



December 20, 2017

To: Emory Roberts, Director of Finance and Customer Service

From: Alice Garner, Internal City Auditor *Alice Garner*

Re: SECO Franchise Ordinance Compliance - Project No. 2017-06

We have conducted an audit of the Sumter Electric Cooperative, Inc. (SECO) franchise ordinance, as requested by management. The purpose of the audit was to determine whether the organization is compliant with specific provisions of the ordinance. The audit was conducted by Alice Garner.

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 SECO staff, recalculated customer bills, analyzed billing reports, inspected insurance certificates, and reviewed deposits and 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, 2015 through March 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 improvements as noted in the report, the organization is compliant with specific provisions of the ordinance.

We appreciate the cooperation and assistance provided by the Finance department and Sumter Electric Cooperative, Inc. staffs contacted during the course of our audit.

Cc: Bill Kauffman, Assistant City Manager, City of Ocala  
Peter Brill, Assistant Finance Manager, City of Ocala  
Anthony Webber, Fiscal Operations Manager, City of Ocala  
Gene Kanikovsky, Chief Financial Officer, Sumter Electric Cooperative, Inc.

## **BACKGROUND:**

Effective October 21, 2002, Ordinance No. 5082 was established creating a franchise between the Sumter Electric Cooperative, Inc. (SECO) and the City of Ocala. The ordinance grants SECO a non-exclusive electric utility franchise for the purpose of providing electric and power services and prescribes the terms and conditions of the franchise. The ordinance also provides for a 15-year term expiring October 20, 2017.

Because the ordinance is expiring, management requested that an audit of the ordinance be performed prior to its renewal.

## **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 Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

### **1. Language in the ordinance could be improved.**

The ordinance does not accurately reflect the calculation of the franchise fee payment. According to the ordinance with SECO under Section 6.A., the "...Grantor shall be entitled to receive from Grantee a monthly franchise amount which will equal six percent (6%) of Grantee's Base Revenues for the preceding month..." The current practice of how the franchise fee is calculated does not follow the ordinance because it is based on billings. However, we agree that billings is the proper basis to use because revenues are not completely collected at the time the franchise fee payment is due.

**We recommend** that upon renewal of the ordinance with SECO, management revise the agreement to include that the monthly franchise amount be based on the base billings for the preceding month. Management should be careful to make the change for each reference to base revenues.

**Management Response:** We concur with the recommendation. We are working with Procurement to renew the ordinance and revise it to clarify that the monthly franchise amount is based on base billings for the preceding month.

**Expected Completion Date:** January 31, 2018.

### **2. The basis for the fee is not provided by the Grantee.**

The City is not receiving the monthly statements as required by the SECO ordinance. According to the ordinance with SECO under Section 15.C., "The Grantee will attach to each payment a statement of its estimated Base Revenues for the period on which such payment is based, signed by an authorized representative of the Grantee..." Without this information, a recalculation of the payment cannot be done to ensure that it is correct.

**We recommend** management instruct SECO to submit the required report each month via email to Anthony Webber at the time of its franchise fee payment.

**Management Response:** Management will work with SECO to receive a monthly statement of estimated Base Revenues for the period on which the payment is based. The statement should be signed or issued by an authorized representative and emailed to Finance (Accounting Operations Supervisor/ Accounts Receivable Senior Accounting Specialist).

**Expected Completion Date:** January 31, 2018.