

**Audit of Orlando Utilities
Commission Supplemental
Payment Agreement**

**Report by the
Office of County Comptroller**

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**Report No. 409
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July 15, 2010

Richard T. Crotty, County Mayor
And
Board of County Commissioners

We have conducted an audit of the Orlando Utilities Commission Supplemental Payment Agreement with Orange County. The audit scope included a review of customer billings related to their electric operations to give assurance on the amounts remitted to Orange County for the months of October 2007 and March 2008. The period audited considered collections through December 31, 2009.

We conducted this 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.

Responses to our Recommendations for Improvement were received from an Assistant County Administrator and are incorporated herein.

We appreciate the cooperation of the personnel of the Orlando Utilities Commission during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Ajit Lalchandani, County Administrator
Warren Geltch, Assistant County Administrator
John Hearn, Vice President, Chief Financial Officer, Orlando Utilities Commission

EXECUTIVE SUMMARY

Executive Summary

We have conducted an audit of the Orlando Utilities Commission (OUC) Supplemental Payment Agreement with Orange County. The audit scope included a review of customer billings related to OUC's electric operations to gain assurance of the amounts remitted to Orange County for the months of October 2007 and March 2008. The audit period also considered collections through December 31, 2009. Our objective was to determine whether Orange County is receiving one percent of OUC's gross revenues received from the electric utility operations within unincorporated Orange County, as required by the Agreement.

Our testing relied solely on amounts represented by OUC. Because they are an agency external to Orange County, amounts could not be independently verified. Details of these amounts were provided by OUC except for the Service Fees and Other Revenue account. We are, however, reasonably assured that the data provided by OUC was accurate.

Based on the testing performed, OUC was materially in compliance with their remittance of the one percent supplemental payment of OUC's gross revenue, with the exception of revenues excluded from the definition of gross revenue received from the electric utility operations within unincorporated Orange County. Orange County should pursue collection of \$686,168 for these omitted charges and the \$648,237 in additional revenues that may potentially be due to the County. Relating to these amounts, totaling \$1,334,405, we noted the following opportunities for improvement:

The audit identified 1,291 addresses whose electric charges were excluded from OUC's supplemental payment calculation. For the five years ended December 31, 2009, we determined that electric charges of \$23,898,117 were improperly excluded from OUC's gross revenue calculation. Consequently, Orange County is due \$238,977 from OUC as a result of the misclassified addresses identified.

OUC has excluded the electric charges for a large customer on Sand Lake Road in unincorporated Orange County from their supplemental payment calculation. On average, approximately \$496,000 in electric charges is omitted each month from the calculation of monies due to Orange County. For the period of January 2005 to December 2009, we estimated that \$29 million was omitted from OUC's supplemental payment calculation as a result of the omission of the customer's electric charges. Therefore, Orange County is due approximately \$292,015 from OUC as a result of the exclusion of these charges.

We discovered that OUC is not including the monies collected from customers for gross receipts tax in the definition of gross revenue used to calculate the monthly payment to the County. In total, approximately \$14.2 million in gross

receipts taxes were excluded from the supplemental payment calculation. The result of this exclusion represents \$142,647 due to Orange County from OUC.

During our review of a random sample of customer bills, we noted that monthly electric charges relating to streetlights were not included in OUC's supplemental payment calculation. For the period of January 2005 to December 2009, we determined that \$1.25 million in streetlight charges was omitted from OUC's supplemental payment calculation resulting in \$12,529 due to Orange County from OUC.

We noted OUC does not include monies from their Service Fees and Other Revenues account in their supplemental payment calculation. We confirmed through a sample of customer bills that OUC was not including charges for late fees, reconnection fees, and return check fees in their supplemental payment calculation. When we asked for the detail for this account, OUC management notified us in a letter of their position "to exclude these fees from the supplemental payment and the scope of the audit." According to OUC, Service Fees and Other Revenue are comprised of Customer Service Charges, Energy Delivery and Transmission, Lighting, Power Resources, and Cooling. Although it is possible and likely some of the revenues included within the Service Fees and Other Revenue account are not applicable to the one percent supplemental fee calculation, without a detailed accounting of the items that make up the account we could not determine which additional revenues are applicable to the supplemental fee calculation. For the five years ended December 2009, we estimated that if all of these revenues were applicable to the one percent supplemental payment calculation potential charges of \$648,237 would be due the County.

The Agreement does not contain an audit clause and there is no provision for the calculation of interest on any amounts found to be due as a result of an audit.

Orange County Administration concurred with all of our Recommendations for Improvement and steps to implement the recommendations are planned. Responses to each of the Recommendations for Improvement are included herein.

ACTION PLAN

**AUDIT OF ORLANDO UTILITIES COMMISSION SUPPLEMENTAL PAYMENT AGREEMENT
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We recommend the County pursue collection of \$238,977 from OUC for unremitted revenue due as a result of the miscoded addresses.	✓				✓
2.	We recommend Orange County pursue collection of \$447,191 from OUC due as a result of the omitted charges noted. In addition, the Agreement should be amended to include the items that should be specifically included in and exempted from the definition of gross revenue.	✓				✓
3.	We recommend Orange County pursue collection of the omitted revenues. In addition, the Agreement should be amended to include the items related to Service Fees and Other Revenue that should be included in and exempted from the definition of gross revenue.	✓				✓
4.	We recommend the Agreement be amended to include the following:					
A)	A clear and comprehensive audit clause.	✓				✓
B)	A provision for the payment of interest for amounts found to be unpaid.	✓				✓

INTRODUCTION

Background

Orlando Utilities Commission (OUC) is a municipal utility that provides electricity and water services to customers in Orlando, St. Cloud and parts of Orange and Osceola counties. Currently, OUC bills electric customers monthly for kilowatt consumption charges, an electric service charge, Orange County tax, and gross receipts tax. Additional fees such as streetlight charges, connection charges, reconnection charges, returned check fees, and late payment fees may also be billed by OUC, if applicable.

On March 29, 1994, the Orange County Board of County Commissioners approved the Amended and Restated Orlando Utilities Commission/Orange County Water Service Territorial Agreement (Agreement). Subsection 6.1, Rights-of-Way, of the Agreement gives OUC the right, authority, and empowerment to construct electrical and water utility lines and equipment in County rights-of-way without regard to territorial areas. The Agreement also grants OUC an exemption from paying any permit, inspection, or other fees on work being done at OUC's cost as long as they continue to make the payments described in Subsection 6.2, Consideration. This section states:

In consideration of its contract right under Subsection 6.1 to use County rights-of-way without payment of any permit, inspection or other fees, the Commission shall pay to the County, and shall continue its past practice of paying to the County, a sum of money each year equal to one percent (1%) of the gross revenue received from its electric utility operations within the unincorporated portions of the County.

In accordance with the Agreement, OUC submits a check to the County each month along with a Schedule of Supplemental Payment for Board of County Commissioners (Schedule). The check amount, referred to as their supplemental payment, is based on OUC's calculation of the total electric revenue received from customers within unincorporated Orange County. The Schedule lists the account numbers and associated amounts that total the supplemental payment remitted to the County. For the

Scope, Objectives, and Methodology

period of January 2005 to December 2009, Orange County received over \$5.3 million from OUC under this Agreement.

The audit scope included a review of customer billings related to OUC's electric operations to gain assurance of the amounts remitted to Orange County for the months of October 2007 and March 2008. The audit period also considered collections through December 31, 2009.

Our objective was to determine whether Orange County is receiving one percent of OUC's gross revenues received from the electric utility operations within unincorporated Orange County, as required by the Agreement.

To determine whether OUC included the electric charges for all addresses within unincorporated Orange County in their calculation of gross revenue, we performed the following:

- We verified that the customer tables obtained from OUC's customer billing system for November 2007 and March 2008 included all electric charges supporting OUC's payment to Orange County for these two months sampled.
- We reviewed the supplemental payment amount received from OUC since January 2005.
- We reconciled the November 2007 and March 2008 Schedule of Supplemental Payment for Board of County Commissioners (Schedule) to the customer tables received from OUC.
- We obtained a database from the Orange County Property Appraiser's Office of all properties located within the County for 2007.
- Using the customer tables for March 2008, we isolated all addresses OUC classified as City of Orlando or City of Winter Park and compared them to the addresses from the Orange County Property

Appraiser's Office, Orange County's GIS Department, and other address verification sources.

To determine whether OUC included all applicable charges in their calculation of gross revenue, we selected a random sample of 114 Orange County accounts and compared the amounts in the customer tables to the customer bills.

Our testing relied solely on amounts represented by OUC. Because they are an agency external to Orange County, amounts could not be independently verified. Details of these amounts were provided by OUC except for that of the Service Fees and Other Revenue account. We are, however, reasonably assured that the data provided by OUC was accurate.

Overall Evaluation

Based on the testing performed, OUC was materially in compliance with their remittance of the one percent supplemental payment of OUC's gross revenue, with the exception of revenues excluded from the definition of gross revenue received from the electric utility operations within unincorporated Orange County.

Opportunities for improvement were noted and are described herein.

RECOMMENDATIONS FOR IMPROVEMENT

1. The County Should Pursue Collection of Additional Amounts Due From OUC for Unremitted Revenue From Miscoded Addresses

Orlando Utilities Commission (OUC) provides electric service to customers within both the incorporated and unincorporated portions of Orange County. In accordance with the Amended and Restated Orlando Utilities Commission/Orange County Water Service Territorial Agreement (Agreement) between OUC and Orange County, OUC submits a supplemental payment to the County each month based on one percent of the gross revenue received from its electric operations within unincorporated Orange County. Therefore, the accuracy of OUC's payment is dependent upon the classification of their customers in the correct jurisdiction of the County.

Using the March 2008 electrical customer billing data received from OUC, we matched OUC's customer addresses to the addresses from the Orange County Property Appraiser's Office, Orange County's GIS Department, and other address verification sources and found 1,291 addresses whose electric charges were excluded from OUC's supplemental payment calculation. OUC classified these addresses as residing within the cities of Orlando or Winter Park; however, we found that all were located within unincorporated Orange County. The 1,291 addresses identified had total electric charges of \$335,118 during March 2008.

OUC agreed that 602 of the 1,291 addresses we determined to be misclassified should have been coded as unincorporated Orange County. We found that 647 of the 689 remaining addresses were located in two subdivisions classified by OUC as St. Cloud. OUC stated the electric charges for these addresses were "not eligible for the one percent supplemental fee due Orange County as these customers were being serviced under the St. Cloud interlocal agreement and as such were subject to payments in lieu of taxes to the City of St. Cloud." However, these addresses are located within the unincorporated portions of Orange

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FOR IMPROVEMENT**



County and, based on the written Agreement, there is no justification to exclude them. While the number of addresses classified as St. Cloud represented a large portion of the total number of miscoded addresses, the electric charges associated with these addresses represented only five percent of the total charges attributed to the misclassified addresses identified for March 2008.

March 2008	Misclassified Addresses		Electric Charges	
	Number	Percent	Amount	Percent
Miscoded Addresses Agreed as Unincorporated	602	47%	\$ 199,833	60%
Miscoded Addresses Classified by OUC as St. Cloud	647	50%	16,590	5%
Other *	42	3%	118,695	35%
Total	1,291	100%	\$ 335,118	100%

* Miscoded addresses that OUC classified as City of Orlando, City of Winter Park, or did not classify. We found all of these addresses to reside within unincorporated Orange County.

Although management of OUC agreed that many of the addresses presented were misclassified, they stated the errors began in April 2007 as a result of transitioning to a new customer billing system. We tested data from OUC's old system and found that 90 percent of the miscoded addresses were also misclassified in the old system. However, without a full audit of the addresses included in the old system, we could not determine the financial effect of address coding changes that occurred during the transition in accounting systems.

For the five years ended December 31, 2009¹, we determined that electric charges of \$23,898,117 were improperly excluded from OUC's calculation of gross

¹ A related audit of OUC conducted by another agency revealed OUC's agreement to go back to the individual customers' inception/annexation date for the 118 premises identified as being miscoded. Because our list of exceptions is over ten times as large, we decided to calculate what the remittance amount should have been assuming the error occurred for the past five years rather than since inception.

revenues subject to the supplemental payments to Orange County. Consequently, Orange County is due \$238,977 from OUC as a result of the misclassified addresses identified (see [Appendix A](#)).

We recognize that OUC may have subsequently corrected the classification of some of the addresses we identified; however, for the purposes of calculating the total amount owed to Orange County, we have not adjusted our numbers for any corrections that may have been made.

We Recommend the County pursue collection of \$238,977 from OUC for unremitted revenue due as a result of the miscoded addresses.

Management's Response:

We concur. We will work with the Comptroller's Audit team and the County Attorney's Office to pursue collection of these amounts.

2. The County Should Collect Amounts Due From OUC for Electric Charges Omitted From OUC's Definition of Gross Revenue From Electric Utility Operations

As explained previously, OUC includes the electric usage charges for all customers classified as residing within unincorporated Orange County in their monthly supplemental payment calculation and subsequent payment to the County. While testing the completeness of this payment, we identified the following charges that OUC excluded from the calculation of gross revenue received from electric utility operations within the unincorporated portions of the County.

OUC Omitted Customer

OUC provides electric service to a large customer (Customer) on Sand Lake Road in unincorporated Orange County. However, OUC has excluded the electric charges for this location from their supplemental payment calculation. On average, approximately \$496,000 in electric charges is omitted each month from the calculation of monies subject to the supplemental payment due to Orange County.

OUC agrees that this Customer facility is located within unincorporated Orange County. However, their justification for excluding the electric charges for the Sand Lake Road plant from their supplemental payment calculation is as follows:

- OUC's internal administrative policy, effective April 1, 1973, on Payments of Commission Funds to the General Fund of the City of Orlando and Payments to Orange County lists the electric revenue classes subject to the payment and notes that the amounts in the General Service – Primary Demand/Energy category are "Excluding...[specified Customer]."
- Section 6.2 of the Agreement, which states in part, "OUC shall pay to the County, and shall continue its past practice of paying to the County, a sum of money..."

OUC contends that the mention of their past practice refers to the internal administrative policy noted above. The exclusion of electric charges for the Customer is the continuance of this past practice and is therefore in accordance with the Agreement.

Since we are not aware of any other written agreement acknowledging the exclusion of revenue from the Customer, there is not sufficient justification for OUC to exclude this revenue from their supplemental payment calculation.

For the period of January 2005 to December 2009, we estimated that approximately \$29 million was omitted from OUC's supplemental payment calculation as a result of the omission of the Customer's electric charges. Therefore, Orange County is due \$ 292,015 from OUC as a result of the exclusion of these charges (see [Appendix B](#)).

Gross Receipts Tax

The State of Florida imposes a gross receipts tax at the rate of 2.5 percent on gross receipts from the sale, delivery, or transportation of electric utility services to retail consumers in Florida. According to Chapter 203(4), Florida Statutes, the tax "...may be separately stated as Florida gross receipts tax on the total amount of any bill...and may be added as a component part of the total charge." Chapter 203(5) explains that the tax is imposed for the privilege of conducting a utility services business, and "...each provider of the taxable services remains fully and completely liable for the tax, even if the tax is separately stated as a line item or component of the total bill." OUC has elected to state the tax amount as a separate charge on their customers' bills; therefore, they collect this tax from their customers and remit the monies collected to the State.

While testing the completeness of OUC's supplemental payment for November 2007 and March 2008, we discovered that OUC is not including the monies collected from customers for gross receipts tax in the definition of gross revenue used to calculate the monthly payment to the County.

In a letter from OUC management, OUC stated that "Revenues from gross receipts taxes do not represent revenues earned from the sale of electricity but the recovery of taxes assessed OUC as a provider of utility services." Further, they noted that their practice of excluding these revenues from the revenue based payment to Orange County is consistent with their internal administrative policy.

Gross receipts tax should be included in the computation of gross revenue due to the following:

- The Agreement requires that the Commission pay to the County “one percent (1%) of the gross revenue received from its electric utility operations within the unincorporated portions of the County.” However, there is no written documentation acknowledging the County’s agreement to have the revenues generated from the assessment of gross receipts tax excluded from the calculation of gross revenue and subsequent payment to the County.
- In the case of *City of Dallas, Texas vs. Federal Communications Commission*, dated July 31, 1997, the US Court of Appeals ruled that money collected from subscribers that is ultimately allocated by the cable operator to pay a franchise fee should be included in a cable operator’s “gross revenue derived...from the operation of the cable system.” The Court examined the meaning of the words “gross revenue” and found that the phrase has a generally accepted meaning: “unless expressly limited by the terms of a statute, regulation or contract, gross revenues means all amounts received from operation of a business, without deduction.” The case also referenced Black’s Law Dictionary, which defines gross revenues as “receipts of a business before deduction for any purpose except those items specifically exempted.”
- According to the State of Florida’s Department of Revenue in Technical Assistance Advisement 95M-003, “The gross receipts tax of 2.5 percent is imposed on the person selling the telecommunications service and is an item of cost to the seller or vendor.” The aforementioned court case also commented that the Financial Accounting Standard Board’s Statement of Financial Accounting Standards No. 51 notes that “cable franchise fees are costs no different than the

general manager's salary, marketing costs, and programming costs.”

Although franchise fees are not the same as gross receipts tax, they are both fees charged by a state or municipality for the right to operate within its jurisdiction – franchise fees for the right to operate a television cable system and gross receipts tax for the right to operate a utility services business. Therefore, gross receipts taxes should be treated the same as franchise fees and included in OUC's calculation of gross revenue.

Because OUC has elected to state the gross receipts tax separately on the customer bill, the tax is assessed on the separately stated gross receipt amount in addition to the total electric charges. In effect, the statutory rate of 2.5 percent becomes 2.5625 percent (additional 2.5 percent added to 2.5 percent for Gross Receipts Tax). Our calculations in [Appendix C](#) were based on the effective rate of 2.5625 percent and the monthly gross revenue amounts calculated by OUC.

For the five years ended December 31, 2009, we estimated that \$13.6 million in gross receipts taxes was collected from customers within unincorporated Orange County. For the same period, we projected that gross receipts taxes of \$612,390 were associated with the 1,291 addresses we determined to be misclassified. In total, we estimate \$14.2 million in gross receipts tax were excluded from the supplemental payment calculation. Therefore, Orange County is due \$142,647 from OUC as a result of the exclusion of these charges (see [Appendix C](#)).

Streetlight Charges

During our review of a random sample of customer bills, we noted that monthly electric charges relating to streetlights were not included in OUC's supplemental payment calculation.

OUC stated that, consistent with their internal administrative policy, these charges have been excluded from their revenue based payment to Orange County since the inception of the Agreement. However, electric charges for streetlights are no different than electric charges to operate a light within a customer's property. Therefore, any streetlight charges assessed on customer accounts located within unincorporated Orange County should be included in OUC's supplemental payment calculation.

We calculated total streetlight charges as a percentage of total electric charges from a sample of bills. We applied this percentage (0.2352%) to the monthly gross revenue amounts to determine the total streetlight charges omitted from the supplemental payment calculation. For the period of January 2005 to December 2009, we determined that \$1.25 million in streetlight charges was omitted from OUC's supplemental payment calculation. Therefore, Orange County is due \$12,529 from OUC as a result of this omission (see [Appendix D](#)).

Summary

The following amounts have been excluded from OUC's supplemental payment over the five years ended December 31, 2009:

Omitted Charge	Excluded Revenue	1% Due Orange County
Customer	\$ 29,201,934	\$ 292,015
Gross Receipts Tax	14,264,800	142,647
Streetlight Charges	1,253,101	12,529
Total	\$ 44,719,835	\$ 447,191

We Recommend Orange County pursue collection of \$447,191 from OUC due as a result of the omitted charges noted. In addition, the Agreement should be amended to include the items that should be specifically included in and exempted from the definition of gross revenue.

Management's Response:

We concur. We will work with the Comptroller's Audit team and the County Attorney's Office to pursue collection of these amounts. In addition, we will review the current contract and adjust the terms as appropriate.

3. The County Should Pursue the Collection of Amounts Due From OUC for Service Fees and Other Revenues

During our review, we noted OUC does not include monies from their Service Fees and Other Revenues account in their supplemental payment calculation. When we asked for the detail for this account, OUC management notified us in a letter of their position "to exclude these fees from the supplemental payment and the scope of the audit." However, we confirmed through a sample of customer bills that OUC was not including charges for late fees, reconnection fees, and return check fees in their supplemental payment calculation.

OUC stated they follow third-tier accounting guidance prescribed by the Federal Energy Regulatory Commission (FERC). Based on this guidance, OUC interprets "electric utility operations" to be revenues generated by the sale of electricity to the end user. They note that because charges such as connect fees, cut on/off, and late fees are recorded as "other operating revenue" under the heading Service Fees and Other Revenues, these charges are not part of electric utility operations. However, we do not agree with their limited interpretation of electric utility operations consisting of only sales of electricity. Charges such as connection fees and late fees are generated by the sale of electricity to the end user and are integral to OUC's electric utility operations (i.e. a customer cannot begin to receive electric service from OUC without being assessed a connection fee, and a customer is assessed a late fee because they did not pay for their electric services in a timely

RECOMMENDATIONS FOR IMPROVEMENT



manner). As a result, these charges should be included in OUC's definition of gross revenue.

Subsequent to completing the audit, OUC provided us with additional information on the components of the Service Fees and Other Revenue account. Based on this information, we learned that the portion of this account that includes connection charges and late fees, among others, represents approximately 20 percent of the account total for the 10-month period ending July 31, 2008. Additional operating companies, as detailed below, represent the remaining 80 percent of the Service Fees and Other Revenue account.

<i>Company</i>	<i>Amount</i>	<i>Percent</i>
Customer Service	9,349,712	20.8%
Energy Delivery	1,800,390	4.0%
Lighting	9,386,233	20.8%
Power Resources	7,272,063	16.2%
Shared Services	(6,966)	0.0%
Cooling	15,537,459	34.5%
Transmission	1,677,534	3.7%
Total Service Fees and Other Revenue	45,016,425	100.0%

OUC provided the following descriptions for each of the operating companies:

- Customer Service: Charges such as connection and reconnection fees as well as late fees (noted above).
- Energy Delivery & Transmission: Service fees and other revenues from the leasing of equipment and fixed assets.
- Lighting: The investment and maintenance portion of customer lighting invoices. The energy and fuel portion of these invoices are recognized under the heading of retail energy and fuel.

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Orlando Utilities Commission
Supplemental Payment Audit

- **Power Resources:** Service fees and other revenue in this area are primarily derived from OUC providing administrative related owner-operator services for OUC co-owned generation at Stanton Energy Center and Indian River. These revenues are not derived from customer-based utility services.
- **Cooling:** Revenue from chilled water operations.

Based on the limited revenue source descriptions OUC provided and because we were not given access to the detailed transactions that comprise the other operations, we are unable to exclude any of these operations from the supplemental fee calculation. For example, the investment and maintenance portion of customer lighting invoices accounted for within the lighting company could be considered part of electric operations as it pertains to an electric service such as lighting. Likewise, service fees and other revenue from OUC's power plant co-owners, including the Stanton Energy Center, and at least one of the cooling plants could be included as gross revenue received from electric utility operations since each are located within unincorporated Orange County.

In addition, OUC provided a spreadsheet outlining electric revenues earned both within the City and County territories and concluded that 24 percent of revenue is generated from outside the City limits. Using this information, we estimated that if all of these revenues were applicable to the one percent supplemental payment calculation the following additional amounts would be due the County:

**RECOMMENDATIONS
FOR IMPROVEMENT**



Revenue Category	Ten-Month Amount	Projected Annual Amount	Projected Annual Amount Attributable to County	1% Supplemental Annual Amount	Five-Year Amount
Customer Service	\$ 9,349,712	\$ 11,219,654	\$ 2,692,717	\$ 26,927	\$ 134,636
Energy Delivery	1,800,390	2,160,468	518,512	5,185	25,926
Lighting	9,386,233	11,263,480	2,703,235	27,032	135,162
Power Resources	7,272,063	8,726,476	2,094,354	20,944	104,718
Shared Services	(6,966)	(8,359)	(2,006)	(20)	(100)
Cooling	15,537,459	18,644,951	4,474,788	44,748	223,739
Transmission	1,677,534	2,013,041	483,130	4,831	24,156
Total Amount of Potential Revenue For Five-Year Period					\$ 648,237

Although it is possible and likely some of the revenues included within the Service Fees and Other Revenue account are not applicable to the one percent supplemental fee calculation, without a detailed accounting of the items that make up the account we could not determine which additional revenues are applicable to the supplemental fee calculation.

We Recommend Orange County pursue collection of the omitted revenues. In addition, the Agreement should be amended to include the items related to Service Fees and Other Revenue that should be included in and exempted from the definition of gross revenue.

Management’s Response:

We concur. We will work with the Comptroller’s Audit team and the County Attorney’s Office to pursue collection of these amounts. In addition, we will review the current contract and adjust the terms as appropriate.

4. The Agreement Should Be Amended to Include Additional Provisions

During our review of the Agreement between OUC and the County, we noted the following:

- A) The Agreement does not contain an audit clause. An audit clause would provide the County access to records supporting the calculation of the one percent supplemental payment. As noted in the third recommendation, OUC would not provide data related to the items classified as Service Fees and Other Revenue during our audit.

The audit clause should also cover solutions for resolving issues arising as a result of the audit, such as payments of amounts found to be unpaid and the reimbursement of audit costs if the amount of underpayment is found to be above an agreed upon threshold (for example, five percent).

- B) There is no provision for the calculation of interest on any amounts found to be due as a result of an audit. Agreements should provide that underpayments are assessed interest at a rate specified in the contract.

Without adequate terms and conditions contained in the Agreement, the County's interest is not adequately served.

We Recommend the Agreement be amended to include the following:

- A) A clear and comprehensive audit clause.
- B) A provision for the payment of interest for amounts found to be unpaid.

**RECOMMENDATIONS
FOR IMPROVEMENT**



Orlando Utilities Commission
Supplemental Payment Audit

Management's Response:

A) and B) We concur. We will review the contract and suggest an amendment to incorporate an audit clause and interest for the payment of amounts found due during any future audits.

APPENDICES

Appendix A – Misclassified Addresses

We determined the total electric charges omitted from Gross Revenue per OUC for March 2008 (\$335,118) as a result of the 1,291 misclassified addresses identified. We calculated this amount as a percentage of Gross Revenue per OUC for the same period (\$7,471,018). This percentage (4.4856%) was then applied to the monthly gross revenue amounts as calculated by OUC to determine the total electric charges omitted from the supplemental payment calculation.

Supplemental Payment Information			Audit Calculations	
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Electric Charges Omitted (Gross Revenue * 4.4856%)	County Portion of Electric Charges Omitted (Electric Charges Omitted * 1%)
January-05	\$ 6,758,525	\$ 67,585	\$ 303,159	\$ 3,032
February-05	6,561,811	65,618	294,335	2,943
March-05	6,197,432	61,974	277,990	2,780
April-05	6,593,893	65,939	295,774	2,958
May-05	6,601,285	66,013	296,106	2,961
June-05	5,357,121	53,571	240,298	2,403
July-05	9,151,744	91,517	410,508	4,105
August-05	9,736,162	97,362	436,723	4,367
September-05	10,015,107	100,151	449,235	4,492
October-05	8,798,159	87,982	394,648	3,946
November-05	6,816,940	68,169	305,779	3,058
December-05	6,378,393	63,784	286,108	2,861
January-06	8,337,039	83,370	373,964	3,740
February-06	7,677,279	76,773	344,370	3,444
March-06	7,362,125	73,621	330,234	3,302
April-06	7,892,565	78,926	354,027	3,540
May-06	8,849,379	88,494	396,946	3,969
June-06	10,194,030	101,940	457,261	4,573
July-06	11,072,557	110,726	496,668	4,967
August-06	11,405,800	114,058	511,616	5,116
September-06	11,386,724	113,867	510,760	5,108
October-06	9,725,334	97,253	436,237	4,362
November-06	7,950,352	79,504	356,619	3,566
December-06	7,393,180	73,932	331,627	3,316
January-07	7,674,021	76,740	344,224	3,442
February-07	7,124,955	71,250	319,595	3,196
March-07	7,182,849	71,828	322,192	3,222
April-07	7,564,043	75,640	339,291	3,393
May-07	8,427,370	84,274	378,016	3,780
June-07	8,987,054	89,871	403,121	4,031
July-07	10,765,246	107,652	482,883	4,829
August-07	11,218,825	112,188	503,229	5,032
September-07	11,571,213	115,712	519,035	5,190

Appendix A – Misclassified Addresses

Supplemental Payment Information			Audit Calculations	
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Electric Charges Omitted (Gross Revenue * 4.4856%)	County Portion of Electric Charges Omitted (Electric Charges Omitted * 1%)
October-07	9,371,182	93,712	420,351	4,204
November-07	8,420,368	84,204	377,702	3,777
December-07	8,282,829	82,828	371,533	3,715
January-08	7,122,728	71,227	319,495	3,195
February-08	7,491,678	74,917	336,045	3,360
March-08	7,471,018	74,710	335,118	3,351
April-08	7,668,113	76,681	343,959	3,440
May-08	8,358,859	83,589	374,943	3,749
June-08	10,504,218	105,042	471,175	4,712
July-08	10,166,514	101,665	456,027	4,560
August-08	10,348,349	103,483	464,183	4,642
September-08	10,157,510	101,575	455,623	4,556
October-08	10,639,365	106,394	477,237	4,772
November-08	7,748,649	77,486	347,571	3,476
December-08	7,698,610	76,986	345,327	3,453
January-09	7,747,756	77,478	347,531	3,475
February-09	9,209,307	92,093	413,090	4,131
March-09	8,443,505	84,435	378,740	3,787
April-09	8,627,157	86,272	386,978	3,870
May-09	10,687,180	106,872	479,381	4,794
June-09	10,603,003	106,030	475,606	4,756
July-09	12,331,545	123,315	553,141	5,531
August-09	13,073,155	130,732	586,406	5,864
September-09	11,923,069	119,231	534,818	5,348
October-09	11,312,474	113,125	507,430	5,074
November-09	10,066,528	100,665	451,542	4,515
December-09	8,573,869	85,739	384,587	3,846
TOTAL	\$ 532,777,050	\$ 5,327,770	\$ 23,898,117	\$ 238,977

Appendix B – Omitted Customer

We determined the actual Customer charges excluded from Gross Revenue per OUC between April 2007 and December 2008. We calculated the amount excluded as a percentage of Gross Revenue per OUC for each month and averaged the percentages. This average (5.48%) was then applied to the monthly gross revenue amounts as calculated by OUC for the remaining months to determine the total Customer charges that were excluded from the supplemental payment calculation.

Supplemental Payment Information			Audit Calculations			
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Customer Charges Excluded - Actual	Percent (Actual Charges Excluded / Gross Revenue)	Customer Charges Excluded - Estimate (Average Percent (5.48%) * Gross Revenue)	County Portion of Customer Charges (Total Charges Excluded * 1%)
January-05	\$ 6,758,525	\$ 67,585			\$ 370,367	\$ 3,704
February-05	6,561,811	65,618			359,587	3,596
March-05	6,197,432	61,974			339,619	3,396
April-05	6,593,893	65,939			361,345	3,613
May-05	6,601,285	66,013			361,750	3,618
June-05	5,357,121	53,571			293,570	2,936
July-05	9,151,744	91,517			501,516	5,015
August-05	9,736,162	97,362			533,542	5,335
September-05	10,015,107	100,151			548,828	5,488
October-05	8,798,159	87,982			482,139	4,821
November-05	6,816,940	68,169			373,568	3,736
December-05	6,378,393	63,784			349,536	3,495
January-06	8,337,039	83,370			456,870	4,569
February-06	7,677,279	76,773			420,715	4,207
March-06	7,362,125	73,621			403,444	4,034
April-06	7,892,565	78,926			432,513	4,325
May-06	8,849,379	88,494			484,946	4,849
June-06	10,194,030	101,940			558,633	5,586
July-06	11,072,557	110,726			606,776	6,068
August-06	11,405,800	114,058			625,038	6,250
September-06	11,386,724	113,867			623,992	6,240
October-06	9,725,334	97,253			532,948	5,329
November-06	7,950,352	79,504			435,679	4,357
December-06	7,393,180	73,932			405,146	4,051
January-07	7,674,021	76,740			420,536	4,205
February-07	7,124,955	71,250			390,448	3,904
March-07	7,182,849	71,828			393,620	3,936
April-07	7,564,043	75,640	\$ 486,823	6.44%		4,868
May-07	8,427,370	84,274	464,014	5.51%		4,640

Appendix B – Omitted Customer

Supplemental Payment Information			Audit Calculations			
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Customer Charges Excluded - Actual	Percent (Actual Charges Excluded / Gross Revenue)	Customer Charges Excluded - Estimate (Average Percent (5.48%) * Gross Revenue)	County Portion of Customer Charges (Total Charges Excluded * 1%)
June-07	8,987,054	89,871	504,401	5.61%		5,044
July-07	10,765,246	107,652	501,466	4.66%		5,015
August-07	11,218,825	112,188	513,425	4.58%		5,134
September-07	11,571,213	115,712	513,425	4.44%		5,134
October-07	9,371,182	93,712	535,876	5.72%		5,359
November-07	8,420,368	84,204	470,654	5.59%		4,707
December-07	8,282,829	82,828	488,127	5.89%		4,881
January-08	7,122,728	71,227	437,863	6.15%		4,379
February-08	7,491,678	74,917	503,242	6.72%		5,032
March-08	7,471,018	74,710	465,210	6.23%		4,652
April-08	7,668,113	76,681	488,726	6.37%		4,887
May-08	8,358,859	83,589	446,894	5.35%		4,469
June-08	10,504,218	105,042	465,971	4.44%		4,660
July-08	10,166,514	101,665	499,911	4.92%		4,999
August-08	10,348,349	103,483	495,692	4.79%		4,957
September-08	10,157,510	101,575	493,417	4.86%		4,934
October-08	10,639,365	106,394	592,331	5.57%		5,923
November-08	7,748,649	77,486	525,833	6.79%		5,258
December-08	7,698,610	76,986	523,561	6.80%		5,236
January-09	7,747,756	77,478			424,577	4,246
February-09	9,209,307	92,093			504,670	5,047
March-09	8,443,505	84,435			462,704	4,627
April-09	8,627,157	86,272			472,768	4,728
May-09	10,687,180	106,872			585,657	5,857
June-09	10,603,003	106,030			581,045	5,810
July-09	12,331,545	123,315			675,769	6,758
August-09	13,073,155	130,732			716,409	7,164
September-09	11,923,069	119,231			653,384	6,534
October-09	11,312,474	113,125			619,924	6,199
November-09	10,066,528	100,665			551,646	5,516
December-09	8,573,869	85,739			469,848	4,698
TOTAL	\$532,777,050	\$5,327,770	\$10,416,862	5.48%	\$ 18,785,072	\$ 292,015

Appendix C – Gross Receipts Tax

To determine the total gross receipts tax that was omitted from the supplemental payment calculation, we applied the gross receipts tax rate (2.5625%) to each month's Gross Revenue per OUC in addition to the electric charges we determined to be omitted due to the miscoding of addresses.

Supplemental Payment Information			Audit Calculations			
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Gross Receipts Tax Omitted (Gross Revenue per OUC) (Gross Revenue * 2.5625%)	Gross Receipts Applicable to Misclassified Addresses		County Portion of Gross Receipts Tax (Total Gross Receipts Tax Omitted * 1%)
				Electric Charges Omitted (see Appendix A)	Gross Receipts Tax Omitted (Electric Charges Omitted * 2.5625%)	
January-05	\$ 6,758,525	\$ 67,585	\$ 173,187	\$ 303,159	\$ 7,768	\$ 1,810
February-05	6,561,811	65,618	168,146	294,335	7,542	1,757
March-05	6,197,432	61,974	158,809	277,990	7,124	1,659
April-05	6,593,893	65,939	168,969	295,774	7,579	1,765
May-05	6,601,285	66,013	169,158	296,106	7,588	1,767
June-05	5,357,121	53,571	137,276	240,298	6,158	1,434
July-05	9,151,744	91,517	234,513	410,508	10,519	2,450
August-05	9,736,162	97,362	249,489	436,723	11,191	2,607
September-05	10,015,107	100,151	256,637	449,235	11,512	2,681
October-05	8,798,159	87,982	225,453	394,648	10,113	2,356
November-05	6,816,940	68,169	174,684	305,779	7,836	1,825
December-05	6,378,393	63,784	163,446	286,108	7,332	1,708
January-06	8,337,039	83,370	213,637	373,964	9,583	2,232
February-06	7,677,279	76,773	196,730	344,370	8,824	2,056
March-06	7,362,125	73,621	188,654	330,234	8,462	1,971
April-06	7,892,565	78,926	202,247	354,027	9,072	2,113
May-06	8,849,379	88,494	226,765	396,946	10,172	2,369
June-06	10,194,030	101,940	261,222	457,261	11,717	2,729
July-06	11,072,557	110,726	283,734	496,668	12,727	2,965
August-06	11,405,800	114,058	292,274	511,616	13,110	3,054
September-06	11,386,724	113,867	291,785	510,760	13,088	3,049
October-06	9,725,334	97,253	249,212	436,237	11,179	2,604
November-06	7,950,352	79,504	203,728	356,619	9,138	2,129
December-06	7,393,180	73,932	189,450	331,627	8,498	1,979
January-07	7,674,021	76,740	196,647	344,224	8,821	2,055
February-07	7,124,955	71,250	182,577	319,595	8,190	1,908
March-07	7,182,849	71,828	184,061	322,192	8,256	1,923
April-07	7,564,043	75,640	193,829	339,291	8,694	2,025
May-07	8,427,370	84,274	215,951	378,016	9,687	2,256

Appendix C – Gross Receipts Tax

Supplemental Payment Information			Audit Calculations			
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Gross Receipts Tax Omitted (Gross Revenue per OUC) (Gross Revenue * 2.5625%)	Gross Receipts Applicable to Misclassified Addresses		County Portion of Gross Receipts Tax (Total Gross Receipts Tax Omitted * 1%)
				Electric Charges Omitted (see Appendix A)	Gross Receipts Tax Omitted (Electric Charges Omitted * 2.5625%)	
June-07	8,987,054	89,871	230,293	403,121	10,330	2,406
July-07	10,765,246	107,652	275,859	482,883	12,374	2,882
August-07	11,218,825	112,188	287,482	503,229	12,895	3,004
September-07	11,571,213	115,712	296,512	519,035	13,300	3,098
October-07	9,371,182	93,712	240,137	420,351	10,772	2,509
November-07	8,420,368	84,204	215,772	377,702	9,679	2,255
December-07	8,282,829	82,828	212,247	371,533	9,521	2,218
January-08	7,122,728	71,227	182,520	319,495	8,187	1,907
February-08	7,491,678	74,917	191,974	336,045	8,611	2,006
March-08	7,471,018	74,710	191,445	335,118	8,587	2,000
April-08	7,668,113	76,681	196,495	343,959	8,814	2,053
May-08	8,358,859	83,589	214,196	374,943	9,608	2,238
June-08	10,504,218	105,042	269,171	471,175	12,074	2,812
July-08	10,166,514	101,665	260,517	456,027	11,686	2,722
August-08	10,348,349	103,483	265,176	464,183	11,895	2,771
September-08	10,157,510	101,575	260,286	455,623	11,675	2,720
October-08	10,639,365	106,394	272,634	477,237	12,229	2,849
November-08	7,748,649	77,486	198,559	347,571	8,907	2,075
December-08	7,698,610	76,986	197,277	345,327	8,849	2,061
January-09	7,747,756	77,478	198,536	347,531	8,905	2,074
February-09	9,209,307	92,093	235,988	413,090	10,585	2,466
March-09	8,443,505	84,435	216,365	378,740	9,705	2,261
April-09	8,627,157	86,272	221,071	386,978	9,916	2,310
May-09	10,687,180	106,872	273,859	479,381	12,284	2,861
June-09	10,603,003	106,030	271,702	475,606	12,187	2,839
July-09	12,331,545	123,315	315,996	553,141	14,174	3,302
August-09	13,073,155	130,732	335,000	586,406	15,027	3,500
September-09	11,923,069	119,231	305,529	534,818	13,705	3,192
October-09	11,312,474	113,125	289,882	507,430	13,003	3,029
November-09	10,066,528	100,665	257,955	451,541	11,571	2,695
December-09	8,573,869	85,739	219,705	384,587	9,855	2,296
TOTAL	\$532,777,050	\$5,327,770	\$13,652,410	\$23,898,116	\$612,390	\$ 142,647

Appendix D – Streetlight Charges

We selected a random sample of customer bills and calculated total streetlight charges as a percentage of total electric charges. We applied this percentage (0.2352%) to the monthly gross revenue amounts as calculated by OUC to determine the total streetlight charges omitted from the supplemental payment calculation.

Supplemental Payment Information			Audit Calculations	
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Streetlight Charges Omitted (Gross Revenue * 0.2352%)	County Portion of Streetlight Charges (Streetlight Charges Omitted* 1%)
January-05	\$ 6,758,525	\$ 67,585	\$ 15,896	\$ 159
February-05	6,561,811	65,618	15,434	154
March-05	6,197,432	61,974	14,576	146
April-05	6,593,893	65,939	15,509	155
May-05	6,601,285	66,013	15,526	155
June-05	5,357,121	53,571	12,600	126
July-05	9,151,744	91,517	21,525	215
August-05	9,736,162	97,362	22,900	229
September-05	10,015,107	100,151	23,556	236
October-05	8,798,159	87,982	20,693	207
November-05	6,816,940	68,169	16,034	160
December-05	6,378,393	63,784	15,002	150
January-06	8,337,039	83,370	19,609	196
February-06	7,677,279	76,773	18,057	181
March-06	7,362,125	73,621	17,316	173
April-06	7,892,565	78,926	18,563	186
May-06	8,849,379	88,494	20,814	208
June-06	10,194,030	101,940	23,977	240
July-06	11,072,557	110,726	26,043	260
August-06	11,405,800	114,058	26,827	268
September-06	11,386,724	113,867	26,782	268
October-06	9,725,334	97,253	22,874	229
November-06	7,950,352	79,504	18,699	187
December-06	7,393,180	73,932	17,389	174
January-07	7,674,021	76,740	18,049	180
February-07	7,124,955	71,250	16,758	168
March-07	7,182,849	71,828	16,894	169
April-07	7,564,043	75,640	17,791	178
May-07	8,427,370	84,274	19,821	198
June-07	8,987,054	89,871	21,138	211
July-07	10,765,246	107,652	25,320	253
August-07	11,218,825	112,188	26,387	264
September-07	11,571,213	115,712	27,216	272
October-07	9,371,182	93,712	22,041	220
November-07	8,420,368	84,204	19,805	198

Appendix D – Streetlight Charges

Supplemental Payment Information			Audit Calculations	
Month	Gross Revenue per OUC	Payment Amount (Gross Revenue * 1%)	Streetlight Charges Omitted (Gross Revenue * 0.2352%)	County Portion of Streetlight Charges (Streetlight Charges Omitted* 1%)
December-07	8,282,829	82,828	19,481	195
January-08	7,122,728	71,227	16,753	168
February-08	7,491,678	74,917	17,621	176
March-08	7,471,018	74,710	17,572	176
April-08	7,668,113	76,681	18,036	180
May-08	8,358,859	83,589	19,660	197
June-08	10,504,218	105,042	24,706	247
July-08	10,166,514	101,665	23,912	239
August-08	10,348,349	103,483	24,340	243
September-08	10,157,510	101,575	23,891	239
October-08	10,639,365	106,394	25,024	250
November-08	7,748,649	77,486	18,225	182
December-08	7,698,610	76,986	18,107	181
January-09	7,747,756	77,478	18,223	182
February-09	9,209,307	92,093	21,660	217
March-09	8,443,505	84,435	19,859	199
April-09	8,627,157	86,272	20,291	203
May-09	10,687,180	106,872	25,136	251
June-09	10,603,003	106,030	24,938	249
July-09	12,331,545	123,315	29,004	290
August-09	13,073,155	130,732	30,748	307
September-09	11,923,069	119,231	28,043	280
October-09	11,312,474	113,125	26,607	266
November-09	10,066,528	100,665	23,677	237
December-09	8,573,869	85,739	20,166	202
TOTAL	\$ 532,777,050	\$ 5,327,770	\$ 1,253,101	\$ 12,529