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May 4, 2009

Renee J. Jenkins  
Director of Administration  
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Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus, Ohio 43266-0573

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2009 MAY -4 PM 2:56  
PUCO

Re: Exhibits to Supplement to NOI  
Ohio Department of Development  
Case No. 08-658-EL-UNC


Dear Ms. Jenkins:

On April 15, 2009, the Ohio Department of Development ("ODOD") docketed its Supplement to the June 2, 2008 Notice of Intent in the above-referenced proceeding. The Supplement set out ODOD's conclusions with respect to the reports of the results of Schneider Downs' application of agreed-upon procedures designed to test the accuracy and timeliness of the PIPP-related accounting and reporting practices of Columbus Southern Power Company and Ohio Power Company (collectively, "AEP"), and Duke Energy Ohio ("Duke").

Although the Supplement indicates that the Schneider Downs' reports were attached Exhibits A and B thereto (Supplement, 4), it has come to ODOD's attention that the reports were not actually attached to the Supplement as filed. Accordingly, enclosed for filing are an original and fifteen copies of Exhibits A and B to the Supplement containing the Schneider Downs' reports for AEP and Duke, respectively.

Thank you for your attention to this matter.

Sincerely,

  
Barth E. Royer  
Attorney for ODOD

cc: All parties of record

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SUPPLEMENT TO NOI  
CASE NO. 08-658-EL-UNC

EXHIBIT A

RECEIVED-DOCKETING DIV  
2009 MAY -4 PM 2:56

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**THE OHIO DEPARTMENT OF DEVELOPMENT**  
Columbus, Ohio

**Independent Accountants' Report  
on Applying Agreed-Upon Procedures**

**For the years ended December 31, 2007 and 2006**

**AEP Companies**



INSIGHT • INNOVATION • EXPERIENCE

## INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES

The Ohio Department of Development  
Columbus, Ohio

We have performed the procedures enumerated in Appendix A, which were agreed to by the Ohio Department of Development (ODOD), solely to assist the ODOD in evaluating the responsible party, the AEP Companies, Columbus Southern Power and Ohio Power (hereafter, AEP), collection and reporting activities for the calendar years ended December 31, 2007 and 2006, as it relates to AEP's responsibilities as a participating utility company in the Percentage of Income Payment Plan (PIPP) program and its obligations as described in the *UNIVERSAL SERVICE FUND AGREEMENT OF UNDERSTANDING* contract, effective September 1, 2000, executed between ODOD and AEP pertaining to Section 4928.51 of the Ohio Revised Code.

Our understanding is that AEP's management is responsible for compliance with the requirements of the PIPP program and the *UNIVERSAL SERVICE FUND AGREEMENT OF UNDERSTANDING* contract; and the ODOD is responsible for approving PIPP eligibility and communicating such information to AEP.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office of the United States. The sufficiency of the procedures in Appendix A is solely the responsibility of the ODOD. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix A, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Ohio Department of Development and is not intended to be and should not be used by anyone other than that specified party.

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
July 29, 2008

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**THE OHIO DEPARTMENT OF DEVELOPMENT**  
**AEP COMPANIES**  
**SAMPLING METHODOLOGY**

**Sampling Terminology**

The description of certain of the agreed-upon procedures set forth herein refers to data samples identified by "haphazard" selection. Paragraph 3.26 of Chapter 3 of the American Institute of Certified Public Accountants' Audit and Accounting Guide on Audit Sampling defines a "haphazard sample" as follows:

A haphazard sample consists of sampling units selected without any conscious bias, that is, without any special reason for including or omitting items from the sample. It does not consist of sampling units selected in a careless manner; rather, it is selected in a manner that can be expected to be representative of the population.

The description of certain of the agreed-upon procedures described refers to data samples identified by "random" selection. Paragraph 3.22 of Chapter 3 of the American Institute of Certified Public Accountants' Audit and Accounting Guide on Audit Sampling describes "random sampling" as follows:

The practitioner may select a random sample by matching random numbers generated by a computer or selected from a random-number table with, for example, document numbers. With this method every sampling unit has the same probability of being selected as every other sampling unit in the population, and every combination of sampling units has the same probability of being selected as every other combination of the same number of sampling units.

In developing the respective program steps, consideration was given to the sampling approach that would most efficiently and effectively accomplish the test procedures. In arriving at the intended sampling methods and sample sizes, the intent was to propose a level of testing that would enable the ODOD a basis upon which to conclude on the results of the testing. With respect to the use of sampling, the risk always exists that conclusions drawn from the results of the testing might be different had the entire population been tested (i.e., sampling risk).

After consulting with Schneider Downs regarding factors to be considered in determining sample size, ODOD determined that a statistical sample that would produce a 95% confidence level, a 2% tolerable error rate, and an expected error rate of zero would be appropriate for purposes of these Procedures #8 and #11. Schneider Downs applied these criteria to the population of PIPP customers provided by ODOD, and advised ODOD that this analysis yielded an indicated sample size of 149. The population for these procedures consisted of PIPP accounts for both Columbus Southern Power and Ohio Power and the sample includes randomly selected accounts from both companies.

## **I. ODOD Customer File Uploads at the electric distribution utility (EDU)**

**Activity:** Receiving and processing the ODOD files transmitted to the EDU for both adding and removing PIPP customers from the PIPP program.

**Risk:** Uploads sent from the ODOD to the EDU are not properly received and recorded at the EDU.

### Procedure #1

Haphazardly select a sample of 12 ODOD upload files covering both 2006 and 2007 (10 new PIPP account files and 2 removed PIPP account files) and trace through to evidence at the EDU that the files were loaded when received.

### Results:

We haphazardly selected 12 ODOD upload files (10 new PIPP accounts from the ODOD upload files and 2 removed PIPP accounts from the ODOD drop files) covering both 2006 and 2007. We traced the upload file dates to AEP's internal upload reports to ensure that they were loaded when received.

We observed that the 10 new PIPP account files had been uploaded at AEP by the following business day.

We found that the removed PIPP account file from 2006 entitled "0240303.txt" was posted by ODOD on March 3, 2006, but was never retrieved by AEP. As a result, the file was never processed by AEP.

We found that the removed PIPP account file from 2007 entitled "024200704306001.txt" was posted by ODOD on April 30, 2007. The file was retrieved by AEP on May 1, 2007 and processing of the file was completed on May 25, 2007. AEP's procedure with the removed files is to wait a billing period before processing those files, to allow customers time to receive all notification letters from ODOD.

### Procedure #2

Haphazardly select a sample of 12 ODOD upload files from November 1, 2006 to December 31, 2007. Determine that confirmation reports were submitted by the EDU to the ODOD for each upload file selected.

### Results:

We haphazardly selected 12 ODOD upload files from November 1, 2006 to December 31, 2007, and verified through inquiry with the ODOD that confirmation reports had been submitted to ODOD when the upload files were processed by AEP. No exceptions were noted.

### Procedure #3

Randomly select a sample of 5 accounts (total sample of 60) from each of the 12 ODOD files selected in Procedure 1 (both adds/removes) and trace to inclusion on the EDU's system by viewing customer account histories on the EDU's customer information system. Determine that the account reclassifications were performed timely and accurately per information contained in the customer account history on the EDU's customer information system.

AGREED-UPON PROCEDURES  
AEP COMPANIES

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Results:

We randomly selected a sample of 5 accounts from each of the 12 ODOD files that were selected in Procedure #1, and traced the sample into AEP's PIPP History List in its customer information system. We observed that 40 of the 60 account reclassifications had been processed accurately by AEP in accordance with the ODOD file by the following business day. AEP stated the following information relating to processing the upload files:

When AEP processes an upload file, the system generates an "accepts" report and a "rejects" report. The "rejects" report contains the accounts that could not be enrolled or reverified electronically on PIPP due to various reasons. Some of the reasons include: incorrect account number, budget billing, deposit or non cash deposit on account, zero or credit account balance, outdoor light on account, invalid account status, etc. AEP personnel will review each one of these records and enter the ODOD information manually after the condition has been corrected. If an incorrect account number was sent on the file, AEP will attempt to locate the customer by address or social security number to enter the updated PIPP information.

We found 5 accounts posted on 3/3/06 in the annual PIPP removal file that were never retrieved or processed by AEP (See Procedure #1).

We found 5 accounts posted on 4/30/07 in the annual PIPP removal file that were processed by AEP on 5/25/07 (See Procedure #1).

We found 1 account posted on 3/27/06 that was originally rejected because of an outstanding security deposit. The PIPP status change was processed on 3/29/06.

We found 1 account posted on 7/11/06 that was rejected because the account was final as of 1/11/06. Therefore, the account reclassification could not be processed.

We found 1 account posted on 7/11/06 as a reverification that was originally rejected because the customer had not been reverified since 2000. After investigation of the rejection, the reverification was not processed and the customer was made inactive on 7/13/06.

We found 1 account posted on 9/15/06 that was originally rejected because of an invalid account number in the upload file. After investigation, an account reclassification was processed for the customer on 10/24/06.

We found 1 account posted on 12/18/06 that was originally rejected because the customer was already on an AEP-sponsored payment assistance plan. The account reclassification was processed on 1/3/07 after the customer was removed from the AEP payment plan.

We found 1 account posted on 12/18/06 that was originally rejected because the customer did not have active service setup at that time. The account reclassification was processed on 1/4/07 when the customer activated service.

We found 1 account posted on 1/3/07 that was originally rejected because the name on the ODOD file was different from the name on the account. The account reclassification was processed on 1/5/07, after investigation.

We found 1 account posted on 1/3/07 that was originally rejected because the customer was already on an AEP-sponsored payment assistance plan. The account reclassification was processed on 1/8/07 after the customer was removed from the AEP payment plan.

**AGREED-UPON PROCEDURES**  
**AEP COMPANIES**

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We found 1 account posted on 5/7/07 that was originally rejected because the customer was in the third year of the PIPP Arrearage Crediting (PAC) program on that date. The reclassification was never processed, and the customer remained on PAC.

We found 1 account posted on 11/26/07 that was originally rejected because the customer had an outstanding security deposit. The PIPP status change was processed on 1/8/08.

**II. EDU Monthly Reporting and Remittances to ODOD**

**Activity:** Filing of the Universal Service Fund Monthly Report and Remittance (USF-301-XX) with the ODOD

**Risk:** Under remitting USF payments to the ODOD

**Procedure #4**

From the source documents (301 reports on file with the ODOD), haphazardly select a sample of 8 reports (4 for Ohio Power and 4 for Columbus Southern Power with 2 from each reporting year) and perform the following:

- a. Agree all information recorded on the report to supporting documentation held at the EDU.
- b. Trace amount to be remitted per the reports tested through to the EFT sent to ODOD.

**Results:**

- a. We haphazardly selected a sample of 8 USF-301-02 reports in accordance with the above procedure. For each USF-301-02 selected, we agreed all the information recorded on the forms to supporting documentation at AEP. There were no exceptions noted. We discovered that AEP does not complete lines A-D, F, and I of Section IV of the reports. AEP stated the following:

AEP was not able to comply with the original definition of an arrearage. Recently a new definition has been offered by ODOD that AEP can comply with. The new definition describes an arrearage as "the aggregate of all amounts owed by customers enrolled in the PIPP program." Computer programming is underway and will be implemented to be able to report the PIPP activity in a format that can be used to complete Section IV.

- b. We traced the total amount of the EFT remittance (I.L.D. of form USF-301-02) by AEP for each USF-301-02 report selected to revenue reports we received from the ODOD. There were no exceptions noted.

**Procedure #5**

Obtain the fourth quarter Customer Information Reports (CIR) for each EDU for 2006 and 2007 and perform the following:

- a. Agree all of the information to supporting documentation held at the EDU.
- b. Agree the information to the respective months' 301 and 302 reports filed by the EDU.



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**Results:**

- a. We were unable to agree the elements on the CIRs to supporting documents held at the EDU. AEP stated the following information:

The CIR data is prepared via query of the CIS (MACSS) tables after the last monthly billing cycle (cycle 21) each month. This procedure was originally established as a means to report monthly data for the OSCAR report consistent with other AEP "credit" reports – those reports that are used to monitor customer delinquencies and collection activity.

- b. We were unable to agree the Electric Customer Payments, Electric Other Payments, and Cumulative Electric Arrearage on the CIRs to the respective months' 301 and 302 reports filed by the EDU. AEP stated the following information:

The 301 and 302 reports are prepared primarily from revenue month data. The revenue month begins with cycle 01, but goes beyond cycle 21 through the first workday of the following month. The revenue month on the 301 and 302 forms recognizes all customer activity for the month that coincides with AEP's financial statements.

**Procedure #6**

Based on the Kwh billed by customer type captured on the 301 reports selected in Procedure 4, recalculate the projected USF rider funds collected and remitted for the period covered in the reports to the actual USF rider funds collection per the 301 report (Section I - A of the 301 reports). Obtain explanations from the EDU for discrepancies greater than the negotiated uncollectible percentage for the EDU.

**Results:**

We recalculated the projected USF rider funds collected and remitted for the USF-301-02 reports selected in Procedure #4. We compared the recalculated amount to the USF rider funds collected on all customer accounts (II. A. of USF-301-02), and found variances each month ranging from 0.1% to 0.7%. AEP does not apply an estimated uncollectible percentage on its USF remittance. Instead, it remits the funds collected net of actual charge-offs. The variances we found agreed to the actual charge-offs for the respective months with the exception of rounding differences.

**Activity:** Universal Service Fund rider is charged to customers based on rates established for each customer type

**Risk:** Universal Service Fund rider is not properly charged, collected and remitted to the ODO

**Procedure #7**

Randomly select 10 customer accounts from each account type (Residential, Commercial, Industrial, and Other) from the EDU's customer information system (total of 40 accounts to be tested) and perform the following:

- a. Select one billing cycle for each account selected (ensure that 5 billings for each account type are selected from both 2006 and 2007) and recalculate the USF charge on the customer's bill.
- b. Trace the USF charge and Kwh supporting the calculation from the billing cycle tested in step (a) to supporting documentation that ties to both the Kwh and remittance amount reported through the 301 report.

**Results:**

- a. We randomly selected a sample of 10 customer accounts from each account type for a total of 40 sample selections. For each customer account selected, we recalculated the USF charge.
- b. We traced the recalculated USF charge and the Kwh usage for the customers in the billing periods in Procedure #7a, to the respective 301 detail reports. There were no exceptions noted.

**Activity: Collection and Remittance of PIPP Customer Payments**

**Risk: Inclusion of non-eligible accounts in the PIPP program**

**Procedure #8**

Randomly select a sample (expected sample of 149 per EDU) of PIPP customers from the EDU's PIPP customer population covering 2006 and 2007 and agree the inclusion of the customer in the PIPP program to the applicable daily transmission of approved PIPP customers from the ODOD. For each PIPP customer selected verify the following:

- a. Date enrolled into the program per the ODOD upload agrees to the date the customer was reclassified as a PIPP customer in the EDU's system.
- b. PIPP payment amount established per the ODOD approved payment plan (e.g., Standard PIPP, Balanced Payment Plan, One Utility Service Option) agrees to the monthly charge billed the customers by the EDU in the billing period following eligibility per the customer account history on the EDU's customer information system.
- c. For monthly charge tested in (b), trace one PIPP payment through to inclusion in the supporting documentation that supports the remittance of PIPP payments, including agency payments made on behalf of PIPP customers to the ODOD.
- d. Review the customer account history on the EDU's system to identify unapplied prior credits, security deposits and other monies held at time of entry into the PIPP program and determine that such funds were remitted to the ODOD, if applicable.

**Results:**

- a. We randomly selected a sample of 149 PIPP customer accounts identified as active on the 2006 and 2007 fourth quarter Customer Information Reports. For 84 of the accounts selected, we traced the account reclassification in AEP's customer information system to the previous business day's ODOD upload.

We found 24 accounts that had no reclassifications during 2006 or 2007. Therefore, we were not able to trace the pre-2006 reclassification to an ODOD upload file, because those transactions fell outside the date range of these procedures.

We found that 21 of the account reclassifications selected were not included on an ODOD upload file. We noted that these customers moved from one location to another, and that these customers notified AEP directly about the move. We noted that the ODOD is not involved in this process, and, as a result, these customers were not included in the ODOD's upload file.

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We found 5 account reclassifications that did not agree to the date of the ODOD upload file. These account reclassifications were originally processed as rejections because these customers had a status of inactive at the time the upload file was received. All 5 account reclassifications were processed at a later date, after investigation of the rejections.

We found 4 account reclassifications that did not agree to the date of the ODOD upload file. These account reclassifications were originally processed as rejections because these customers were "zero income" customers, and AEP's system is setup to automatically reject all "zero income" customers. We found that the account reclassifications were manually processed at later dates than was the ODOD upload file.

We found 1 account reclassification that did not agree to the date of the ODOD upload file. This account reclassification was originally processed as a rejection because it was on the PIPP Balance Payment Plan (PBPP). We found that the reclassification for this account had to be manually processed at a later date.

We found 1 account reclassification that did not agree to the date of the ODOD upload file. This account reclassification was originally processed as a rejection because AEP was unable to verify the customer's income. AEP had to manually process the reclassification at a later date because the customer's income exceeded the PIPP eligibility income guidelines.

We found 5 account reclassifications for which the ODOD upload file was retrieved and processed two business days after receiving the file.

We found 4 of the account reclassifications that we could not trace to an ODOD upload file. AEP stated the following:

Occasionally, a PIPP account reclassification will be verbally transmitted by the ODOD or by a community action agency.

We were not able to verify with AEP or the ODOD if these 4 account reclassifications had been verbally transmitted.

- b. For 148 of the 149 customers selected, we agreed the ODOD approved payment plan amounts to the monthly charges billed to the customers by AEP.

We found 1 customer account that was on the PIPP Balance Payment Plan (PBPP). We noted that the PIPP amount charged by AEP did not agree to the ODOD approved payment plan because the customer was correctly charged the budgeted amount as required.

- c. From the 149 customer accounts selected, we haphazardly selected one payment made by the customer during 2006 or 2007, and traced the payment through to inclusion in the respective USF-301-02 detail report.

We were able to trace 142 of the 149 customer payments to the respective USF-301-02 detailed listing report without exception.

We found that 7 of the 149 customers did not make any payments during 2006 or 2007.

- d. We found that 100 of the PIPP account reclassifications selected were reverifications, not enrollments. Since these accounts were originally enrolled in PIPP prior to 2006, we were not able to determine if any unapplied prior credits, security deposits or other monies held were remitted to the ODOD.

We found that the remaining 49 customer account reclassifications were PIPP enrollments. 41 of these 49 accounts had no unapplied prior credits, security deposits or other monies at the time of enrollment. 8 of these 49 accounts had outstanding security deposits. The deposits were applied to all 8 of the customers' accounts prior to the processing of the PIPP enrollment.

**Activity:** Collection and remittance of payment from previous PIPP Customer per the Arrearage Crediting Program (12 months and post 2 years payment program schedules)

**Risk:** Failure to remit payments received from prior PIPP customer

Procedure #9

Randomly select a sample of 30 accounts, 15 each from 2006 and 2007, and 15 each from the first year of PAC (PAC 1) and 15 from the third year of PAC (PAC 3) from the detail PAC program files and perform the following as it relates to the EDU's PAC program

- a. Determine that the PIPP customer was reclassified as an inactive customer and removed from the program in the EDU's customer information system.
- b. Select a payment cycle from one of the 12 months that immediately followed the removal from the PIPP program and determine that the payment remained at the ODOD-approved PIPP amount and trace payments through to remittance to the ODOD via the supporting documentation for form 301 section III.B.
- c. If the customer has been on PAC for more than two years, determine that the applicable arrearage payments were re-established in the prior PIPP customer's account, after the account exceeded the 2 year post PIPP period.
- d. Trace collection of arrearage payments to submission to the ODOD for a one month period to the applicable 301 report.

Results:

- a. We randomly selected 30 customers on PAC during 2006 and 2007; 15 each from 2006 and 2007 and 15 from PAC 1 and 15 from PAC 3. For all 30 accounts we verified that the PIPP customers selected were reclassified as PAC customers in AEP's customer information system. No exceptions were noted.
- b. We did not perform this step for the 15 selected accounts on PAC 3 because this step was not applicable to those accounts since the time period for their payments was prior to 2006.

For 15 PAC 1 customers selected in 9a, we selected a payment from one of the 12 months immediately following the removal of the customer from the PIPP program. For 9 of the 15 selected accounts on PAC 1, we found that payments remained at the ODOD-approved PIPP amount and traced each selected payment to the respective USF-301 report detail, and noted no exceptions.

We found that 1 customer enrolled in the PIPP Arrearage Crediting program on 3/22/07, and closed the account on 3/23/07. Per review of the customer's Accounts Receivable History report generated from AEP's customer information system, we noted that no payments had been received from the customer since the account was closed.

We found that 5 customers made no payments in the 12 months immediately following the removal from the PIPP program.

- c. For the 15 customer accounts on PAC 3, we reviewed copies of AEP's Accounts Receivable History, and found that the applicable arrearage payment amounts were re-established in each prior PIPP customer's account for all 15 customers. No exceptions were noted.

We did not perform this step for the 15 customers on PAC 1, because this step was not applicable to those customers as they were not required to make any arrearage payments during 2006 or 2007.

- d. For 10 of the 15 customer accounts on PAC 3 we were able to trace an arrearage payment to the respective USF-301 detail report.

We found that 5 customers made no arrearage payments while on PAC 3.

We did not perform this step for the 15 customers on PAC 1, because this step was not applicable to those customers as they were not required to make any arrearage payments during 2006 or 2007.

### **III. EDU Reimbursement Requests from USF to ODOD**

**Activity:** Filing of the Universal Service Fund Monthly Reimbursement Request for Active PIPP Accounts (USF-302-02) with the ODOD

**Risk:** Overstating the PIPP Reimbursements Requested from the ODOD

#### Procedure #10

From the source documents (302 reports on file with the ODOD), haphazardly select a sample of 8 reports (4 for Ohio Power and 4 for Columbus Southern Power with 2 from each reporting year) and perform the following at the EDU:

- a. Agree all information recorded on the report filed with the ODOD to supporting documentation held at the EDU.
- b. Trace amount to be reimbursed per the 302 reports tested to the ODOD settlement.

#### Results:

- a. We haphazardly selected a sample of 2 USF-302-03 reports from each calendar year for each reporting entity for a total of 8 reports. For each USF-302-03 selected, we agreed all the information recorded on the forms to supporting documentation at AEP. There was one exception noted. Line VII - Total New PIPP Customer Charges on the February 2006 USF 302-03 for Columbus Southern Power did not agree to AEP's supporting documentation because of an error. The error was discovered the next month and was corrected through Line VII of the March 2006 USF 302-03 report.

- b. We traced the total amount to be reimbursed (VIII of USF-302-03) to the respective months' Auditor Warrant Journal obtained from the ODOD. There were no exceptions noted.

**Activity: Reimbursement of PIPP Eligible Customer Charges**

**Risk:** Overstating the PIPP Reimbursements Requested from the ODOD due to the inclusion of unapproved customers in the PIPP program

**Procedure #11**

Using the sample selected in Procedure #8, perform the following:

- a. Select one monthly utility charge from the customer's account and trace through to inclusion in the supporting documentation (refer to Procedure 10a. above) for the reimbursement request.
- b. Review PIPP account for submission of accumulated past-dues at time of entry into the program and agree amount submitted to existing past-due positions at time of entry into the program.

**Results:**

- a. We traced the selected charges from the customers' accounts to the detail of the respective months' USF-302-03 report for all 149 accounts. There were no exceptions found.
- b. We found that 100 of the PIPP account reclassifications selected were reverifications, not enrollments. Since these accounts were originally enrolled in PIPP prior to 2006, we were not able to determine if any accumulated past-dues at the time of entry were submitted.

We found that the remaining 49 customer account reclassifications were PIPP enrollments. 19 of these accounts did not have any accumulated past-dues at the time of entry into the program. We confirmed that there were no past dues submitted for these customers in the respective months' USF-302-03 report.

We agreed accumulated past dues at the time of entry into the program to the respective months' USF-302-03 report for the remaining 30 customers. There were no exceptions noted.

**Activity: Removal of Ineligible PIPP Customer Payments**

**Risk:** Inactive PIPP customers are classified as PIPP eligible customers and are included in the PIPP reimbursement program.

**Procedure #12**

Randomly select a sample of 30 accounts, 15 each from 2006 and 2007 that were identified as drops in the ODOD upload files and perform the following:

- a. Determine that that the PIPP customer was removed from the program in the EDU's customer information system upon receiving the file (note: customer could be subsequently reinstated into the program).
- b. For the customer charge in the billing period immediately following notification of removal per the account history, review supporting file of PIPP eligible payments due from ODOD to verify that the charge was not included in the PIPP reimbursement calculation.

Results:

- a. We randomly selected a sample of 30 accounts, 15 each from 2006 and 2007 that were identified as drops in the ODOD upload files. We found that 15 of the accounts had been removed from the program in AEP's customer information system on May 25, 2007 after retrieval of the file on May 1, 2007 (see Procedure #1). We found that the 15 accounts selected from the 2006 file were not removed in AEP's customer information system (see Procedure #1).
- b. For the billing period immediately following notification of removal per the account history, we reviewed the detail of the USF-302-03 report and verified that 9 of the 30 customers selected did not have electricity charges included in the PIPP reimbursement calculation. Charges for the other 21 customers were included in the PIPP reimbursement calculation.

Procedure #13

Randomly select a sample of 30 accounts, 15 each from 2006 and 2007, of customers in the second year of PAC (PAC 2) from the detail PAC program files. Select a billing period after the 12th month of PAC has passed and verify that the customer's charge was not included in the PIPP reimbursement calculation.

Results:

We randomly selected a sample of 30 customers (15 each from 2006 and 2007) who were on PAC 2 and found that all 30 customers had charges included for the selected billing period included in the PIPP reimbursement calculation. 1 of the 30 customers was included because the customer had come off of PAC 2 and gone back on PIPP that month. The remaining 29 were still on PAC 2 when their charges were included.

Procedures #14

Randomly select a sample of 30 customer accounts from the Customer Information Reports (15 each from 2006 and 2007) that were identified as inactive and select a billing period for that customer and verify that the customer charge in that billing period selected was not included in the PIPP reimbursement calculation.

Results:

We randomly selected a sample of the 30 customer accounts identified as inactive from the Customer Information Reports (15 each from 2006 and 2007) and verified whether or not charges from a selected billing period were included in the PIPP reimbursement calculation.

We found that 17 of the 30 customers' charges were not included in the PIPP reimbursement calculation.

We found 13 of the 30 customers' charges were included in the PIPP reimbursement calculation.

**Activity:** Restoring delinquent former PIPP customers to eligible status

**Risk:** Past-due PIPP amounts have not been paid in full prior to returning customer to PIPP program and submitting charges for reimbursement.

Procedures #15

Randomly select a sample of 30 customers reinstated to PIPP program based on payment of past-due PIPP amounts and review the customer account histories on the EDU's customer information system for evidence that the outstanding PIPP balance was satisfied prior to reinstating the customer into the program and resuming submitting charges to the ODOD for reimbursement.

**AGREED-UPON PROCEDURES**  
**AEP COMPANIES**

**APPENDIX A**

**Results:**

We randomly selected a sample of 30 customers reinstated to the PIPP program and reviewed the customer account histories for evidence that the outstanding PIPP balance (if any) had been satisfied prior to reinstating the customer into the program and resuming submitting charges to the ODOD for reimbursement.

We found that 4 of the 30 accounts had no outstanding PIPP balance at the time of reinstatement.

We found that 26 of the accounts had outstanding PIPP balances at the time of reinstatement. 8 of these 26 accounts' outstanding PIPP balances had been settled with a HEAP payment during the winter reconnect season prior to being reinstated on PIPP. The remaining 18 accounts had been re-instated without the outstanding PIPP balances being settled. AEP stated the following information relating to these 18 accounts:

Customers are enrolled on PIPP at the Community Action Agencies. The PIPP enrollment records are then electronically sent to the utilities to establish the customers on PIPP. The agencies do not enforce payment of past-due PIPP amounts from customers before the records are sent to the utility companies. However, if defaulted PIPP amounts do exist on an account in the summer months, the default amount is shown as a "PIPP DUE" amount on the customer's bill, and must be paid or can be subject to collection activity. In the winter months, if the customer uses the Winter Reconnect Order, the utilities are required to roll all remaining PIPP defaulted amounts into the arrearages.

**IV. Other**

**Activity:** Collection procedures for delinquent customers

**Risk:** The EDU does not follow stated collection procedures for delinquent PIPP customers

**Procedures #16**

Randomly select a sample of 30 PIPP customers who had a delinquent account balance during 2006 or 2007 and determine whether or not the EDU followed its stated collection procedures for each customer.

**Results:**

We randomly selected 30 PIPP accounts that had a delinquent balance during 2006 or 2007. We found evidence that all 30 accounts were final billed with a delinquent balance and were never turned over to a collection agency. AEP stated the following:

For non-PIPP accounts, it is AEP's policy to turn final-billed delinquent accounts over to a collection agency after a certain number of days. It is AEP's policy not to refer PIPP customers to an outside collection agency. We found that all 30 accounts were never turned over to a collection agency.



**EXHIBIT B**

**THE OHIO DEPARTMENT OF DEVELOPMENT**  
Columbus, Ohio

**Independent Accountants' Report  
on Applying Agreed-Upon Procedures**

**For the years ended December 31, 2007 and 2006**

**Duke Energy**



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## INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES

The Ohio Department of Development  
Columbus, Ohio

We have performed the procedures enumerated in Appendix A, which were agreed to by the Ohio Department of Development (ODOD), solely to assist the ODOD in evaluating the responsible party, Duke Energy's (hereafter, Duke), collection and reporting activities for the calendar years ended December 31, 2007 and 2006, as it relates to Duke's responsibilities as a participating utility company in the Percentage of Income Payment Plan (PIPP) program and its obligations as described in the *UNIVERSAL SERVICE FUND AGREEMENT OF UNDERSTANDING* contract, effective September 1, 2000, executed between ODOD and Duke pertaining to Section 4928.51 of the Ohio Revised Code.

Our understanding is that Duke's management is responsible for compliance with the requirements of the PIPP program and the *UNIVERSAL SERVICE FUND AGREEMENT OF UNDERSTANDING* contract; and the ODOD is responsible for approving PIPP eligibility and communicating such information to Duke.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office of the United States. The sufficiency of the procedures in Appendix A is solely the responsibility of the ODOD. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix A, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Ohio Department of Development and is not intended to be and should not be used by anyone other than that specified party.

*Schneider Downs & Co., Inc.*

Columbus, Ohio  
August 29, 2008

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**THE OHIO DEPARTMENT OF DEVELOPMENT**  
**DUKE ENERGY**  
**SAMPLING METHODOLOGY**

**Sampling Terminology**

The description of certain of the agreed-upon procedures set forth herein refers to data samples identified by "haphazard" selection. Paragraph 3.26 of Chapter 3 of the American Institute of Certified Public Accountants' Audit and Accounting Guide on Audit Sampling defines a "haphazard sample" as follows:

A haphazard sample consists of sampling units selected without any conscious bias, that is, without any special reason for including or omitting items from the sample. It does not consist of sampling units selected in a careless manner; rather, it is selected in a manner that can be expected to be representative of the population.

The description of certain of the agreed-upon procedures described refers to data samples identified by "random" selection. Paragraph 3.22 of Chapter 3 of the American Institute of Certified Public Accountants' Audit and Accounting Guide on Audit Sampling describes "random sampling" as follows:

The practitioner may select a random sample by matching random numbers generated by a computer or selected from a random-number table with, for example, document numbers. With this method every sampling unit has the same probability of being selected as every other sampling unit in the population, and every combination of sampling units has the same probability of being selected as every other combination of the same number of sampling units.

In developing the respective program steps, consideration was given to the sampling approach that would most efficiently and effectively accomplish the test procedures. In arriving at the intended sampling methods and sample sizes, the intent was to propose a level of testing that would enable the ODOD a basis upon which to conclude on the results of the testing. With respect to the use of sampling, the risk always exists that conclusions drawn from the results of the testing might be different had the entire population been tested (i.e., sampling risk).

After consulting with Schneider Downs regarding factors to be considered in determining sample size, ODOD determined that a statistical sample that would produce a 95% confidence level, a 2% tolerable error rate, and an expected error rate of zero would be appropriate for purposes of these Procedures #8 and #11. Schneider Downs applied these criteria to the population of PIPP customers provided by ODOD, and advised ODOD that this analysis yielded an indicated sample size of 149.

**I. ODOD Customer File Uploads at the electric distribution utility (EDU)**

**Activity:** Receiving and processing the ODOD files transmitted to the EDU for both adding and removing PIPP customers from the PIPP program.

**Risk:** Uploads sent from the ODOD to the EDU are not properly received and recorded at the EDU.

**Procedure #1**

Haphazardly select a sample of 12 ODOD upload files covering both 2006 and 2007 (10 new PIPP account files and 2 removed PIPP account files) and trace through to evidence at the EDU that the files were loaded when received.

**Results:**

We haphazardly selected 12 ODOD upload files (10 new PIPP accounts from the ODOD upload files and 2 removed PIPP accounts from the ODOD drop files) covering both 2006 and 2007. We traced the upload file dates to Duke's internal upload reports to ensure that they were loaded when received.

We observed that 9 of the 10 new PIPP account files had been uploaded at Duke by the following business day. We found that the file entitled "002200701294001.txt" was posted by ODOD on January 29, 2007, and was processed by Duke on January 31, 2007.

We found that the removed PIPP account file from 2006 entitled "0020316.txt" was posted by ODOD on March 16, 2006. Duke was not able to provide us evidence showing when and if this file was retrieved and processed by Duke. However, Duke provided us a file of every account number included in the "0020316.txt" and the date that each account was processed.

We found that the removed PIPP account file from 2007 entitled "002200704306001.txt" was posted by ODOD on April 30, 2007. Duke was not able to provide us evidence showing when and if this file was retrieved and processed by Duke. However, Duke provided us a file of every account number included in the "002200704306001.txt" and the date that each account was processed.

**Procedure #2**

Haphazardly select a sample of 12 ODOD upload files from November 1, 2006 to December 31, 2007. Determine that confirmation reports were submitted by the EDU to the ODOD for each upload file selected.

**Results:**

We haphazardly selected 12 ODOD upload files from November 1, 2006 to December 31, 2007, and verified through inquiry with the ODOD that 10 of the 12 confirmation reports had been submitted to ODOD when the upload files were processed by Duke. We noted the following exceptions.

We found that a confirmation report was not submitted for the processing of the file entitled "002200611214001.txt".

We found that a confirmation report was not submitted for the processing of the file entitled "002200705064002.txt". This new PIPP account file was dated on a Sunday and contained zero records. Duke stated the following information:

When a report is received that has zero files, no confirmation report is submitted.

AGREED-UPON PROCEDURES  
DUKE ENERGY

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Procedure #3

Randomly select a sample of 5 accounts (total sample of 60) from each of the 12 ODOD files selected in Procedure 1 (both adds/removes) and trace to inclusion on the EDU's system by viewing customer account histories on the EDU's customer information system. Determine that the account reclassifications were performed timely and accurately per information contained in the customer account history on the EDU's customer information system.

Results:

We randomly selected a sample of 5 accounts from each of the 12 ODOD files that were selected in Procedure #1, and traced the sample into Duke's Financial History Selection in its customer information system. We observed that 40 of the 60 account reclassifications had been processed accurately by Duke in accordance with the ODOD file by the following business day.

We found 1 account posted on 1/9/06 that was processed by Duke on 1/12/06. Duke was not able to explain the delay in the processing.

We found 3 accounts posted in the 3/16/06 PIPP removal file that were processed at later dates. We found that 2 of these 3 account reverifications were processed on 3/22/06 and 1 of them was processed on 3/21/06.

We found 1 account posted on 1/29/07 that was processed by Duke on 3/7/07. Duke was not able to explain the delay in the processing.

We found 1 account posted on 2/22/07 that was processed by Duke on 4/9/07. The account reclassification was originally rejected because the customer was not a Duke customer; the customer was receiving electric services from a different supplier. After service from the other supplier was canceled and the customer set up service with Duke, the account reclassification was processed.

We found 1 account posted on 2/22/07 that was originally rejected because of an old account number in the upload file. After investigation, an account reclassification was processed for the customer on 3/1/07.

We found 1 account posted on 12/12/07 that was processed by Duke on 12/19/07. Duke was not able to explain the delay in the processing.

We found 1 account posted on 1/9/06 that was processed by Duke on 1/5/06. The account reverification was phoned in and processed manually on 1/5/06, and later came through on the 1/9/06 upload file.

We found 1 account posted on 9/13/06 that was processed by Duke on 9/12/06. The account reverification was phoned in and processed manually on 9/12/06, and later came through on the 9/13/06 upload file.

We found 6 accounts that were closed at the time that they were posted in an ODOD upload file, so the account reclassifications were not processed. These accounts were as follows:

	<u>Date Posted by ODOD</u>	<u>Date Final Billed by Duke</u>
1	1/9/06	1/5/06
2	3/16/06	6/1/05
3	11/6/06	12/2/02
4	4/30/06	4/3/06
5	4/30/06	11/2/05
6	4/30/06	10/27/05

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We found 2 accounts for which Duke could not provide any customer account history information. Therefore, we were not able to determine if the account reclassifications had been processed accurately by Duke by the following business day.

We found 1 account posted on 1/29/07 and 1 account posted on 12/11/07 that were never processed at Duke. Duke was not able to determine why these account reclassifications were not processed.

**II. EDU Monthly Reporting and Remittances to ODOD**

**Activity:** Filing of the Universal Service Fund Monthly Report and Remittance (USF-301-XX) with the ODOD

**Risk:** Under remitting USF payments to the ODOD

**Procedure #4**

From the source documents (301 reports on file with the ODOD), haphazardly select a sample of 4 reports (2 from each reporting year) and perform the following:

- a. Agree all information recorded on the report to supporting documentation held at the EDU.
- b. Trace amount to be remitted per the reports tested through to the EFT sent to ODOD.

**Results:**

- a. We haphazardly selected a sample of 4 USF-301-02 reports in accordance with the above procedure. For 3 of the 4 USF-301-02 reports selected, we agreed all the information recorded on the forms to supporting documentation at Duke. There were exceptions noted on the November 2006 report. The following table summarizes only the exceptions noted on the November 2006 report; it is not a complete report:

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Per Duke Energy November 2006 USF 301-02 Report		Duke Internal Documentation
I. Customer Information:		
C. Total Number of Active PIPP Accounts during reporting period:	18,691	18,692
1. Number of Active PIPP Accounts where electricity is Primary Heating Source:	2,579	2,576
2. Number of Active PIPP Accounts where electricity is Secondary Heating Source:	16,112	16,116
3. Number of PIPP Accounts for this month that have never been enrolled in PIPP (since 12/1/83).	535	886
III. Detailed Statement of Non-USF Rider Funds Credited to PIPP Customer Accounts		
A. Payments by Active PIPP Customers (excluding all agency payments)	\$ 640,703.79	\$ 631,402.74
B. Payments by Customers enrolled in Arrearage Crediting Program (1st 12 mos.) (excluding all agency payments)	\$ 2,463.78	\$ 2,718.98
C. Payments by Inactive PIPP Customers Credited to Arrearages (excluding all agency payments)	\$ 115,793.03	\$ 112,508.86
D. Payments by Final PIPP Customers Credited to Arrearages (excluding all agency payments)	\$ 34,987.54	\$ 47,317.56
TOTAL:	\$ 793,948.14	\$ 793,948.14
IV. Monthly Statement of Arrearages on PIPP Customers Accounts		
E. PIPP Customer Payments credited to Arrearages		
1. Active PIPP Customer Account Payments	\$ 24,743.51	\$ 24,230.84
2. Arrearage Crediting Customer Payments	\$ 157.83	\$ 280.21
3. Inactive PIPP Customer Account Payments	\$ 9,036.64	\$ 5,419.22
4. Final PIPP Customer Account Payments	\$ 2,094.17	\$ 6,101.88
TOTAL:	\$ 36,032.15	\$ 36,032.15

- b. We traced the total amount of the EFT remittance (I.L.D. of form USF-301-02) by Duke for each USF-301-02 report selected to revenue reports we received from the ODOD. There were no exceptions noted.



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**Procedure #5**

Obtain the fourth quarter Customer Information Reports (CIR) for each EDU for 2006 and 2007 and agree the information to the respective months' 301 and 302 reports filed by the EDU.

**Results:**

We were unable to agree the Electric Customer Payments, Electric Other Payments, and Cumulative Electric Arrearage on the CIRs to the respective months' 301 and 302 reports filed by the EDU. Duke stated the following information:

The customer set may not be the same; the 301 and 302 will report all PIPP payment activity regardless of how long the customer may have been PIPP inactive. The CIR will only include active PIPP customers and those that have been PIPP active within the last year. It is possible to receive payments on PIPP-deferred charges when the customer has been off of PIPP over a year (this will always be the case, in fact, with PAC2 and PAC3 customers).

The 301 and 302 reports accumulate payments to the penny; the CIR rounds payments to the nearest dollar per customer per month. This may introduce a slight variance.

There is a problem with the CIR report at the present time, in that the payment fields are unsigned (only positive numbers), therefore, any distribution activity for a month, positive or negative, such as a payment, or a returned check, will both appear as a positive number. IT is presently working with ODOD to resolve this and determine how ODOD wants negative numbers expressed in the CIR.

**Procedure #6**

Based on the Kwh billed by customer type captured on the 301 reports selected in Procedure 4, recalculate the projected USF rider funds collected and remitted for the period covered in the reports to the actual USF rider funds collection per the 301 report (Section I - A of the 301 reports). Obtain explanations from the EDU for discrepancies greater than the negotiated uncollectible percentage for the EDU.

**Results:**

We recalculated the projected USF rider funds collected and remitted for the USF-301-02 reports selected in Procedure #4. We compared the recalculated amounts to the USF rider funds collected on all customer accounts (II. A. of USF-301-02) and found variances each month. The variances for each month agreed to the negotiated uncollectible percentages for Duke with the exception of rounding differences.

**Activity:** Universal Service Fund rider is charged to customers based on rates established for each customer type

**Risk:** Universal Service Fund rider is not properly charged, collected and remitted to the ODOD

**Procedure #7**

Randomly select 10 customer accounts from each account type (Residential, Commercial, Industrial, and Other) from the EDU's customer information system (total of 40 accounts to be tested) and perform the following:

- a. Select one billing cycle for each account selected (ensure that 5 billings for each account type are selected from both 2006 and 2007) and recalculate the USF charge on the customer's bill.
- b. Trace the USF charge and Kwh supporting the calculation from the billing cycle tested in step (a) to supporting documentation that ties to both the Kwh and remittance amount reported through the 301 report.

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**Results:**

- a. We randomly selected a sample of 10 customer accounts from each account type for a total of 40 sample selections. For each customer account selected, we recalculated the USF charge.
- b. We were able to trace the recalculated USF charge and the Kwh usage for the customers in the billing periods in Procedure #7a to the respective 301 detail reports for 31 of the 40 accounts.

We were not able to trace the recalculated USF charge and Kwh hours for 9 accounts. All 9 of these accounts represented traffic lights, which were part of the Other account type selections. Duke could not provide us with 301 detail reports that had accurate Kwh's billed for traffic lights. Therefore, we were not able to determine if the USF charge and Kwh's included in the respective 301 reports for these 9 accounts were correct.

**Activity: Collection and Remittance of PIPP Customer Payments**

**Risk: Inclusion of non-eligible accounts in the PIPP program**

**Procedure #8**

Randomly select a sample (expected sample of 149 per EDU) of PIPP customers from the EDU's PIPP customer population covering 2006 and 2007 and agree the inclusion of the customer in the PIPP program to the applicable daily transmission of approved PIPP customers from the ODO. For each PIPP customer selected verify the following:

- a. Date enrolled into the program per the ODO upload agrees to the date the customer was reclassified as a PIPP customer in the EDU's system.
- b. PIPP payment amount established per the ODO approved payment plan (e.g., Standard PIPP, Balanced Payment Plan, One Utility Service Option) agrees to the monthly charge billed the customers by the EDU in the billing period following eligibility per the customer account history on the EDU's customer information system.
- c. For monthly charge tested in (b), trace one PIPP payment through to inclusion in the supporting documentation that supports the remittance of PIPP payments, including agency payments made on behalf of PIPP customers to the ODO.
- d. Review the customer account history on the EDU's system to identify unapplied prior credits, security deposits and other monies held at time of entry into the PIPP program and determine that such funds were remitted to the ODO, if applicable.

**Results:**

Duke provides electric and gas utility services to its customers. For individual payments selected below, and in Procedure #9, Duke was able to demonstrate to us the amount of the payment applied to electric charges and the amount applied to gas charges. We were not able to verify whether or not the allocation of payments between electric and gas for 2006 and 2007 were made properly in accordance with the payment priority rules because the necessary data was unavailable.

- a. We randomly selected a sample of 149 PIPP customer accounts identified as active on the 2006 and 2007 fourth quarter Customer Information Reports. For 76 of the accounts selected, we traced the account reclassification in Duke's customer information system to the same business day or previous business day's ODO upload.

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We found 28 account reclassifications that could not be traced to an ODOD upload file. These reclassifications were processed manually through the respective community action agencies.

We found 1 account reclassification that could not be traced to an ODOD upload file. The account reclassification was processed manually but we were not able to determine how it was initiated.

We found 20 account reclassifications that did not agree to the date of the ODOD upload file. These account reclassifications were all processed longer than one business day after retrieving the respective ODOD upload file.

We found 11 of the account reclassifications selected were not included on an ODOD upload file. We noted that these customers moved from one location to another, and that these customers notified Duke directly about the move. We noted that the ODOD is not involved in this process, and, as a result, these customers were not included in an ODOD upload file.

We found 3 of the account reclassifications selected were not included on an ODOD upload file. We noted that these customers moved from one location to another, and that these customers notified Duke directly about the move. We noted that the ODOD is not involved in this process, and, as a result, these customers were not included in an ODOD upload file. We also noted that these customers were not set up on PIPP at their new addresses; they were removed from the program. We were not able to determine why they were not set up on PIPP at their new addresses.

We found 4 accounts that had no reclassifications during 2006 or 2007. Therefore, we were not able to trace the pre-2006 reclassification to an ODOD upload file, because those reclassifications fell outside the date range for these procedures.

We found 5 accounts that could not be traced to an ODOD upload file. We were not able to determine how these account reclassifications were initiated.

We found 1 account that was not enrolled on PIPP until 2008. This account was selected from the 2007 fourth-quarter CIR report because it was identified as active PIPP in 2007. After performing this procedure, it was discovered that this account was not actually enrolled on PIPP until 2008, so this procedure could not be performed for this account.

- b. For 142 of the 149 customers selected, we agreed the ODOD approved payment plan amounts to the monthly charge billed to the customers by Duke.

We found 3 of the account reclassifications selected were customers who moved from one location to another. We found that these customers were not setup on PIPP at their new addresses; they were removed from the program. We could not perform this procedure for these 3 accounts because they were not on PIPP at the selected account.

We found 1 customer account that was on the PIPP Balance Payment Plan (PBPP). We noted that the PIPP amount charged by Duke did not agree to the ODOD approved payment plan because the customer was correctly charged the budgeted amount as required.

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We found 1 account that was not enrolled on PIPP until 2008. This account was selected from the 2007 fourth-quarter CIR report because it was identified as active PIPP in 2007. After performing this procedure, it was discovered that this account was not actually enrolled on PIPP until 2008, so this procedure could not be performed for this account.

We found 1 account that was billed the same PIPP charge twice for the same month. We were not able to determine why this occurred.

We found 1 customer account was enrolled on PIPP in December 2007. The first PIPP charge and payment did not occur until 2008, which is outside the scope of these procedures. Therefore, we could not perform this procedure for this account.

- c. From the 149 customer accounts selected, we haphazardly selected one payment made by the customer during 2006 or 2007, and traced the payment through to inclusion in the respective USF-301-02 detail report.

We were able to trace 70 of the 149 customer payments to the respective USF-301-02 detail report without exception.

We found that 17 of the 149 accounts did not make any payments while on PIPP in 2006 or 2007.

For 53 of the accounts, one hundred percent of the selected customer payments were applied to gas charges. Therefore, there were no payments to trace to the USF-301-02 detail report.

We found that 1 customer payment did not clear the bank and the check bounced. We traced \$120.86 to the respective USF-301-02 detail report prior to the check bouncing. After the returned check was processed, \$125.02 was withheld from the following month's USF-301-02 report. We were not able to determine why a greater amount was withheld than what was originally remitted.

We found 1 customer payment that did not trace to the respective month's USF-301-02 detail report. Duke demonstrated to us that \$40.05 of this payment was allocated to electric charges, but we traced \$166.70 to the USF-301-02 detail report. We were not able to determine the reason for the difference.

We found 3 of the account reclassifications selected were customers who moved from one location to another. We found that these customers were not setup on PIPP at their new addresses; they were removed from the program. We could not perform this procedure for these 3 accounts because there was no PIPP payment made in 2006 or 2007.

We found 1 account that was not enrolled on PIPP until 2008. This account was selected from the 2007 fourth quarter CIR report because it was identified as active PIPP in 2007. After performing this procedure, it was discovered that this account was not actually enrolled on PIPP until 2008, so this procedure could not be performed for this account.

We found 2 payments for which Duke could not provide us with the allocation between gas and electric. Therefore, we were not able to perform this procedure for these accounts.

We found 1 payment that did not trace to the respective month's USF-301-02 detail report. The customer had a credit balance at the time of the payment, so Duke did not include the payment on the respective month's USF-301-02 report.

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- d. We found that 118 of the PIPP account reclassifications selected were either reverifications or had no unapplied monies at the time of enrollment.

We found that the remaining 31 accounts had unapplied monies at the time of enrollment that were not remitted to the ODOD. We also found that the unapplied monies were not applied to the customer's accounts at the time of enrollment.

**Activity:** Collection and remittance of payment from previous PIPP Customer per the Arrearage Crediting Program (PAC) (12 months and post 2 years payment program schedules)

**Risk:** Failure to remit payments received from prior PIPP customer

**Procedure #9**

Randomly select a sample of 30 accounts, 15 each from 2006 and 2007, and 15 each from the first year of PAC (PAC 1) and 15 from the third year of PAC (PAC 3) from the detail PAC program files and perform the following as it relates to the EDU's PAC program

- a. Determine that the PIPP customer was reclassified as an inactive customer and removed from the program in the EDU's customer information system.
- b. Select a payment cycle from one of the 12 months that immediately followed the removal from the PIPP program and determine that the payment remained at the ODOD-approved PIPP amount and trace payments through to remittance to the ODOD via the supporting documentation for form 301 section III.B.
- c. If the customer has been on PAC for more than two years, determine that the applicable arrearage payments were re-established in the prior PIPP customer's account, after the account exceeded the 2 year post PIPP period.
- d. Trace collection of arrearage payments to submission to the ODOD for a one month period to the applicable 301 report.

**Results:**

We randomly selected 30 customers on PAC during 2006 and 2007; 15 each from 2006 and 2007, and 15 from PAC 1, and 15 from PAC 3. We later discovered that 3 of the selected accounts identified as PAC 3 were actually not on PAC 3 until 2008, which is outside the scope of these procedures. Therefore, we performed procedure 9b for these 3 accounts since they were on PAC 1 in 2006. This left a total of 18 PAC 1 accounts and 12 PAC 3 accounts selected.

- a. We verified that the PIPP customers were reclassified as PAC customers in Duke's customer information system for 28 of the 30 accounts selected. Duke was not able to provide customer account information for 2 of the selected accounts.
- b. We did not perform this step for the 12 selected accounts on PAC 3 because this step was not applicable to those accounts since they were on PAC 1 prior to 2006, which is outside the scope of these procedures.

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For the 18 PAC 1 accounts selected, we selected a payment from one of the 12 months immediately following the removal of the customer from the PIPP program. For all 18 accounts, we found that payments remained at the ODOD-approved PIPP amount. We were able to trace 9 of the 18 payments to the respective USF-301 report detail.

We could not trace 3 of the payments to the respective USF-301 report detail, because Duke could not provide the detail for the months of January 2006 through June 2006. Duke informed us that its system only allows it to store information for 24 months.

We could not trace 5 of the payments to the respective USF-301 report detail, because none of these 5 payments were applied to electric bill charges. Duke provides gas and electric energy to customers, and informed us that payments are generally applied to the oldest bill first. All 5 of these payments were applied to gas bills, so there was no payment to trace into the USF-301 report detail.

We could not trace 1 of the payments to the respective USF-301 report detail, because Duke did not provide the detail for the month of September 2007.

- c. We did not perform this step for the 18 customers on PAC 1, because this step was not applicable to those customers as they were not required to make any arrearage payments during 2006 or 2007.

For the 9 of the 12 accounts on PAC 3, we found that the applicable arrearage payment amounts were re-established in each of the prior PIPP customer's accounts.

For 2 of the selected accounts, we were not able to determine that the applicable arrearage payments were re-established, because Duke was not able to provide customer account information.

For 1 of the selected accounts, we were not able to determine that the applicable arrearage payment was re-established, because the customer did not go on PAC 3 until December of 2007 and the payment was not established until 2008, which is outside the scope of these procedures.

- d. For 4 of the 12 customer accounts on PAC 3, we were able to trace an arrearage payment to the respective USF-301 detail report.

We could not trace a payment for 2 of the selected accounts, because Duke was not able to provide customer account information for these accounts.

We could not trace 1 of the payments to the respective USF-301 report detail, because Duke did not provide the detail for the month of September 2007.

We could not trace 2 of the payments to the respective USF-301 report detail, because all of these payments were applied to gas charges, so there was no amount to trace into the USF-301 report detail.

We found that 2 customers made no arrearage payments while on PAC 3 during the time period covered by these procedures.

We could not trace a payment for 1 of the selected accounts, because the customer did not go on PAC 3 until December of 2007. The first arrearage payment was due in 2008, which is outside the scope of these procedures.

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**III. EDU Reimbursement Requests from USF to ODOD**

**Activity:** Filing of the Universal Service Fund Monthly Reimbursement Request for Active PIPP Accounts (USF-302-02) with the ODOD

**Risk:** Overstating the PIPP Reimbursements Requested from the ODOD

**Procedure #10**

From the source documents (302 reports on file with the ODOD), haphazardly select a sample of 4 reports (2 from each reporting year) and perform the following at the EDU:

- a. Agree all information recorded on the report filed with the ODOD to supporting documentation held at the EDU.
- b. Trace amount to be reimbursed per the 302 reports tested to the ODOD settlement.

**Results:**

- a. We haphazardly selected a sample of 2 USF-302-03 reports from each calendar year for a total of 4 reports. For each USF-302-03 selected, we agreed all the information recorded on the forms to supporting documentation at Duke. There were no exceptions noted.
- b. We traced the total amount to be reimbursed (VIII of USF-302-03) to the respective months' Auditor Warrant Journal obtained from the ODOD. There were no exceptions noted.

**Activity:** Reimbursement of PIPP Eligible Customer Charges

**Risk:** Overstating the PIPP Reimbursements Requested from the ODOD due to the inclusion of unapproved customers in the PIPP program

**Procedure #11**

Using the sample selected in Procedure #8, perform the following:

- a. Select one monthly utility charge from the customer's account and trace through to inclusion in the supporting documentation (refer to Procedure 10a. above) for the reimbursement request.
- b. Review PIPP account for submission of accumulated past-dues at time of entry into the program and agree amount submitted to existing past-due positions at time of entry into the program.

**Results:**

Duke provides electric and gas utility services to its customers. For monthly utility charges selected below, and in Procedures #12, #13 and #14, Duke was able to demonstrate to us the amount of the bill charged to electric and the amount charged to gas. We were not able to verify the allocation of these charges between electric and gas for 2006 and 2007, because the necessary data was unavailable.

- a. We traced the selected charges from the customers' accounts to the detail of the respective months' USF-302-03 report without exception for 142 of the 149 accounts.

We found 1 account that we could not trace to the detail of the respective months' USF-302-03 report. The customer was on PIPP and incurred electric charges but there were no charges for this customer included for reimbursement in the respective month's USF-302-03 report.

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We found that 4 of the selected accounts were actually not on PIPP at the account number selected. Therefore, we were not able to perform this step for these accounts.

We found 1 account for which Duke was not able to provide us with customer account history information. Therefore, we were not able to perform this step for this account.

We found that 1 account had enrolled in PIPP in December 2007. The first charges submitted for reimbursement for this account would have been included in the January 2008 USF-302-03 report which is outside the scope of these procedures. Therefore, we were not able to perform this step for this account.

- b. We found that 76 of the PIPP account reclassifications selected were reverifications, not enrollments. Since these accounts were originally enrolled in PIPP prior to 2006, we were not able to determine if any accumulated past-dues at the time of entry were submitted.

We found that the remaining 73 customer account reclassifications were PIPP enrollments. We found that 2 of these accounts did not have any accumulated past-dues at the time of entry into the program. We confirmed that there were no past-dues submitted for these customers in the respective months' USF-302-03 report.

For 55 of the remaining accounts, we traced without exception, accumulated electric past-dues at the time of entry into the program to the respective months' USF-302-03 report.

For 13 of the remaining customer accounts, we were able to trace accumulated past-dues at the time of entry into the program to the respective months' USF-302-03 report. However, we noted that the total electric and gas accumulated past-dues as indicated by Duke did not agree to the total amount of electric and gas accumulated past-dues transferred to PIPP on the customer's bill.

We found 3 accounts that were newly enrolled on PIPP in December 2006. Duke was not able to provide us with a breakdown of accumulated past-dues by electric and gas portions, so we were not able to perform this step for these three accounts.

**Activity: Removal of Ineligible PIPP Customer Payments**

**Risk:** Inactive PIPP customers are classified as PIPP eligible customers and are included in the PIPP reimbursement program.

**Procedure #12**

Randomly select a sample of 30 accounts, 15 each from 2006 and 2007 that were identified as drops in the ODOD upload files and perform the following:

- a. Determine that the PIPP customer was removed from the program in the EDU's customer information system upon receiving the file (note: customer could be subsequently reinstated into the program).
- b. For the customer charge in the billing period immediately following notification of removal per the account history, review supporting file of PIPP eligible payments due from ODOD to verify that the charge was not included in the PIPP reimbursement calculation.



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**Results:**

- a. We randomly selected a sample of 30 accounts, 15 each from 2006 and 2007 that were identified as drops in the ODOD upload files. We found that 2 of the accounts had been removed from the program in Duke's customer information system upon receiving the file.

We found 20 accounts that were already removed from the program in Duke's customer information system because they were final billed when the file was received.

We found 5 accounts that had been previously removed from the PIPP program prior to receiving the file.

We found 2 accounts were not identified as drops in the ODOD upload files; they were identified as reverifications. The reverifications were processed accurately and in a timely fashion upon receiving the file.

We found 1 account that was not removed from the program in Duke's customer information system upon receiving the file.

- b. For the billing period immediately following notification of removal per the account history, we reviewed the detail of the USF-302-03 report and verified that 14 of the 30 customers selected did not have electricity charges included in the PIPP reimbursement calculation.

We could not perform this procedure for 15 of the accounts, because Duke could not provide us with detail of the USF-302-03 reports for the months of January 2006 through June 2006.

We found 1 account that had charges included in the detail of the USF-302-03 report in the billing period immediately following notification of removal. We found that this customer was subsequently reinstated to PIPP in the same billing period as the removal.

**Procedure #13**

Randomly select a sample of 30 accounts, 15 each from 2006 and 2007, of customers in the second year of PAC (PAC 2) from the detail PAC program files. Select a billing period after the 12th month of PAC has passed and verify that the customer's charge was not included in the PIPP reimbursement calculation.

**Results:**

We randomly selected a sample of 30 customers (15 each from 2006 and 2007) who were identified as PAC 2.

We found 2 accounts that did not have charges for the selected billing period included in the PIPP reimbursement calculation.

We found 16 accounts that had charges for the selected billing period included in the PIPP reimbursement calculation.

We found that 10 accounts were actually not on PAC 2 until 2008, which is outside the scope of these procedures. Therefore, we were not able to perform this procedure for these accounts.

We found 2 accounts that were not on PAC 2 at the selected account numbers. These accounts were on PAC 2 at old account numbers, changed addresses and account numbers, and were not set up on PAC 2 at the new account numbers. Therefore, we were not able to perform this procedure for these accounts.

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**Procedures #14**

Randomly select a sample of 30 customer accounts from the Customer Information Reports (15 each from 2006 and 2007) that were identified as inactive and select a billing period for that customer and verify that the customer charge in that billing period selected was not included in the PIPP reimbursement calculation.

**Results:**

We randomly selected a sample of 30 customer accounts identified as inactive from the quarterly Customer Information Reports (15 each from 2006 and 2007) and verified whether or not charges from a selected billing period were included in the PIPP reimbursement calculation.

We found that 24 of the 30 customers' charges were not included in the PIPP reimbursement calculation.

We found that 6 of the 30 customers' charges were included in the PIPP reimbursement calculation.

**Activity:** Restoring delinquent former PIPP customers to eligible status

**Risk:** Past-due PIPP amounts have not been paid in full prior to returning customer to PIPP program and submitting charges for reimbursement.

**Procedures #15**

Randomly select a sample of 30 customers reinstated to PIPP program based on payment of past-due PIPP amounts and review the customer account histories on the EDU's customer information system for evidence that the outstanding PIPP balance was satisfied prior to reinstating the customer into the program and resuming submitting charges to the ODOD for reimbursement.

**Results:**

We randomly selected a sample of 30 customers reinstated to the PIPP program and reviewed the customer account histories for evidence that the outstanding PIPP balance (if any) had been satisfied prior to reinstating the customer into the program and resuming submitting charges to the ODOD for reimbursement.

We found that 1 of the 30 accounts had no outstanding PIPP balance at the time of reinstatement.

We found that 1 of the accounts satisfied the outstanding PIPP balance prior to reinstatement

We found that 7 of the accounts had outstanding PIPP balances satisfied with a HEAP payment during the winter reconnect season.

We found that 12 of the accounts had been reinstated without the outstanding PIPP balances being settled. We found that 11 of these 12 accounts were zero income customers.

We found that 9 of the accounts were never actually removed from the PIPP program, so there was no reinstatement to the program. They were identified as inactive on the CIRs but were not actually inactive for various reasons.

#### **IV. Other**

**Activity:** Collection procedures for delinquent customers

**Risk:** The EDU does not follow stated collection procedures for delinquent PIPP customers

##### **Procedures #16**

Randomly select a sample of 30 PIPP customers who had a delinquent account balance during 2006 or 2007 and determine whether or not the EDU followed its stated collection procedures for each customer.

##### **Results:**

We randomly selected 30 PIPP accounts that had a delinquent balance during 2006 or 2007.

We found evidence that stated collection procedures were eventually followed for 29 of the 30 accounts but not always in the stated time periods. This procedure did not involve determining if delinquent amounts were actually collected; its objective was to determine whether or not collection procedures were followed.

We found 1 account for which credit history was not available because the account had been final billed in 1995.

**Activity:** Removal of Ineligible PIPP Customers

**Risk:** The EDU requests reimbursement for charges for customers who are disconnected

##### **Procedure #17**

Randomly select a sample of 10 PIPP customers who were identified as disconnected on the Quarterly Customer Information Reports for 2006 and 2007. For a month that they were disconnected, determine whether or not there was a charge for the customer included in the PIPP reimbursement calculation for that month.

##### **Results**

We randomly selected 10 PIPP customers who were identified as disconnected on the Quarterly Customer Information Reports for 2006 and 2007.

We found that 9 of the 10 customers did not have charges included in the PIPP reimbursement calculation for that month.

We found that 1 of the customers did have charges included in the PIPP reimbursement calculation for that month. Charges were included in the PIPP reimbursement calculation, because the customer was disconnected on March 6, 2007 and reconnected the following day.

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