

**REVIEW OF GRUCOM REVENUES**

**NOVEMBER 2010**



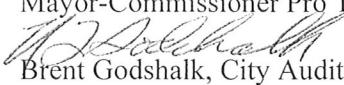
**CITY AUDITOR'S OFFICE  
CITY OF GAINESVILLE, FLORIDA**

*City of*  
**Gainesville**

*Inter-Office Communication*

January 27, 2011

**TO:** Audit, Finance and Legislative Committee  
Mayor Craig Lowe, Chair  
Mayor-Commissioner Pro Tem Jeanna Mastrodicasa, Member

**FROM:**   
Brent Godshalk, City Auditor

**SUBJECT:** Review of GRUCom Revenues

**Recommendation**

The Audit, Finance and Legislative Committee recommend that the City Commission:

- 1) Accept the City Auditor's report and the response from the General Manager for Utilities, and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

**Explanation**

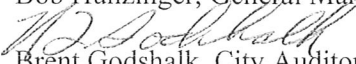
In accordance with our Annual Audit Plan, we have completed a Review of GRUCom Revenues. Our report, which includes a response from the General Manager, is attached for your review.

We request that the Committee recommend the City Commission accept our report and the management response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

*City of*  
**Gainesville**

*Inter-Office Communication*

January 11, 2011

**TO:** Bob Hunzinger, General Manager for Utilities  
**FROM:**   
Brent Godshalk, City Auditor  
**SUBJECT:** Review of GRUCom Revenues

In accordance with our Annual Audit Plan, we have completed a review of GRUCom revenues. During our review, we interviewed key personnel, analyzed financial and operating information and tested management controls. The primary objective of this audit was to evaluate the adequacy of management controls over the billing and collection of GRUCom revenues.

Based on our review, we believe that there are opportunities for enhancements to the internal controls in place over the billing and collection of GRUCom revenues. The attached draft report provides recommendations focused on enhancing operational controls, improving documentation and reducing risks.

Our recommendations for improvement have been reviewed with Kathy Viehe, AGM for Customer and Administrative Services, Jennifer Hunt, Chief Financial Officer, Ted Kellerman, Director of Sales and New Services, and Kevin Crawford, Financial Analysis and Compliance Manager, during our exit conference on September 1<sup>st</sup>. Since that time, Ted has worked with Staff Auditor Brecka Anderson to finalize any necessary edits to our report and to provide written management responses to our recommendations. I would like to acknowledge Ted and the members of GRUCom for their professional courtesy and cooperation during our review.

Please review the attached written report, which documents our audit recommendations and the responses from GRUCom, and let me know if you have any questions, comments or concerns with the information presented. Our final report, including the management responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval. The next meeting is currently scheduled for January 27, 2011. Until that time, this draft report and your draft response are exempt from Florida's public records law.

Thank you to you and your staff for making this a productive process.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of GRUCom Revenues. The primary objective of this audit was to evaluate the adequacy of management controls over the billing and collection of GRUCom revenues. Our procedures included interviewing key staff, observing operations, reviewing management controls, and testing selected samples of transactions and supporting documentation. The scope of our review was generally for GRUCom revenues billed or collected during fiscal years 2009 and 2010.

As for all of our audits, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on the results of our review, we believe that opportunities exist for strengthening the process of billing and collecting GRUCom revenues. We have prepared recommendations regarding these issues that were discussed with management. The recommendations, as well as management's written responses, can be found in the following sections of this report.

## **BACKGROUND INFORMATION**

GRUCom, GRU's telecommunication services department, was established in 1995 to provide advanced and competitive telecommunication services to the Gainesville area. Currently, 37 employees staff GRUCom's Business Operations and Technical Services Divisions. GRUCom's mission is to "provide information infrastructure and integrated, low cost data communication services to the Gainesville Urban Area in such a manner as to minimize duplication of facilities, maximize inter-connectivity, simplify access, and promote the evolution of new technologies and business opportunities." The Florida Public Service Commission has licensed GRUCom as a Competitive Access Provider and as a Competitive Local Exchange Company.

GRUCom's telecommunications and Internet services are available to business and residential customers primarily within the Alachua County area. The business model was developed to provide services to small, medium, and large companies that incumbent telecommunication companies did not provide. GRUCom's responsibilities are to "plan, design, construct, operate and maintain communication facilities to provide high quality communication services to customers." GRUCom, unlike GRU's other utility systems, competes against other telecommunications companies for market share.

### ***GRUCom Structure and Product/Service Offerings***

GRUCom operates data, voice, and transport services utilizing a 350 mile fiber optic network throughout Alachua County, installed underground and suspended on transmission poles. Fiber connects the GRUCom Central Office and other regional hubs to provide service to customers in the area. The fiber optic network was structured with redundant transport equipment and protected rings for consistent connections and accelerated speeds. The Central Office building was hardened to protect equipment in case of strong storms or other emergencies.

GRUCom is divided into Business Operations and Technical Services Divisions. Both divisions work collectively to administer sales, service, and billing functions, including adopting new technology to

maintain competitiveness in the ever-changing telecommunications industry. Additionally, GRUCom operates a Network Operations Center which provides 24/7 monitoring of GRUCom’s network and a service help desk for troubleshooting.

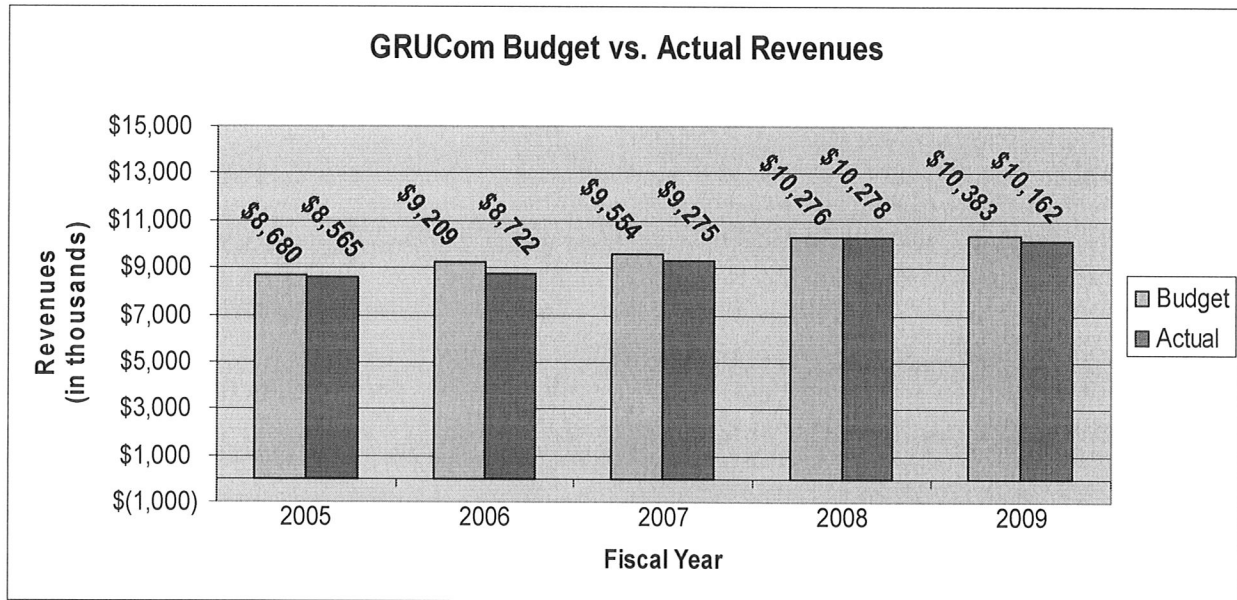
GRUCom’s four basic product lines are Data Transport and Networking, Internet Services, Public Safety Trunked Radio, and Tower and Data Center Co-location Leasing.

- Data Transport and Networking – Multipoint and point-to-point high capacity fiber optic data transmission service.
- Internet Services – Fiber optic business and residential Internet services.
- Public Safety Trunked Radio – Digital radio systems for public and emergency services in Alachua County.
- Tower and Data Center Co-location Leasing – Providing tower space to national wireless carriers and local companies for transmission, as well as leasing co-location space at the GRUCom Central Office.

***GRUCom Operating Revenue History and Major Categories***

GRUCom’s revenue cycle consists of contracted sales, billing accounts and collecting related revenues for each of its four basic product lines. Operating Revenues for fiscal year 2009 were \$10,162,000. Budgeted and actual revenues over the last 5 fiscal years, displayed in Table 1 below, reflect slowing growth in recent years. Fiscal year 2010 Operating Revenues are projected to increase to \$10,975,000.

**Table 1**

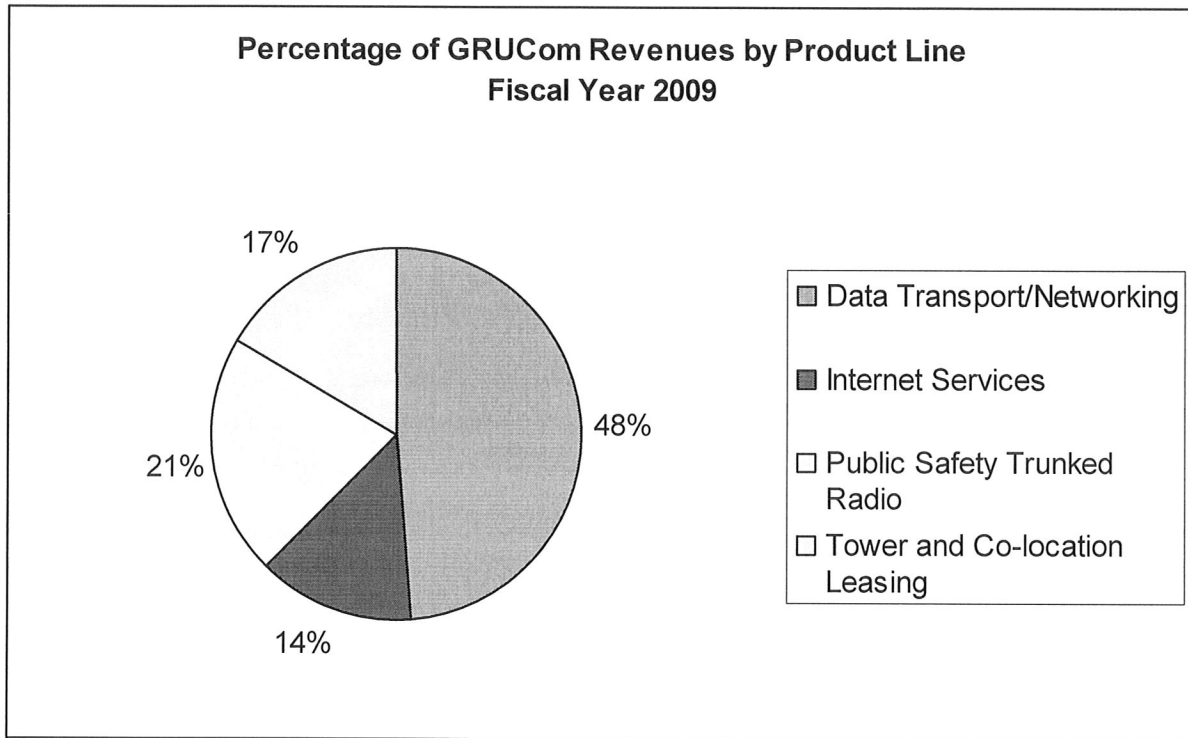


Several factors have contributed to slowing revenue gains from FY08 to FY09:

- Increased competition from large telecom providers, other carriers and local businesses
- Consolidations in the telecommunications industry reducing duplicate tower space leases
- Slowing construction of new condominiums and apartment complexes
- A general downturn in the economy

Table 2 below provides an overview of the percentage breakdown of GRUCom’s major revenue sources during fiscal year 2009. Major revenue sources range from 48% of total revenues for data transport/networking to 14% for Internet services.

**Table 2**



***GRUCom Revenue Cycle***

GRUCom service rates are negotiated on an individual contractual basis. Market price competitiveness, location of existing fiber and the complexity of installation and service delivery are all considered when determining appropriate service rates.

Once contracted, GRUCom performs customer set-up and installation, followed by monthly billing, collections and account monitoring. These duties are facilitated by staff utilizing the following GRU software systems:

- SAP – Accounting and billing system
- CTS – Circuit Tracking System
- GOTS – Order Entry & Tracking System

## ISSUE #1

### Controls Over GRUCom Billing and Collections

#### Discussion

GRUCom customer data, including billing and collections activities, are processed through the Customer Billing Module of SAP known as CCS (Customer Care System). Once a customer contracts with GRUCom for services, staff enters the customer's billing information into CCS. Each customer's services are contractually defined and billing is initiated per the terms of the contract.

Good accounting practices require customer billing and collection functions to be performed timely and accurately. Management controls over the revenue cycle should be adequate to ensure revenues are accurately recorded and monies received for payment are appropriately applied to customer accounts. Employee duties and system access roles should be assigned so that incompatible duties are adequately segregated.

#### *GRUCom Account Reconciliation Process and Resulting Account Balance Adjustments*

During our review, we noted and discussed with management an extensive reconciliation process of GRUCom contracts and related billing initiated by GRUCom staff during 2009. This reconciliation process resulted in a large number of customer account balance adjustments during fiscal years 2009 and 2010, as noted in Table 3 below.

**Table 3 – Annual Adjustments**

<b>Adjustments</b>	<b>Fiscal Year 2008</b>	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2010 (as of 5/31/10)</b>	<b>3-Year Total Increase/(Decrease) in Account Balances</b>
Decreases in Account Balances	\$0	\$ (331,920)	\$ (489,201)	\$ (821,121)
Increases in Account Balances	\$0	\$ 466,618	\$ 296,891	\$ 763,509
Net Increase/(Decrease) in Account Balances	\$0	\$ 134,698	\$ (192,309)	\$ (57,611)

As noted in Table 3, there were no adjustments to telecom account balances during fiscal year 2008. During fiscal years 2009 and 2010 (as of 5/31/2010), there were \$821,121 in telecom account balance decreases processed and \$763,509 in telecom account balance increases processed. Overall, account adjustments for fiscal years 2009 and 2010 reduced customer accounts and resulting GRUCom revenues by \$57,611 as of 5/31/2010. Adjustments to correct account balances were continuing at the completion of our audit fieldwork.

Based on our review, we concur with management that these adjustments resulted from several factors, which include:

- Conversion issues that occurred during implementation of the new CCS billing system;
- Inconsistencies in calculating and notifying tower lessees of periodic rent adjustments;

- GRUCom customer contractual payments sometimes being applied to other utility accounts (i.e. electric) under the same customer name;
- The CCS system applying late fees to GRUCom customers, which are not typically assessed late fees.

### *Controls over Adjustments*

During our review of GRUCom account balance adjustments, we noted that several large adjustments were processed during these periods without formal written documentation of GRUCom management's specific review and authorization. GRUCom management indicated prior awareness and approval of the adjustments.

As a result of these billing inaccuracies, GRUCom employees implemented a process of manually comparing SAP generated customer invoices to an internally generated billing spreadsheet on a recurring basis prior to bills being mailed to customers. If errors are identified, a Senior Analyst within GRUCom creates manual invoices to be mailed to customers rather than the SAP invoices. Additionally, GRUCom employees have become involved in the receipting process, intercepting some cellular PCS providers tower leasing checks prior to deposit to ensure the payments are applied to proper accounts. Generally, GRUCom staff have resorted to utilizing a shadow billing system to track correct billing amounts.

### *Segregation of Duties*

Because GRU bills its traditional utility services based on consumption in arrears, billing for GRUCom "leased" services has caused staff to utilize manual work arounds. Two employees within GRUCom have responsibility for billing telecom customers and sometimes receiving customer payments. In addition, assigned billing system roles for both employees allow them access to adjusting billing amounts. Employees performing key billing and account adjustment duties should not have access to collected monies, such as receiving customer payments in order to reduce the risk of error or fraudulent activity. However, no fraudulent activity was noted during our review.

### **Conclusion**

In our opinion, management controls over the GRUCom billing process need to be improved in order to provide reasonable assurance that customer accounts are accurately and timely billed, collected, recorded and reported. While GRUCom management and staff have undertaken significant efforts to correct customer balances, ensure invoices are accurate prior to mailing and ensure account payments are properly applied, corrections were not completed for all accounts by the end of our review.

Additionally, individual employees should not be placed in a position to perform incompatible duties related to billing, collecting and adjusting GRUCom revenues. The absence of properly segregated duties or oversight controls increases the risk of losses due to undetected theft or errors. However, none were noted during our review.

### **Recommendation**

We recommend management implement the following improvements related to the process of billing and collecting GRUCom revenues:

- Establish written operational procedures to document the processes currently in place for maintaining, reconciling and adjusting GRUCom account balances. Customer account balances



in the accounting system (CCS) should be reconciled to manually maintained spreadsheets periodically to ensure accurate billing and to improve the accuracy of GRUCom financial records. Procedures should require written management approval for all account balance adjustments, or at a minimum, those over an established dollar amount, to ensure they are appropriate.

- Continue to evaluate causes of account balance discrepancies and work with GRU billing and receipting functions to minimize errors in processing GRUCom bills and receipts, allowing GRUCom to eliminate or minimize currently required manual shadow systems and processes.
- Implement procedures to ensure that conflicting billing and collections duties are not performed by employees, or alternatively, implement additional oversight controls within GRUCom billing and collection processes to compensate for the lack of segregated duties.

### **Management's Response**

Management agrees with these recommendations. The need for manual reconciliation has been decreasing, and is currently at a minimal level. Charges, credits and balances will continue to be monitored manually in certain instances until management believes that it is no longer necessary.

A system will be developed whereby management or their designee will approve account balance adjustments above a certain threshold.

Management has already addressed the third recommendation, and moved the collection activities to the cashiering group, which is in another department.

## ISSUE #2

### Policies and Procedures and Cross Training Employees

#### **Discussion**

GRUCom business structure consists of operating highly technical telecommunications/internet networks. The Business Operations and Technical Services Divisions work together to facilitate sales, operations, installation, service, and work management duties. Several current employees assisted with GRUCom's initial development in 1995 and continue to work to identify new product lines and to improve existing infrastructure. Each employee's duties play a pivotal role in daily GRUCom operations.

#### *Documented Policies and Procedures*

During our review, we noted that there is a lack of written policies and procedures documenting key revenue processes including sales, contracting, billing, collections and service. Policies and procedures should exist to document GRUCom's operations. Several functions were being documented by flowchart, but did not include pertinent daily administrative functions. Additionally, employees have not been cross-trained in duties performed by key positions. Several positions are held by employees approaching or exceeding retirement eligibility (25+ years of service).

#### **Conclusion**

Due to GRUCom's unique make-up, well-documented policies and procedures are essential to ensuring effective continuation of GRUCom administrative functions in the event of an emergency. Without these things in place, an employee's prolonged absence or turnover could present short-term disruptions in administrative functions.

#### **Recommendation**

We recommend management establish written administrative policies and procedures, and cross train employees in key administrative functions.

#### **Management's Response**

Management agrees with this recommendation. Due to the small size (3 support staff) and varying responsibilities of this administrative group that supports all GRUCom services, it is difficult to have a great deal of cross training. However, we completed documenting workflows in FY10 and will begin writing policies and procedures for those workflows in FY11. Once this work is completed, we will begin cross training.

## ISSUE #3

### Circuit Database Controls

#### **Discussion**

GRUCom offers a wide variety of telecommunications/internet services to customers. Three hundred fifty miles of fiber optic networks provide digital connectivity throughout Alachua County. Most services offered rely on circuits. Prices for customers' services are partially determined by the number of circuits required to effectively deliver the services.

#### *Circuit Tracking System*

GRUCom tracks active and inactive customer circuits through a Circuit Tracking System (CTS) by assigning a circuit ID to each circuit. The CTS lists customer name, circuit ID, service type, activation date, transmission rate, and monthly billing amounts, among other specifications. Technical Services staff managing the CTS serves as a liaison between administrative and technical staff. Staff schedules installation and work management, including data entry for customer billing and circuit information. At the onset of our audit, management requested we review the Circuit Tracking System.

#### *Audit Testing Results*

Our comparison of active circuits in CTS and on the Billing Spreadsheet revealed that, at the time of our review, GRUCom had accurately recorded and billed circuits. Management communicated that staff corrected exceptions in both systems in the months prior to our review. The differences apparently resulted from breakdowns in communication between administrative and technical staff. Additionally, staff stopped relying on actual billing dollars in CTS due to the differences.

#### **Conclusion**

The CTS serves as a key control to ensure that customer billing reflects actual customer service levels and activity. In the past, differences existed between GRUCom's Circuit Tracking System and the billing source document. GRUCom staff has since successfully reconciled the Circuit Tracking System to its billing source document to more accurately record the status of each circuit ID.

#### **Recommendation**

Management should perform periodic comparisons of these systems to ensure that customers with active circuits are properly billed, and that circuits with terminated billing are disconnected.

#### **Management's Response**

GRUCom no longer uses the CTS system to verify billing records and has not done so for quite some time. However, GRUCom agrees that it is a prudent business practice to periodically review billing records to ensure that all services, including charges for circuits, are being billed appropriately. GRUCom will continue to verify billing by conducting periodic review of contracts and billing records and performing field audits.