



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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## 15-35 Colorado Springs Utilities Accrued Revenue

December 2015

### **Purpose**

The purpose of this audit was to review the methodology, system, and processes used to estimate revenues for volumes sold but not yet billed to determine reliability and consistency. Our audit period focused on January through May 2015.

### **Highlights**

We conclude that the methodology in place to record revenue for volumes sold, but not yet billed, was reliable and consistent on an annual basis. The methodology has been refined over the past several years to provide more accurate estimates. The methodology could be improved by utilizing automated meter reading technology (AMR) data to obtain month end readings by customer class for use in revenue accrual estimates.

Colorado Springs Utilities (Utilities) billed Electric, Gas, Water, and Wastewater customers on a staggered schedule throughout the calendar month based on billing cycles. This approach allowed a level workload related to bill preparation, payment processing, and billing inquiries. The difference between billing cycles and calendar days created unbilled or accrued sales at the end of each month. To produce monthly financial statements with revenues for the volumes, sold but not yet billed, unbilled sales must be accrued.

Each month, Utilities determined total unbilled units for each service based on the difference between total metered consumption and billed consumption. The unbilled units for each rate class were then estimated using the same percentages as actual billed sales that month. Applicable rates were then applied to the units to estimate unbilled revenue.

Under current Utilities' methodology, the unbilled revenue is estimated and recorded monthly. Utilities performed a reconciliation to compare actual revenues to the estimated revenues recorded and make necessary adjustments twice each year. This ensured that any estimation error in the monthly revenue accrual process was corrected.

Auditors identified one observation. Please see page two of this report for observation details.

### **Recommendation**

1. Utilities should continue to develop a process that utilizes automated meter data in the monthly revenue accrual.

### **Management Response**

Management agreed with our recommendation.

# 15-35 COLORADO SPRINGS UTILITIES ACCRUED REVENUE

## ***Observation***

Utilities currently does not utilize month end meter reads by customer class to estimate accrued revenues each month. A process for recording unbilled revenue utilizing daily reads from automated meters was in development during our review.

The annual reconciliation ensures the accuracy of annual revenue by rate class. The annual process did not include a reconciliation of billed units to units recorded in the general ledger by class. We understand that when the new process is implemented, general ledger units will be accurate as they will be based on actual month end reads.

Using actual usage data would provide the most accurate and timely information to the users of the financial statements.

## ***Recommendation***

Utilities should continue to develop a process that utilizes automated meter data in the monthly revenue accrual.

## ***Management Response***

Colorado Springs Utilities agrees with the Office of the City Auditor's recommendation that utilizing meter data will be an improvement to the current methodology in place. We also acknowledge the current methodology for estimating unbilled revenues meets the criteria under generally accepted accounting principles and has been examined and approved by our external auditors. Colorado Springs Utilities has been engaged in the development of processes and reports to utilize meter data to estimate the unbilled revenues for the past two years. We are committed to providing a status on progress on this endeavor by July 2016.