



Office of
Missouri State Auditor
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December 2007

The following findings were included in our audit report on City Utilities of Springfield, Missouri.

City Utilities (CU) customers may be paying too much for some utility services as a result of subsidization of non-utility activities of the city, subsidization of other utility departments from electric revenues, questionable spending, and granting public funds in possible violation of the Missouri Constitution. The Electric Department continues to have a significant increase in operating income each year, and CU has not complied with its own rate policy standards, which requires an outside consulting firm to review rates and report the findings to the board at least every five years. Rates for utility services should be set to cover the costs of producing and delivering services, and utility services should not generate profits to fund (through subsidization) other services provided by the city or other utility departments or provide the opportunity for CU to spend monies unnecessarily.

CU has provided several millions of dollars to the city for various projects over the past few years. As a result, CU's customers are being required to subsidize the cost of some city services through the payment of their utility bills. Also, some utility departments need continued financial support from the electric department to cover their cost of operations. The electric department provided funding totaling over \$6.3 million during the year ended September 30, 2006 to the transit department, gas department, and SpringNet® to cover the cost of operations.

Numerous disbursements and contributions of services totaling at least \$259,000 do not appear to be a prudent, reasonable, or necessary use of utility funds and some may violate the Missouri Constitution. Some unnecessary spending included a 2006 Family Day Picnic held to show appreciation for the employees and their families with costs totaling over \$19,000. Monies were spent for catering, decorations, and party supplies. Numerous other examples of unnecessary spending were noted in the report. Safety and service awards valued at over \$52,000 have been given to employees, which do not appear to be prudent, reasonable, or a necessary use of utility funds, and CU paid employees \$26,050 in finder's fees for identifying and reporting illegal use of utility services. Such identification would appear to be part of their regular job duties. Further, CU contracted with various entities to provide funding totaling at least \$321,000 without ensuring all contractual requirements were met or requiring adequate documentation of how those monies were used.

CU suffered a financial loss of more than \$2.7 million during the 2007 natural gas hedging season, and the financial information presented to the Board of Public Utilities regarding the loss was incomplete. In addition, documentation of the effect of a policy

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change that significantly increases CU's possible liability in the natural gas hedging market was not presented to the board. CU uses natural gas hedging as a financial tool to help reduce the risk of increasing natural gas prices. CU buys natural gas options at a specified market price to be exercised during the peak heating season. If the market price rises above the option price paid, CU can exercise the option and recognize a financial gain; however, if market price decreases below the option price paid, the utility suffers a financial loss.

CU did not prepare a cost benefit study before entering into a contract with The Energy Authority (TEA) in 1998, has not adequately documented their continued investment on an annual basis, and has not taken full advantage of every opportunity to provide oversight to TEA operations. TEA is a nonprofit corporation, and CU has a 7.14 percent ownership interest. CU has a current investment in TEA of more than \$2.4 million and has guaranteed more than \$9.6 million in cash reserves to TEA as of September 30, 2006. CU also paid an initial membership fee of \$867,360 in 2000 to become an owner, and additional costs totaling over \$4.7 million to trade energy were incurred by the utility from 2001 through 2006.

SpringNet® is a division of CU, which offers telecommunication services. SpringNet® has failed to comply with several provisions of a Public Service Commission (PSC) order regarding the necessity to operate without continued financial assistance from the rest of the utility, and has failed to comply with state law which limits term agreements on telecommunications services to five years. CU's internal auditor had noted this same issue. SpringNet® has not followed the terms of its service contracts with customers regarding delinquent accounts and has developed more lenient practices. CU has spent over \$6 million on SpringNet® Underground, which provides computer operations hosting services within a local underground mine, without performing preliminary feasibility studies and developing a formal ongoing business plan for this activity.

CU uses alliances, standing purchase orders, and blanket orders as purchasing tools for significant expenditures without the use of annual competitive bidding for supplies. For example, CU spent over \$6.1 million during 2006 in four alliances to purchase supplies. These alliances allow the utility to purchase items that are only bid in the first year of the alliance and extended for up to four years without annual competitive bidding.

Proposals were not always solicited for legal services, a contract for legal services was approved without any review of the compensation to be paid, and legal contract renewals were sometimes signed by law firms several days after the effective date of the contract.

Meals and food purchased with procurement cards appear excessive, and CU lacks a comprehensive food policy. CU spent approximately \$80,000 in 2006 for meals and food provided during employee meetings, training sessions, retirement receptions, employee recognition events, board meetings, public marketing events, and other external meetings. Numerous procurement card expenditures did not appear to be a prudent and necessary use of public funds including a barbeque grill, toy store gift cards, mint tins, and dishes, glassware, and flatware used by the board and general management for meals.

CU paid approximately \$342,000 for corporate and individual membership dues. Several employees were reimbursed for the same civic organization memberships, and several employees were reimbursed for multiple individual memberships. Additionally, numerous employee reimbursements

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for expenses did not appear to be a prudent or necessary use of public funds.

CU provides incentives to some developers that are not addressed in the utility's extension policy. CU did not always enter into written contracts for developer reimbursements, did not require the developer to submit documentation of actual costs incurred to support reimbursements made, did not inspect and audit the developer's records in accordance with CU's extension policy, and some reimbursements were not calculated in accordance with policy. CU paid over \$1.35 million in reimbursements and incentives to developers during the year ended September 30, 2006. Reimbursements are based on a written extension policy and occur when CU reimburses costs to developers who install electric, gas or water service to newly developed areas.

CU did not perform or update cost benefit studies to evaluate the necessity for some marketing and communication services, print shop services, or the onsite health clinic. CU's marketing and communication costs totaled over \$1.1 million. Several print shop projects including commemorative picture books of the 2007 ice storm (given to the employees) and commemorative books of the 50th anniversary of James River Power Station and water system did not appear to be a prudent or necessary use of resources.

CU used varying market standards to establish a salary plan for its General Manager and Associate General Managers resulting in significantly higher salaries for these positions. Salaries for these positions were paid according to a different marketing standard than other employees and ranged from \$124,359 to \$326,484. Additionally, the General Manager's contract provides for a severance package valued at over \$517,000.

Several controls and procedures over cash handling at the main office, TecHouse, and with door-to-door collectors are in need of improvement. CU collected approximately \$366.8 million in utility payments during the year ended September 30, 2006.

The pumps at the Stockton Lake Pumping Station failed in 2005 and 2006, and CU has not fully implemented the recommendations made by a consultant regarding the pump station failures.

While CU has a tree trimming management policy, the utility has not developed procedures to measure its performance of this policy. Various utility industry publications have indicated the lack of tree trimming and brush removal is the number one cause of controllable power outages.

Also included in the report are recommendations related to bidding and purchasing policies, utility system controls and procedures, transit department, fleet management and vehicle allowances, and closed meeting minutes and accounting procedures.

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