



April 19, 2018

To: Emory Roberts, Director of Finance and Customer Service

From: Alice Garner, Internal City Auditor 

Re: Peoples Gas Franchise Ordinance Compliance - Project No. 2018-05

We have conducted an audit of the Peoples Gas (a division of Tampa Electric Company) franchise Ordinance 2012-51, as scheduled per the FY 2018 Internal Audit Plan. The objective of the audit was to determine whether Peoples Gas is compliant with specific provisions of the ordinance. The audit was conducted by Phillip Vincent.

Our specific audit objectives were to determine whether:

1. Cash receipts are for the correct amount and received timely.
2. The reporting of franchise fees is adequate.
3. Deposits of the cash receipts are made timely.
4. Adequate insurance policies are maintained and are current.

To accomplish our objectives, we studied provisions of the ordinance, inquired with Finance and Peoples Gas staff, recalculated customer bills, inspected insurance certificates, traced deposits and reviewed check remittances.

Our audit included such tests of records and other auditing procedures, as we considered necessary in the circumstances. Our audit period was October 1, 2016 to December 31, 2017. However, transactions, processes and situations reviewed were not limited by the audit period.

Based on our work performed, we conclude that except for the needed improvement as noted in the report, Peoples Gas is compliant with specific provisions of the ordinance.

We appreciate the cooperation and assistance provided by the Finance department and Peoples Gas staffs during the course of our audit.

Cc: Ocala City Council Members
John Zobler, City Manager
Bill Kauffman, Assistant City Manager
Ken Whitehead, Assistant City Manager
Sandra Wilson, Deputy City Manager
Anthony Webber, Fiscal Operations Supervisor
Rosemary Barbour, Accounting Director, Peoples Gas

BACKGROUND:

Effective September 18, 2012, Ordinance 2012-51 was renewed to extend the franchise agreement between Peoples Gas and the City of Ocala. The ordinance grants Peoples Gas, a division of Tampa Electric Company, a non-exclusive franchise to use the public rights-of-way of the City of Ocala for the construction, maintenance and operation of a natural gas distribution system in exchange for paying a monthly franchise fee. The ordinance provides for a 10-year term expiring September 18, 2022.

OPPORTUNITIES FOR IMPROVEMENT:

Our audit disclosed certain policies, procedures and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure or transaction. Accordingly, the Opportunity for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. The franchise fee is not calculated in accordance with the ordinance.

Ordinance 2012-51 Section 3 Part A states, “the Company shall pay within thirty (30) days after the close of each month following the effective date of this Franchise Agreement, to the City as consideration for the grant of this Franchise, a sum of money equal to six (6%) percent of its gross revenues received from the sale, distribution or delivery of natural gas during each previous month from services provided within the City Limits by the Company.” However, instead of taking 6% of the gross revenue to calculate the franchise fee, Peoples Gas starts with the franchise fee collected from its customers and backs into the gross revenue amount that is reported to the City. The franchise fee is netted for uncollectible accounts and a regulatory assessment fee. The revenue reported to the City is a different amount than the system generated revenue.

We recommend management instruct Peoples Gas to calculate the franchise fee in accordance with the ordinance by starting with system generated revenue to arrive at the amount of the franchise fee to be remitted.

Management Response: We concur with the recommendation and have instructed Peoples Gas to begin calculating the monthly franchise fee payable to the City of Ocala, in accordance with ordinance 2012-51 Section 3 Part A and based on six (6%) of system generated gross revenue.

Expected Completion Date: September 30, 2018.