

**Timothy M. Keller**  
State Auditor



**Sanjay Bhakta, CPA, CGFM, CFE, CGMA**  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

Memorandum

From: Office of the State Auditor

Re: City of Alamogordo Special Audit of Utility Billing Customer Service  
Department

Date: June 12, 2015

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The Office of the State Auditor (OSA) has redacted certain information from this online version of the City of Alamogordo Special Audit of Utility Billing Customer Service Department. The redactions consist of private utility customer information and the proper names of individuals discussed in the report. The redaction in this online release is made for the purpose of bringing the report in line with the OSA's best practices.



**Timothy Keller**  
State Auditor

**Sanjay Bhakta**, CPA, CGFM, CFE, CGMA  
Deputy State Auditor

**State of New Mexico**  
**OFFICE OF THE STATE AUDITOR**

May 27, 2015

Agency 6002

Susie Galea, Mayor  
City of Alamogordo  
1376 East 9<sup>th</sup> Street  
Alamogordo, NM 88310

SUBJECT: Special Audit of Customer Service Utility Billing Department—City of Alamogordo -  
Prepared by Hinkle and Landers, P.C.

Dear Mayor Galea:

The special audit report for your agency was received by the Office of the State Auditor (Office) on May 26, 2015. The State Auditor's review of the report required by Section 12-6-14 (B) NMSA 1978 and 2.2.2.15(E) NMAC has been completed. This letter is your authorization to make the final payment to the independent public accountant (IPA) who contracted to perform your agency's special audit.

Pursuant to Section 12-6-5 NMSA 1978, the special audit report does not become public record until five days after the date of this release letter. We have received your waiver request and will waive the five day period. The body of the report as delivered to the Office contains customer names and addresses. In addition several supporting documents containing customer names and addresses were also included. The Office will redact the names within the body of the report and will remove the supporting documents before making the report publicly available on the Office website. The special audit report is officially released to the City of Alamogordo and the IPA.

It is ultimately the responsibility of the governing authority of the agency to take corrective action on all findings and comments. If you are required to present the audit report at a public meeting please provide notice of the date and time of the meeting to our office.

Thank you for your efforts to combat fraud, waste, and abuse in government.

Sincerely,

A handwritten signature in black ink that reads "Timothy Keller".

Timothy Keller  
State Auditor

cc: Hinkle and Landers, P.C.



# HINKLE + LANDERS

Certified Public Accountants + Business Consultants

**CITY OF ALAMOGORDO  
SPECIAL AUDIT OF  
UTILITY BILLING  
CUSTOMER SERVICE  
DEPARTMENT**





**SPECIAL AUDIT OF CUSTOMER SERVICE UTILITY BILLING DEPARTMENT**

The Honorable Mayor and  
City Commissioners of the City of Alamogordo  
Alamogordo, New Mexico

and

Tim M. Keller, New Mexico State Auditor  
Office of the State Auditor

As requested by the City of Alamogordo's City Manager, we have performed a special audit of the Customer Service Utility Billing software.

This audit was a limited scope investigation for the City of Alamogordo to address certain allegations and areas of concern. Our work was performed on a test basis and does not provide assurance of detecting fraud, errors or noncompliance with laws. The City of Alamogordo is responsible for implementing policies and procedures to detect and prevent fraud.

This report was prepared based on a variety of sources of information such as interviews with selected staff members of the City of Alamogordo and a walk-through of the utility billing customer service software program. We also requested queries from the City's MIS department and reviewed selected customer account information as well as publicly accessible information. Collectively this information helped us reach the findings and conclusions outlined in this report.

We reserve the right to amend or supplement this report if additional information should come to our attention. This report is solely for the use of the City of Alamogordo's City Commissioners and Management and should not be used by any other party or for any other purpose.

It should be noted that fraud, by nature, is often hidden. We have not reviewed all of the City of Alamogordo's utility customer service billing transactions. As part of our conclusions in this report, we recommend an expanded scope of testing be conducted.

*Hinkle & Landers, P.C.*

Hinkle + Landers, P.C.  
Albuquerque, NM  
April 16, 2015

**Finding #1—Finalizing Accounts**

**Statement of Condition**

As part of our interviews and walk-through of the software system, we identified that the Utility Billing software allows a user of the system to close a customer’s account without billing the customer any charges even if there was water consumption. This is called “finalizing” the account. We queried all transactions in which this closing of the account occurred by all users in the system for the period October 2011 through April 2014. During our review, only user [REDACTED] finalized an account when consumption occurred.

Transactions where [REDACTED] executed the “finalizing” process and where there was consumption by the customer that was not billed is as follows:

#	Customer Name	Location #	Customer Number	Location Address	"Finali- zation" Date	Amount that should have been charged
1	[REDACTED]	8412	58625	[REDACTED]	8/12/2009	\$ 121.81
2	[REDACTED]	11316	61371	[REDACTED]	3/3/2011	25.62
3	[REDACTED]	7860	93335	[REDACTED]	11/28/2012	66.09
4	[REDACTED]	5024	95485	[REDACTED]	12/18/2012	67.80
5	[REDACTED]	11304	90823	[REDACTED]	1/11/2013	108.63
6	[REDACTED]	11248	95051	[REDACTED]	5/6/2013	89.13
7	[REDACTED]	11574	97315	[REDACTED]	5/29/2013	99.71
8	[REDACTED]	16642	82819	[REDACTED]	5/31/2013	85.08
9	[REDACTED]	14116	19511	[REDACTED]	9/10/2013	210.68
10	[REDACTED]	14092	97565	[REDACTED]	10/7/2013	70.02
11	[REDACTED]	14004	58461	[REDACTED]	10/5/2010	2,536.19
						\$ 3,480.76

The column identified as “Amount that should have been charged” appears to be lost revenue to the City, since that amount was not charged to the customers. Exhibit 1 shows the amount was manually calculated for the customers noted above.

**Criteria**

The utility billing software’s ability to finalize a customer’s bills should only be used in limited situations that is consistent with The City’s rules and regulations related to utility billing.

**Effect**

Improper use of the “finalizing” billing process appears to have resulted in lost revenue to the City.

**Cause**

Proper controls over the ability to finalize billing in the utility software have not been designed and implemented.

**Recommendation**

We recommend that proper controls over the ability to post adjustments to customer billings be designed and implemented.

**Finding #2—Transfer of Customer Account Balances**

**Statement of Condition**

The Utility Customer Service Manager, [REDACTED] completed the following transactions:

11/05/08 Name change in the utility billing system from [REDACTED] [REDACTED]

11/05/08 Credit balance transfer of \$214.20 transferred as follows:

From: Customer ID [REDACTED]  
Address: [REDACTED]  
Location ID [REDACTED]

To: Customer ID [REDACTED]  
Address: [REDACTED]  
Location ID [REDACTED]  
By: [REDACTED]

Based on review of the above transactions, it appears that the Utility Customer Service Manager, [REDACTED] is the owner of the residence that received the credit balance transfer. The customer name was changed from [REDACTED] to [REDACTED] before the credit balance was transferred.

The first issue appears to be a conflict of interest for the Utility Customer Service Manager since he appears to be authorizing a credit transfer to himself.

The second issue is there does not appear to be any logical reason or documentation why [REDACTED] balance should be transferred to a residence owned by [REDACTED]

The parcel data provided below from the Otero County Assessor’s office shows that 2617 18<sup>th</sup> Street is owned by [REDACTED] This record was pulled on March 5, 2015.

Otero County Assessor Parcel Data

Property Search Owner Info Property Description Photos Sketches Mobile Homes Maps Print

Ortega, armando

Your search will include all fields checked. Remove checks if you wish to narrow the returned record results.

Search By: Property Address  Owner ID  Previous ID   
 Owner Name  Legal Description  Account #   
 House #  Neighborhood  Mailing Address

Owner Name	House No	Property Address	Legal Desc	Neighborhood	Owner Mailing Address
ORTEGA, ARMANDO F & LETICIA R	2617	2617 18TH ST	Subd: HEIGHTS ABCD Lot: LT 20 E47.5', LT 21 W15 Block: 36	A15	2617 18TH ST ALAMOGORDO, NM 88310

**Criteria**

The utility billing software’s ability to transfer a customer’s account balance should only be used in limited situations that is consistent with The City’s rules and regulations related to utility billing.

**Effect**

Improper use of the transferring of a customer's account balance appears to have resulted in lost revenue to the City.

**Cause**

Proper controls over the ability to finalize billing in the utility software have not been designed and implemented.

**Recommendation**

We recommend that proper controls over the ability to post adjustments to customer billings be designed and implemented.

**Finding #3-Ethical Conduct**

**Statement of Condition**

During our investigation we interviewed [REDACTED] the Utility Billing Supervisor, [REDACTED] reported that [REDACTED] representing Zenner USA, (a vendor of the City) which installs radio meter read equipment for the City's utility department, offered Dallas Cowboys tickets to [REDACTED] and [REDACTED]. She explained that City employees are prohibited from accepting gifts from vendors. The representative from Zenner USA explained that [REDACTED] had accepted Dallas Cowboys tickets from them in the past.

Attached is Exhibit 2, a signed statement from [REDACTED] attesting to this conversation between her and [REDACTED].

**Criteria**

Under the City of Alamogordo's Code of Ordinance, 2-13-280. Ethical Conduct part (b) states

"It shall be unlawful for any person to offer, give, or agree to give any employee or former employee, or for any employee or former employee to solicit, demand, accept, or agree to accept from another person, a gratuity or an offer of employment in connection with any decision, approval, recommendation, preparation or any part of a program requirement or a purchase request, influencing the content of any specification or purchasing standard, rendering of advice, investigation, auditing, or in any other advisory capacity in any proceeding or application, request for ruling, determination, claim or controversy, or other particular matter, pertaining to any program requirement or a contract or subcontract, or to any solicitation or proposal therefore. It shall be unlawful for any payment, gratuity, or offer of employment to be made by or on behalf of a subcontractor under a contract to the prime contractor or higher tier subcontractor or any person associated therewith, as an inducement for the award of a subcontract or order.

**Effect**

Based on the information identified in the "Statement of Condition", there appears to be a violation of the City's Code of Ordinance, 2-13-280. Ethical Conduct part (b).

**Cause**

Based on the information identified in the "Statement of Condition", there appears to be a solicitation and acceptance of a gratuity.



**Recommendation**

We recommend that City's Code of Ordinance, 2-13-280. Ethical Conduct part (b) be enforced. Also, we recommend that the language in this ordinance be included in a conflict of interest policy given to City personnel that should be signed and collected on an annual basis.

**Finding #4—Cancelling of Customer Bills****Statement of Condition**

As part of our interviews and walk-through of the software system, we identified that the Utility Billing software allows a user of the system to cancel a bill. The user may then choose to rebill a customer at a different rate or not bill the customer at all.

We requested from the City's MIS department to query all transactions in which a "cancel bill" was executed. MIS identified that the software system had 3,253 cancel bill transactions from 1993 to present (April 10, 2015). 428 of these transactions occurred in 2012 and 2013. We selected 11 samples from the population of 428. 8 samples selected had [REDACTED] as the user cancelling the bill in HTE. 3 samples selected were other users of the HTE system.

We selected our samples by haphazardly picking samples from the population. Haphazard sampling allows the selection of items at random but is not based on any defined statistical formula.

As part of our review of the 11 samples selected, we looked at:

- the total charges posted to each customer's account
- the total amounts adjusted
- and the total amounts charged.

The explanation "misread" was given as the reason for the cancellation (adjustment) of each of the customer bills. In all cases reviewed, the meter was replaced or was not currently available to verify if there was actually a misread. Meters should not be replaced if there is a misread, since that type of error does not indicate that there is anything wrong with the meter. Keeping the meter is important since it would provide evidence that there was a misread error. Meters are typically exchanged only when it is believed that the meter is faulty.

For sample #1, [REDACTED] we examined the service order for meter replacement which was completed by [REDACTED] Utility Billing Technician. The service order was found with the meter reading scratched out and replaced with a different number. Upon interviewing Mr. [REDACTED] he has stated that he did not cross out and replace the reading.

Attached is Exhibit 3, the service order along with a signed statement from [REDACTED] attesting he did not alter the service order or cross out and replace the meter reading with a new number that matches what was adjusted in the utility billing software system.

Because there was no evidence or support provided for the "misreads" and in most cases the meters were then replaced, it appears that the cancellation of the bills were not justified and constitute a loss of revenue to the City. It is also reasonable to reach the conclusion that the bills were adjusted for some other reason than a misread and that the meters were replaced to cover up the fact that there was not a meter misread. If the meters were available for review it could be determined whether or not there truly was a misread of the meter.

The following page shows two tables. In Table 1, bill/rebill adjustments completed by Armando Ortega summarizes the results of charges, adjustments and the difference between the amount paid and the amount charged, which we are using to estimate the loss of revenue. In Table 2, bill bill/rebill adjustments completed by other utility staff members summarizes the results of charges, adjustments and the difference between the amount paid and the amount charged and the support for these explains why the bill was adjusted.

The page following the tables are details related to explain the chain of events related to the adjustment of the customer's bill and the conclusion related to the occurrences.

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**Table 1: Bill/Rebill Adjustments Completed By Armando Ortega**

#	Customer Name	Customer Number	Location Address	Comments	Total Charges	Total Adjustments	Total Payments and Transfers	Difference Between Payment and Charge
1	[REDACTED]	1259	[REDACTED]	Owner of Gas Stations	3,789.25	(2,970.91)	(807.82)	\$ 2,981.43
2	[REDACTED]	20089	[REDACTED]	Owner of Taiwan restaurant	2,489.27	(437.68)	(2,045.94)	443.33
3	[REDACTED]	2588	[REDACTED]	Owner of Taiwan restaurant	1,678.83	(855.46)	(705.42)	973.41
4	[REDACTED]	6505	[REDACTED]	Mother of Girlfriend	2,352.27	(480.70)	(1,871.57)	480.70
5	[REDACTED]	35767	[REDACTED]	Owner of Margo's restaurant	15,174.19	(2,570.36)	(12,649.41)	2,524.78
6	[REDACTED]	79515	[REDACTED]	Restaurant	9,247.25	(6,017.17)	(3,371.92)	5,875.33
7	[REDACTED]	93657	[REDACTED]	Owner of Lane Plumbing	2,404.39	(523.41)	(1,880.98)	523.41
8	[REDACTED]	70467	[REDACTED]	Appears to be Rental	2,322.72	(276.45)	(2,127.12)	195.60
								<u>\$ 13,997.99</u>

Please refer to Exhibit 3, which contains the account billing history for the period of time January 1, 2012 through December 31, 2014 and consumption report for the same period of time.

**Table 2: Bill/Rebill Adjustments Completed By Other Utility Staff Members**

#	Customer Name	Customer Number	Location Address	Comments	Total Charges	Total Adjustments	Total Payments and transfers	Difference Between Payment and Charge
1	[REDACTED]	69271	[REDACTED]	Misread	13,217.99	(615.75)	(12,883.42)	334.57
2	[REDACTED]	97551	[REDACTED]	Renter not resp. for inactive consumption	1,988.89	(1,535.42)	(403.70)	1,585.19
3	[REDACTED]	82997	[REDACTED]	Readjusted sewer consumption, customer leak	1,048.16	(192.65)	(926.63)	121.53
								<u>2,041.29</u>

1. [REDACTED]
  - 10/01/13: appears to be high consumption relative to prior months per reading 10/11/13, code indicates that water was turned off by someone other than City representatives.
  - 11/01/13 City meter reader coded in HTE indicates that no leak was found
  - 12/03/13 Service order for replacement of meter. Identification of the current meter read on 12/03/13 was an amount that matches what is in HTE, but was scratched out to match an amount adjusted by [REDACTED] in HTE. The Utility Billing Technician stated that he did not cross out and replace the meter reading.
  - Explanation for bill cancel and rebill is meter misread

**Identified in Exhibit 4**

- Adjustments to customer's consumption account
- Meter was replaced
- Customer bill cancelled and rebilled

**Conclusion**

Documentation in HTE and service order does not support a meter misread. When there is a meter misread, the meter should not be replaced because the City would want to preserve the audit trail that the meter provides. Consumption of water appears to have occurred but was not properly billed. One explanation for why the meter was replaced is to remove the ability to confirm the accuracy of consumption compared to what was billed in HTE.

2. [REDACTED]
  - 6/03/13: large consumption was noted for customer.
  - 6/25/13: Leak test service order was requested, City meter reader coded in HTE indicates that no leak was found.
  - Explanation for bill cancel and rebill is possible meter misread and consumption was adjusted to lower tiers to reduce billing.

**Identified in Exhibit 4**

- Adjustments to customer's consumption account spread to lower tiers
- Customer bill cancel and rebill at lower tier rates.

**Conclusion**

Documentation in HTE and service order does not support a meter misread. There was no service order on file to verify that the meter was read. Customer has two accounts (see second account below both received adjustments during the same time period. Consumption per the meter will match what was recorded in HTE, because the consumption was adjusted against lower tiers to reduce the bill, but consumption amounts were not changed.

3. [REDACTED]

- 7/15/13: large consumption was noted for customer.
- 7/15/13: Emergency Turnoff was coded in HTE as the meter was spinning and there was large consumption.
- 8/22/13: Change service order indicates that a recheck of the meter and a leak test occurred. No documentation of result of the leak check was found.
- Meter was replaced.

**Identified in Exhibit 4**

- Adjustments to customer's consumption account
- Meter was replaced.
- Customer bill cancel and rebill at lower tier rates

**Conclusion**

Emergency Turnoff and other documentation in HTE does not support a meter misread. Documentation in HTE does not support a meter misread. When there is a meter misread, the meter should not be replaced because the City would want to preserve the audit trail that the meter provides. There was no service order on a read verification found. One explanation for why the meter was replaced is to remove the ability to confirm the accuracy of consumption compared to what was billed in HTE.

4. [REDACTED]

- 8/16/13: Documentation in HTE and indicates that the customer was made aware of an issue with her water consumption that will probably result in a higher water bill.
- Meter was replaced

**Identified in Exhibit 4**

- Adjustments to customer's consumption account
- Meter was replaced
- Customer bill cancelled and rebilled

**Conclusion**

No work orders have been identified related for this customer during the time of adjustments. When there is a meter misread, the meter should not be replaced because the City would want to preserve the audit trail that the meter provides. No explanation why there was a rebill and the meter was then replaced. One explanation for why the meter was replaced is to remove the ability to confirm the accuracy of consumption compared to what was billed in HTE.

5. [REDACTED]

- 7/19/13 identifies that water consumption was high
- 8/22/13 identifies that water consumption was high

- 09/27/13 Change service order notes that the customer’s maintenance man stated he replaced a water line and wanted to make sure that the leak was repaired.
- Billing is missing for September and October 2013 in HTE, estimated loss of revenue for non-billing is approximately \$250
- Cancel bill/rebill documented as a result of a “misread”
- Meter was replaced.

**Identified in Exhibit 4**

- Adjustments to customer’s consumption account
- Meter was replaced
- Customer bill cancelled and rebilled

**Conclusion**

Documentation does not support the need to cancel bill and rebill based on a misread. There is documentation that the customer had a leak. There does not appear to be any explanation on why the meter was replaced, but there is now no audit trail to determine if consumption was correct. One explanation for why the meter was replaced is to remove the ability to confirm the accuracy of consumption compared to what was billed in HTE.

**6.** [REDACTED]

- 12/21/12 Change service order identifies that customer requests a leak test. Customer was unaware of any leaks. Meter was registering and read at 538900.
- No leaks were identified, but water consumption was confirmed per service call.
- Cancel bill/rebill documented as a result of a “misread”
- Meter was replaced.

**Identified in Exhibit 4**

- Adjustments to customer’s consumption account
- Meter was replaced
- Customer bill cancelled and rebilled

**Conclusion**

Documentation does not support the need to cancel bill and rebill based on a misread. When there is a meter misread, the meter should not be replaced because the City would want to preserve the audit trail that the meter provides. No explanation why there was a rebill and the meter was then replaced. One explanation for why the meter was replaced is to remove the ability to confirm the accuracy of consumption compared to what was billed in HTE.

**7.** [REDACTED]

- No billing occurred for the months of December, 2012 through April, 2013. Estimated loss of revenue is approximately \$271 for the 5 months.

- There are no explanations or documentation for the “misread”
- Meter was replaced.

**Identified in Exhibit 4**

- Adjustments to customer’s consumption account
- Meter was replaced
- Customer bill cancelled and rebilled

**Conclusion**

Documentation does not support the need to cancel bill and rebill based on a misread. When there is a meter misread, the meter should not be replaced because the City would want to preserve the audit trail that the meter provides. No explanation on why billing did not occur between December, 2012 through April, 2013 and no explanation why there was a rebill and the meter was then replaced. One explanation for why the meter was replaced is to remove the ability to confirm the accuracy of consumption compared to what was billed in HTE.

8. [REDACTED]

- 7/19/12 Change service order from City had meter locked.
- 7/21/12 initial read took place
- 8/21/12: large consumption was noted for customer.
- Consumption was spread out to lower tier charge rates in August and September, 2012
- Consumption was spread to lower tiers.
- No meter was replaced

**Identified in Exhibit 4**

- Adjustments to customer’s consumption account
- Customer bill cancelled and rebilled

**Conclusion**

Documentation does not support the need to cancel bill and rebill to lower tiers based on the explanation of correction of the initial meter read. Consumption per the meter will match what was recorded in HTE, because the consumption was adjusted against lower tiers to reduce the bill, but consumption amounts were not changed.

**Bill/Rebill Adjustments Completed By Other Utility Staff Members**

1. [REDACTED]

- Negative reading was identified by the meter reader, which indicates a misread
- Bill/rebill was completed based on identification of misread. Rebill appeared accurate based correction.

**Identified in Exhibit 4**

- Adjustments to customer's consumption account
- Customer bill cancelled and rebilled

**Conclusion**

Documentation supports the need to cancel bill and rebill to lower tiers based on the explanation of the misread.

2. [REDACTED]

- 3/15/13 through 06/10/13 Location was consuming relatively large amounts of water.
- New tenant of residence provided lease agreement [need date] to indicate that she was not responsible for water consumption prior to the lease date.
- No one was charged for the significant amount of water consumption from 3/15/13 through 6/10/13.
- There was also a gap of time from November 19, 2012 to March 15, 2013 where water was consumed but was not charged to anyone.

**Identified in Exhibit 4**

- Adjustments to customer's consumption account
- Customer bill cancelled and rebilled

**Conclusion**

Documentation supports the need to cancel bill related to the new tenant. It appears that the water consumption should have been charged to the owner of the residence, since the landlord is responsible for the consumption but this was not done.

3. [REDACTED]

- Sewer consumption was rebilled and was adjusted based on lower rates as is consistent with the City's policy when documentation is provided by customer for the repair of the leak.

**Identified in Exhibit 4**

- Adjustments to customer's consumption account
- Customer bill cancelled and rebilled

**Conclusion**

Documentation supports the need to cancel bill and rebill to a lower cost based on the explanation and support of a customer leak. .



**Criteria**

The utility billing software's ability to cancel a customer's account should only be used in limited situations that is consistent with The City's rules and regulations related to utility billing.

**Effect**

Improper use of the "cancel bill" function appears to have resulted in lost revenue to the City.

**Cause**

Proper controls over the ability to cancel billing in the utility software have not been designed and implemented.

**Recommendation**

We recommend that proper controls over the ability to post adjustments to customer billings be designed and implemented.