

Fort Worth



1964 • 1993 • 2011

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<sup>††</sup> Audit Committee Member

# Gas Utility Expense Audit

July 17, 2020



**City of Fort Worth  
Department of Internal Audit**

200 Texas Street  
Fort Worth, Texas 76102

**Audit Staff**

Patrice Randle, City Auditor

John Riggs, Assistant City Auditor

Vanessa C. Martinez, Audit Manager

Carol Dickey, Senior Auditor





**The Gas Utility Expense Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2020 Annual Audit Plan.**

### **Audit Objectives**

The objectives of this audit were to:

- determine whether billings for gas utility expenses were accurate and reasonable; and
- evaluate the oversight and maintenance of the gas utility expense process.

### **Audit Scope**

Our audit included a review of City gas utility invoices for the period October 1, 2018 through September 30, 2019. Specific vendor invoices beyond this period were reviewed as deemed necessary.

### **Opportunities for Improvement**

Renegotiation of expired franchise agreement

Finalized written standard operating procedures

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## **Executive Summary**

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As part of the FY2020 Annual Audit Plan, the Department of Internal Audit conducted an audit of gas utility expenses. We concluded that billings for gas usage were accurate, and that the Property Management Department's oversight of gas utility billings was adequate. Property Management Department staff distribute monthly gas volume consumption reports and related charges to user departments. It is then each user department's responsibility to notify the Property Management Department when gas service is no longer needed.

We identify some exceptions.

- The franchise agreement between the City of Fort Worth and Atmos Energy expired in 2015.
- Although the Property Management Department's oversight of gas utility billings was adequate, written policies and procedures (to provide guidance regarding the processing of gas utility invoices) were not finalized.

These audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

In addition to the aforementioned exceptions, we identified what we considered to be isolated instances that did not warrant an audit finding. For example, we identified four meters with consecutive months of zero consumption. Of those four meters, three meters were disconnected once the user department was notified by Internal Audit. The user department indicated that the fourth meter needed to remain active. We also noted 43 of 172 (25%) instances where commercial account gas meter serial numbers, entered into the City's asset work order software (VUEWorks) as of September 2019, differed from those noted by Atmos Energy.

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## Background

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The City of Fort Worth has three major gas utility account types: commercial, industrial and transportation. Commercial gas accounts comprise the majority of CFW gas utility billings and are managed by the Property Management Department.

| Commercial Accounts  | Industrial Account  | Transportation Account   |
|--|---|--|
| <ul style="list-style-type: none"><li>• <b>Most City Facilities</b></li><li>• Property Management Department receives, reviews and authorizes invoices for payment</li></ul> | <ul style="list-style-type: none"><li>• <b>Village Creek Water Reclamation Facility</b></li><li>• Property Management Department receives, reviews and authorizes invoices for payment</li><li>• Property Management Department works closely with the Water Department Plant Operations Division staff (e.g., month-to-month reviews of rates and consumption to identify discrepancies)</li><li>• Prior to May 1, 2019, the account was categorized as a commercial account</li></ul> | <ul style="list-style-type: none"><li>• <b>Alliance Fort Worth Maintenance Base facility</b></li><li>• Facility managed by third party contractor, Hillwood Properties</li><li>• Hillwood Properties receives, reviews and approves invoices; then forwards invoices to Property Management Department</li><li>• Property Management Department authorizes invoice payment</li></ul> |

The Property Management Department is composed of three divisions: Facilities Management, Fleet Services and General Administration. There are nine sections within the General Administration division. Functions within two of those nine sections, Utility Administration and Lease Administration, were applicable to this audit.

*Utility Administration Section:* Responsible for monitoring natural gas consumption. The Utility Administration Section also manages the City's conservation initiatives, and negotiates and oversees City franchise fee agreements with utility companies that utilize City of Fort Worth rights-of-way.

*Lease Administration Section:* Responsible for negotiating lease terms and rates for City use of private property, and coordinating space planning with the Facilities Management Division for leasing of City-owned property.

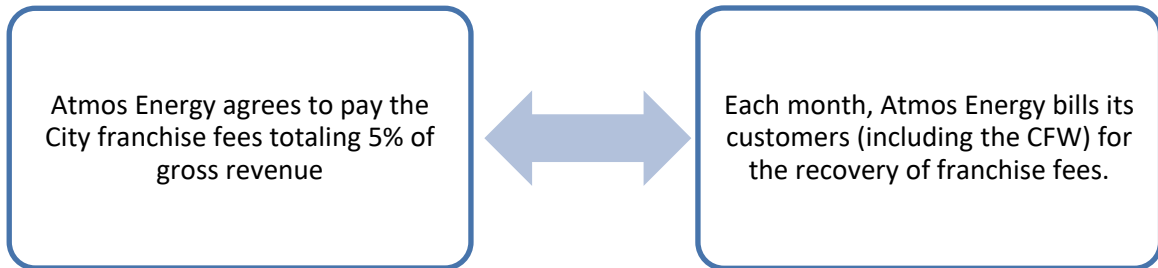
Gas utility invoices include billings for both gas consumption and franchise fees, as well as other charges (e.g., customer charges). In reference to the franchise fee, on October 9, 1990, City Ordinance No. 10692 was adopted to grant TXU Gas a franchise (for a 25-year period) to use public rights-of-way within Fort Worth.

- Ordinance No. 10692 referenced a 4% franchise fee that was due on or before the 15<sup>th</sup> of February, May, August and November of each year, for the preceding calendar quarter during the term of the franchise.



- A 2008 amendment (which indicated that Atmos Energy replaced TXU Gas) increased the franchise fee from 4% to 5%.
- Franchise fee charges are calculated based on gross billings that include the franchise fee (5%) and gross receipts tax. Atmos Energy provided support for their calculation methodology. Verifying the calculation was beyond the scope of this audit, but will be considered for a future audit.

**The City Collects Franchise Fees from Gas Utility Providers and Pays Franchise Fees as a Gas Utilities Customer**



## Objectives

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The objectives of this audit were to:

- determine whether billings for gas utility expenses were accurate and reasonable; and,
- evaluate the oversight and maintenance of the gas utility expense process.

## Scope

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Our audit included a review of City gas utility invoices (commercial, industrial and transportation accounts) for the period October 1, 2018 through September 30, 2019. Specific vendor invoices beyond this period were reviewed as deemed necessary.

The scope of this audit did not include a review of City gas utility expenses that are recoverable from Alliance Airport tenants.

## Methodology

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To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed Property Management Department personnel;
- reviewed gas utility invoices for accuracy, and communicated anomalies to the Property Management Department;
- confirmed that service addresses were at City-owned properties;
- analyzed invoices for zero gas consumption, and followed up with user departments to determine whether zero gas consumption meters should remain active or be disconnected;
- identified and reviewed contracts supporting leased City properties, to determine who was responsible for paying gas utility invoices;
- reviewed contracts, ordinances and other information for gas utility franchise fees; and,
- evaluated internal controls related to the City's gas utility expenses.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 our audit objectives.



As established by Chapter XXVIII of the Fort Worth City Charter, the City of Fort Worth's Department of Internal Audit is independent of City management, and the Department reports directly to the Fort Worth City Council. We utilized the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework when evaluating internal controls. The following internal control components and corresponding principles were considered significant to the audit objectives. COSO is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

| <b>Internal Control Component</b> | <b>Principles</b>  |
|-----------------------------------|--|
| Control Environment               | Managerial oversight, integrity, ethics and responsibility; staff recruitment, development, retention, performance and accountability          |
| Risk Assessment                   | Clearly defined objectives to identify risks, define risk tolerances, and implement necessary controls (e.g., written policies and procedures) |
| Information and Communication     | Communication of necessary quality information   |
| Monitoring                        | Monitoring and evaluating the effectiveness of internal controls   |



## Audit Results

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We concluded that the Property Management Department's oversight of gas utility billings was adequate. For example, in one instance, Property Management Department staff detected and resolved an issue/account where the City unnecessarily paid for gas used by a non-City agency.

Routine gas usage/billing reports were provided to user departments for review of active gas meters and billed usage. Additionally, the Property Management Department compared monthly invoices to the prior month's invoice files. Detected anomalies were then reported to Atmos Energy for research before the invoices were approved for payment.

Based on our audit results, the City of Fort Worth entered into a franchise agreement with TXU Gas (currently Atmos Energy Corporation) in October 1990. However, the agreement was for a 25-year term and had, therefore, expired in 2015.

As previously stated, the Property Management Department's oversight of gas utility billings was adequate. However, Internal Audit noted that standard operating policies and procedures (related to Property Management's oversight and payment of gas utility expenses) were not finalized as of the end of audit fieldwork. It should be noted that Property Management staff indicated that policies and procedures were drafted in 2018.

We identified isolated instances that did not warrant an audit finding, but were deemed necessary to communicate to management. Based on our testing of FY2019 commercial gas utility invoices, we identified four active gas accounts that had zero consumption for the entire fiscal year. Upon Internal Audit inquiry, the Water Department determined that three of the four zero consumption meters should be disconnected, while one needed to remain active. Internal Audit was informed that the meter that needed to remain active was for a gas heater located inside pump station. Payments related to the three disconnected accounts totaled \$1,637.68 during FY2019. The consecutive zero-consumption for these three meters/accounts dated as far back as FY2017. A total of \$1,517.77 and \$1,678.21 was paid in FY2017 and FY2018, respectively. Also, based on our audit results, 43 of 172 (25%) commercial service meter serial identification numbers, noted within the City's asset work order software (VUEWorks) as of September 2019, differed from meter serial identification numbers on Atmos Energy invoices. While gas meter serial identification numbers shown within VUEWorks are not required to verify billings, accurate meter information would be relevant for field verification purposes.





## Overall Risk Evaluation

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| High | Medium                                      | Low   |
|------|---|---|
|      | <a href="#">Expired franchise agreement</a> |   |
|      |   | <a href="#">Lack of finalized, written standard operating policies and procedures</a> |



## Detailed Audit Findings

### 1. The franchise agreement between the City of Fort Worth and Atmos Energy was expired.

The franchise agreement between the City of Fort Worth and Atmos Energy expired in 2015.

- On October 9, 1990, City Ordinance No. 10692 was adopted to grant TXU Gas a franchise (for a 25-year period) to use public rights-of-way within the city of Fort Worth.
- City Ordinance No. 10692 was amended to address the manner in which franchise fees were calculated and paid, and to authorize the lease of TXU-owned gas facilities located in the public rights-of-way. The amended ordinance (Ordinance No. 15275) was effective on January 1, 2002. Section 2 of Ordinance No. 15275 stated that the franchise should remain in full force and effect according to its terms until the franchise expired or otherwise terminated in accordance with the provisions of the franchise.
- City Ordinance No. 1817-05-2008, dated May 27, 2008, increased the franchise fee payable from 4% to 5% of the gross revenues received by Atmos Energy. The ordinance further indicated that Atmos Energy Corporation, Mid-Tex Division, was successor in interest to TXU Gas Company and Lone Star Gas Company.

Internal Audit could not determine why the City contract was allowed to expire without being extended or renegotiated. Operating under an old franchise fee agreement could cause both parties to deviate from the intended terms of the contract. The City Attorney's Office indicated that the City was operating under the expired agreement, and was in negotiations with Atmos Energy to finalize a new franchise agreement.

**Recommendation 1A:** *The Property Management Department Director, in conjunction with the City Attorney and City Manager's Office, should continue contract negotiations and finalize the franchise agreement between the City of Fort Worth and Atmos Energy.*

**Auditee's Response:** Concur. 021-PMD's Utility Administration Section will facilitate contract negotiations and finalize a new franchise agreement between the City of Fort Worth and Atmos Energy; discussions have already begun internally with the City Attorney's Office and City Manager's Office in review of Atmos proposed terms.

**Responsibility:** Roger Venables, Assistant Director, Property Management Department

**Target Implementation Date:** September 30, 2021

**Applicable Department Head:** Steve Cooke, Property Management Director

**Applicable Assistant City Manager:** Dana Burghdoff

**Recommendation 1B:** *The Property Management Department Director should ensure that once the franchise agreement is renegotiated and finalized, necessary guidance is provided to those responsible for contract management.*

**Auditee's Response:** Concur. 021-PMD's Utility Administration Section will facilitate, once the new Atmos Energy franchise agreement is approved, that published standard operating policies & procedures



(SOP) for City natural gas accounts is updated to capture any changes that may become necessary; guidance will be provided to those responsible for contract management.

**Responsibility:** Juanita Rigsby, Energy Compliance Analyst, Utility Administration Section

**Target Implementation Date:** September 30, 2021

**Applicable Department Head:** Steve Cooke, Property Management Director

**Applicable Assistant City Manager:** Dana Burghdoff

## 2. Written, standard operating policies and procedures were not finalized.

Written standard operating policies and procedures, governing the Property Management Department's processing of gas utility invoices for commercial accounts and coordination with other departments in the processing of transportation and industrial accounts, had not been finalized. Property Management staff indicated that policies and procedures had been drafted in 2018. It should be noted that while there were no written policies and procedures, the Property Management Department's process was considered adequate.

Based on our audit results, monthly consumption reports were distributed to departments for review. Although the Property Management Department identified and researched anomalies when completing month-to-month invoice comparisons, the lack of detailed written standard operating policies and procedures could result in different interpretations if staffing changes were to occur. Lack of written standard operating procedures could also result in inconsistent monitoring of gas charges and consumption.

The Government Finance Officers Association (GFOA) states that every government should document its accounting policies and procedures.

**Recommendation 2:** *The Property Management Department Director should ensure that written standard operating policies and procedures, that were in draft form during the audit, adequately address the gas utility invoice function, are finalized and distributed to staff.*

**Auditee's Response:** Concur. 021-PMD's Utility Administration Section will facilitate publication of standard operating policies & procedures (SOP) for City natural gas accounts based on the 2018 draft process document provided to the Internal Audit Department at the outset of their Detailed Audit; the document will benefit from a review of findings highlighted in the Detailed Audit.

**Responsibility:** Juanita Rigsby, Energy Compliance Analyst, Utility Administration Section

**Target Implementation Date:** December 31, 2020

**Applicable Department Head:** Steve Cooke, Property Management Director

**Applicable Assistant City Manager:** Dana Burghdoff



## Acknowledgements

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The Department of Internal Audit would like to thank the Property Management Department, Water Department, City Attorney's Office, Aviation Department and Atmos Energy for their cooperation and assistance during this audit.