



Department of Development

Percentage of Income Payment Plan Plus Program Audit

Audit Period: July 1, 2011 through March 31, 2012

Results Summary:

Objective	Conclusion
Eligibility Review Process	Well-Controlled with Improvement Needed
Eligibility Re-verification Process	Well-Controlled
Universal Service Fee Collection Process	Improvement Needed
Universal Service Fund Disbursement Process	Improvement Needed



Executive Summary

Background

The Ohio Department of Development (DEV) administers the Percentage of Income Payment Plan Plus (PIPP) program to assist low-income households. PIPP Plus is designed as a special payment plan that requires eligible households to pay a portion of their household income each month to maintain utility service. The program protects customers from disconnection of service as long as the monthly payment rules are followed.

PIPP Plus is funded through a service rider included on all consumers' electric utility bills. The rider is collected by the utility companies and remitted to DEV's Universal Service Fund. Households at or below 150% of the federal poverty level are eligible for the program. DEV uses the rider fees to reimburse utility companies for the cost of the energy used by PIPP Plus customers that is not covered by their monthly installment payments.

In fiscal year 2011, revenue collected in the Universal Service Fund (5M40) totaled approximately \$400 million; however, fiscal year 2012 appropriations reduce the revenues by approximately 38% to \$245 million.

During the audit, OIA identified opportunities for DEV to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank DEV staff and management for their cooperation and time in support of this audit. This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform assurance work related to the PIPP Plus Program. This work was completed between April and June 2012. The scope of this audit was limited to PIPP Plus. The following detailed audit objectives included:

- Evaluate the design and effectiveness of controls over the PIPP Plus initial eligibility review process.
- Evaluate the design and effectiveness of controls over the PIPP Plus eligibility re-verification process.
- Evaluate the design and effectiveness of controls over the Universal Service Fund collection process.
- Evaluate the design and effectiveness of controls over Universal Service Fund disbursements for monthly customer bills and arrearages.



Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

Observation 1 – Utility Company PIPP Plus External Audit Frequency

Ohio Department of Development (DEV) contracts with independent public accounting firms to perform agreed-upon procedures on select electric distribution utility companies' (EDU's) PIPP Plus financial reporting and accounting practices and procedures. DEV relies upon the internal records and accounting practices of the EDU's in administering the PIPP Plus program.

Beginning in 2006, DEV established an EDU audit schedule, whereby; two EDU's were to be reviewed each year by an independent public accounting firm. The audit schedule was adhered to until 2008, when the fourth EDU review contained a significant accounting control deficiency that negatively impacted the PIPP program. Since 2008, DEV has not resumed the audit schedule as they continue assessing the ramification of the 2008 review, resulting in four (4) audit periods lacking external review. Records retention requirements of the PIPP Plus program only mandate a three (3) year record retention period. In addition, significant changes were made to the PIPP program in late 2010 (resulting in the PIPP Plus program) with no subsequent audits conducted.

DEV's reduced audit frequency increases the risk of utility company misstatements and errors that could impact the completeness of Universal Service Fee collections remitted to DEV by the EDU's, as well as the accuracy of the PIPP Plus customer bills for which DEV must reimburse utility companies.

Recommendation

DEV should restore the audit function over the EDU's. Consider implementing a risk-based approach when developing the audit schedule to prioritize the audits and ensure each EDU is audited at least once every three years with an audit scope covering the entire three years.

Management Response

DEV has not audited the electric utilities since 2008 for two reasons:

- 1) The last audit conducted resulted in outstanding issues that have still not been resolved by the auditee, causing the audit to not be finalized;



- 2) New program rules were implemented in November 2010, in which the utilities asked DEV to postpone the audits until after implementation was complete. The utility staff that would assist in the audits was the same staff that would be responsible for implementation of the new rules. DEV agreed to wait until PIPP Plus was operational to start a new round of audits.

We agree that audits of the utility should be reinstated and then continued on a three year basis. We plan to have an RFP written and announced by September 2012 to obtain an accounting firm for the next round of audits, and plan to select an audit firm by January 2013. This response assumes that DEV will continue to administer the USF funds.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	Office of Community Assistance Interim Deputy Chief	January 2013



Observation 2 – Customer Arrearage Advancements

Ohio Administrative Code Section 122:5-3-04(B)(1) requires DEV to advance funds to EDU companies for eligible PIPP Plus customers' pre-PIPP arrearages (delinquent payments). As customers pay monthly utility bills, the EDU credits the amount advanced for the customer's pre-PIPP arrearage at 1/24 for each consecutive month the customer pays timely. Between July 2011 and March 2012, \$40.2 million was paid to EDUs by DEV for pre-PIPP arrearages.

Reimbursement is due to DEV when a customer is dropped from the program for failure to pay their portion of the utility bill. However, DEV is not reimbursed the unamortized pre-PIPP arrearages unless the EDU successfully collects funds from the delinquent customer.

Since July 2011, 80% of PIPP Plus customers that were dropped from the program for delinquent payments have not satisfied their debt due to the EDU in order to qualify for reinstatement back into the program. DEV does not track dropped PIPP Plus customers' arrearages with the intent of collecting reimbursement of the advancement from the EDUs.

DEV may not recover the pre-PIPP arrearage advancements from the EDU due to the EDU's lack of effort in collecting delinquent payments from dropped PIPP Plus customers. This could result in a receivable due to DEV from the EDUs which, if collected, would increase funds available for the program.

Recommendation

DEV should modify its current pre-PIPP arrearage collections practices. At a minimum, analyze the impact on the PIPP Plus program if pre-PIPP arrearage funds are not reimbursed by the EDUs. Determine how EDUs account for pre-PIPP arrearages advanced for PIPP Plus customers dropped from the program. Consider adding a separate reporting field to the CIR and 301 reports to list the amount of pre-PIPP charges returned.

Management Response

As part of the agreed-upon procedures performed over the utility companies, DEV will determine if the utilities are actively trying to collect on pre-PIPP Plus arrearages, how much of the arrearages have been recovered, and if this amount has been remitted to DEV. Based on the audit findings, DEV will determine the impact of each utility's practices on the fund and take appropriate actions to address instances in which the fund is negatively impacted (including enlisting the aid of the PUCO when necessary). The audit findings can also be used to intervene in rider cases when electric utilities are requesting additional funding or riders to cover PIPP Plus unrecovered debt. DEV will review the 301 report and the CIR to determine if another field is needed, or if the capability already exists, to track the returned pre-PIPP charges and how much lead time DEV and the utilities would need to program reporting changes.



Risk*	Remediation Owner	Estimated Completion Date
Moderate	Office of Community Assistance Interim Deputy Chief	January 2013

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
Well-Controlled with Improvement Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Improvement Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Major Improvement Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee