using less electricity during peak hours. A 'Maximize your savings potential on your pricing plans' section offers a tool to find the balance of factors for savings. The 'Your Current Pricing Plan' section shows 'Time of Use Plus (AY-TOU/ CPP-D)' with an estimated cost per year of \$60,133 based on a 36.3 kW capacity reservation. A 'View Plan Details' link is provided. A note explains that cost and savings estimates are based on currently approved prices and past 12 months of electricity use. The 'Available Pricing Plans' section features 'Time of Use Plus (AL-TOU/ CPP-D)' with an estimated cost per year of \$59,028 and estimated savings per year of \$1,105. A 'View Plan Details' link and an 'Enroll in This Plan' button are included. On the right side, there are sections for 'Check Your Energy Usage', 'Saved Reports', and 'Other Ways To Enroll' with a phone number and a 'Download PDF Form' link.

Source: SDG&E “My Account” Portal



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: March 29, 2017

TO: Eduardo Luna, City Auditor, Office of the City Auditor

FROM: Mario X. Sierra, Director, Environmental Services Department

SUBJECT: Management Response to Performance Audit of Gas and Electric Utility Accounts

The purpose of this memorandum is to provide Management's response to the Audit Report entitled "Performance Audit of City Gas and Electric Utility Accounts". The Audit's primary objectives were to:

- Determine whether the City is evaluating gas and electric utility accounts to obtain the lowest eligible rates and the accuracy of utility account invoices.

Below are Management's responses to the Audit Recommendations.

Recommendation 1: The Chief Operating Officer should direct the Environmental Services Department Director and Chief Financial Officer to implement an internal control framework for utility rate analysis and utility billing review of City gas and electric utility accounts. The Environmental Services Department Director in coordination with the Chief Financial Officer should:

- Develop a written process that establishes responsibility among various departments and methodology for periodic review of utility rates assigned to City accounts and for review and payment of utility bills;
- Establish procedures to provide utility reports with appropriate information to the appropriate personnel for review;
- Provide training for personnel responsible for reviewing gas and electric utility rates and accuracy of utility invoices; and
- Establish oversight monitoring responsibility for ensuring the account rate analysis process operates as intended and appropriate utility invoice reviews are conducted. (Priority 2)

Management Response: We agree with the recommendation.

The Environmental Services Department (ESD) has been working on improvements to update its utility billing process over the last several years. In the FY2016 budget process, ESD secured funds to procure a new software system to replace its current energy software system Electronic Data Interchange (EDI). EDI provides limited management of the City's accounts and review of San Diego Gas & Electric (SDG&E) invoices. New requirements have been developed and the Request for Proposals is scheduled to be issued April 2017. The new software system will greatly enhance staff's ability to evaluate and identify possible cost savings, change the current utility reporting, invoice review and rate analysis processes.

A new Energy Program Coordinator position was created and filled in July 2016. This position brings utility rate experience from the California Public Utilities Commission and serves as our liaison with SDG&E. A new Deputy Director with extensive energy policy, administration and programmatic experience was hired in August 2016. Both of these positions are currently evaluating existing processes and will develop written process narratives, procedures and training. Additionally, the City utilizes an energy consultant to assist in the City's review of SDG&E's General Rate Case utility rate proposals which lessens the City's total energy cost.

A comprehensive framework of how the City oversees and coordinates energy consumption is a critical citywide function within ESD. A phased approach is currently being developed by ESD, in collaboration with the comptroller's office to add more oversight and controls over review and payment of utility bills. Process narratives will include the role of City departments in reviewing utility bills. Implementation of the process narratives will be completed by December 2017. The combination of improved oversight, training, process narratives and new technology will significantly enhance the overall internal controls. Full implementation of these areas is targeted for March 2018 to allow time for implementation of the new software system, training and adjustment of process narratives, as required.

Target Implementation Date: March 2018

Recommendation 2: The Director of Environmental Services Department should coordinate with SDG&E to:

- Establish a formal process clarifying roles and responsibilities related to utility rates and potential billing issues;
- Create a standardized mechanism to provide all required account and billing information necessary to request rate changes and resolve potential rate issues; and
- Develop acceptable timeframes for rate and billing resolutions. (Priority 2)

Management Response: We agree with the recommendation.

ESD will continue to coordinate with SDG&E to improve the process for resolving billing issues and rate changes within an acceptable timeframe for resolution. ESD will work with SDG&E to formalize roles and responsibilities. Currently, ESD and SDG&E meet monthly to discuss a full range of topics including billing issues and will expand the discussion to formally document utility billing processes, including resolution of potential rate and billing issues.

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Eduardo Luna, City Auditor, Office of the City Auditor
March 29, 2017

Target Implementation Date: March 2018

Recommendation 3: Environmental Services Department Director in coordination with Transportation and Storm Water Department, Park and Recreation Department, Economic Development Department, and the Chief Financial Officer should:

- Develop City-wide procedures for energizing street light accounts, including processes to ensure new lights are added to the appropriate account; and
- Establish a requirement to review all street light bills to ensure lights are assigned to the correct account, once Street Division has established an accurate street light inventory. (Priority 2)

Management Response: We agree with the recommendation.

ESD will coordinate with the Transportation and Storm Water Department, Park and Recreation Department and Economic Development Department to develop City-wide procedures for energizing street light accounts and adding new lights, as well as with the Chief Financial Officer to review processes and procedures for effectiveness and documentation of controls in the assignment of street light accounts. Target implementation date of this portion is December 2017.

ESD will work with Transportation and Storm Water Department, Street Division to identify roles and responsibilities for reviewing street light bills. Street light inventory will continue to be updated based on field crew's maintenance activities and ESD's implementation of energy efficiency projects. Street Division's development of a comprehensive street light inventory is addressed in Recommendation #6 of the Performance Audit of Street Light Repair, which reads:

Recommendation 6: To ensure the City has accurate asset data used for street light repairs, the Street Division Deputy Director should:

- *Prioritize hiring of asset management positions;*
- *Update street light asset information to include fixture and pole data needed to make street light repairs more efficient; and*
- *Develop operational guidelines for updating street light asset data when the City makes modifications to assets, and if asset additions and removals occur. (Priority 2)*

Management Response: We agree with this recommendation. The Transportation & Storm Water Department, Street Division, has recently filled the newly created Project Assistant position, and interviews are being scheduled to fill the remaining vacancy in the Division's Asset Management Section. The Division has developed operational guidelines for updating streetlight asset data and will utilize these guidelines to perform more efficient updates to the City's street light asset inventory. Updating the street light asset inventory to include fixture and pole data will require extensive efforts and additional resources including conducting a comprehensive field survey. The Division will develop a plan to update the street light asset data and request appropriate resources through the budget process. Once completed, the updated street light asset data will be incorporated into the IAM San Diego citywide project. Target implementation date: December 2018.

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Eduardo Luna, City Auditor, Office of the City Auditor

March 29, 2017

To fully implement Recommendation #3 of this audit in conjunction with Recommendation #6 of the Street Light Repair Audit, the target implementation date is December 2018.

Target Implementation Date: December 2018.



Mario X. Sierra

Director, Environmental Services Department

cc: Stacey LoMedico, Assistant Chief Operating Officer
Mary Lewis, Chief Financial Officer
Paz Gomez, Deputy Chief Operating Officer, Infrastructure/Public Works
Marshall Anderson, Director of Council Affairs, Office of the Mayor
Rolando Charvel, City Comptroller, Office of the City Comptroller
Kris McFadden, Director, Transportation & Storm Water Department
Kenneth So, Deputy City Attorney, Office of the City Attorney
Kyle Elser, Assistant City Auditor, Office of the City Auditor
Vic Bienes, Assistant Director, Transportation & Storm Water Department
Darren Greenhalgh, Assistant Director, Environmental Services Department
Jack Clark, Deputy Director, Environmental Services Department
Kristy Reeser, Deputy Director, Transportation & Storm Water Department
Lorie Cosio-Azar, Program Manager, Environmental Services Department
Nathan Patterson, Program Manager, Transportation & Storm Water Department