

AUDIT TEAM

Jim Williamson, CPA, CIA, City Auditor
Janet McWilliams, CPA, Audit Manager
Pamela Martindale, MBA, Senior Auditor

**OKLAHOMA NATURAL GAS COMPANY
FRANCHISE FEE AUDIT**

JANUARY 3, 2012

MAYOR AND CITY COUNCIL

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The City of
OKLAHOMA CITY
OFFICE OF THE CITY AUDITOR

January 3, 2012


The Mayor and City Council:

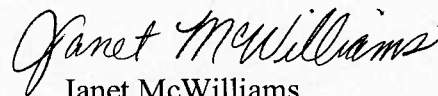
The Office of the City Auditor has completed an audit to assess the completeness of customer addresses for which Oklahoma Natural Gas Company (ONG) pays franchise fees to the City of Oklahoma City (City). Based on the results of our audit, we believe that:

- As of May 31, 2011, ONG paid the City franchise fees for customers at substantially all addresses within Oklahoma City corporate boundaries.

All comments, recommendations, suggestions, and observations arising from our audit have been discussed in detail with appropriate City and ONG management representatives. These discussions were held to assure a complete understanding of the content and emphasis of the items in this report. City management's responses to the recommendations in this report are attached.

We appreciate the cooperation and assistance received from the City Treasurer's Office and ONG during this audit.


Jim Williamson
City Auditor


Janet McWilliams
Audit Manager

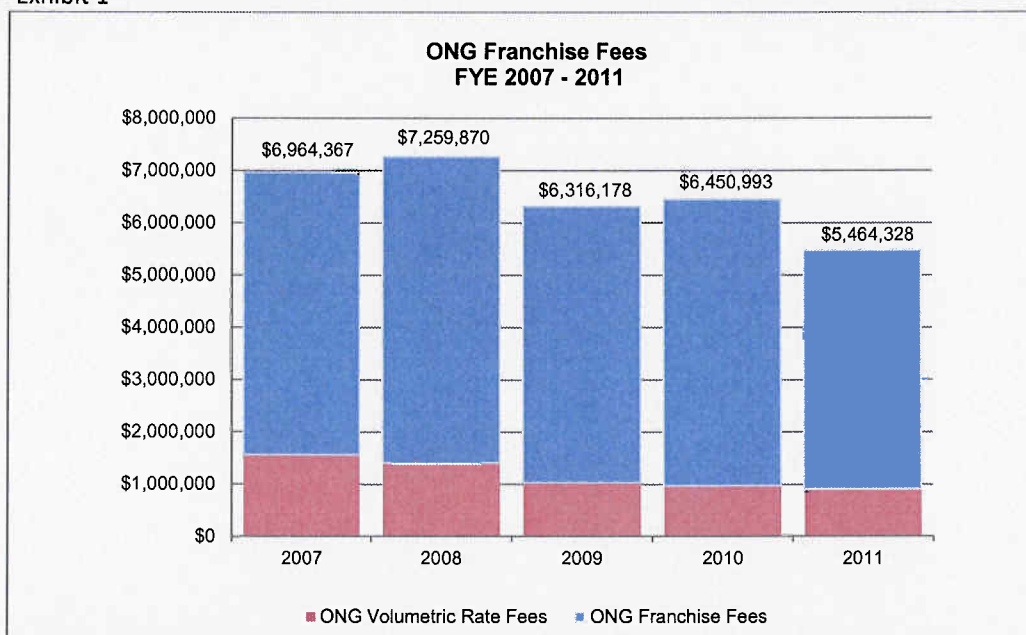
OKLAHOMA NATURAL GAS COMPANY FRANCHISE FEE AUDIT

AUDIT BACKGROUND, SCOPE, AND METHODOLOGY

The objective of this audit was to assess the completeness of customer addresses for which Oklahoma Natural Gas Company (ONG) pays City of Oklahoma City (City) franchise fees as of May 31, 2011.

On September 10, 2010, the City Council approved an Ordinance granting ONG a 25-year franchise for selling and transporting gas. ONG pays the City a three percent (3%) franchise fee on total gross receipts from customers within the City. Consumers reaching a consumption threshold established by the Oklahoma Corporation Commission may contract with ONG or a third-party supplier to purchase gas transported via ONG lines. ONG pays the City a three percent (3%) volumetric rate fee on the value of such gas transported to consumers within the City. ONG remits franchise and volumetric rate fees to the City Treasurer, who is responsible for collecting and monitoring this revenue. Such fees collected by the City from ONG for each of the past five fiscal years are presented in Exhibit 1.

Exhibit 1



Source: City of Oklahoma City PeopleSoft Financial System

Procedures performed during this audit included interviewing management and ONG personnel; reviewing applicable laws, regulations, ordinances and agreements; comparing ONG customer service addresses to the City's geographic information system; recalculating selected ONG customer billings; comparing estimated sales taxes on transport gas to actual sales tax collections from third-party suppliers; and evaluating franchise fee monitoring procedures in the City Treasurer's Office.

We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Franchise fees relating to these 403 incorrectly coded addresses that were due and unpaid to the City during the period January 1, 2007 through August 31, 2011, totaled approximately \$80,000. Additionally, we estimate that approximately \$62,000 in sales taxes relating to gas sales at these 403 addresses were due and unpaid to the City for the three-year period² ended August 31, 2011.

Recommendation (1)

The City Treasurer should work with ONG to determine and collect franchise fees due the City for the 403 incorrectly coded City addresses.

Finance Department Response (1)

Agree. By January 31, 2012, the City Treasurer will contact ONG to begin determining franchise fees due the City for the period January 1, 2007 through August 31, 2011 for 403 incorrectly coded City addresses and verify 42 of these addresses identified by ONG as being correctly coded. Following this determination, the City Treasurer will attempt to collect all fees due by June 30, 2012.

Recommendation (2)

The City Treasurer should work with ONG and the Oklahoma Tax Commission to determine and collect sales taxes due the City for the 403 incorrectly coded City addresses.

Finance Department Response (2)

Agree. By January 31, 2012, the City Treasurer will contact ONG to begin determining sales taxes due on 403 incorrectly coded City addresses adjusting as needed for 42 addresses identified by ONG as being correctly coded. Within 30 days following this determination, the City Treasurer will notify the Oklahoma Tax Commission to seek collection of applicable taxes, in accordance with statute and contractual requirements.

SALES TAX COLLECTIONS ON TRANSPORT GAS

Sales tax collections relating to transport gas should be investigated.

As previously discussed, ONG pays the City a volumetric rate fee on the value of third-party gas transported to consumers within the City via ONG lines. The third-party gas suppliers bill their customers directly for the gas and are generally responsible for collecting and remitting related sales taxes. There were 23 companies authorized to contract with ONG customers for transport gas as of May 31, 2011.

Based on volumetric rate fees remitted by ONG from July 1, 2010 through May 31, 2011, we estimated sales taxes on transport gas for the period at \$862,000. We reviewed City sales tax revenue records for the same period and noted actual sales tax collections from third-party gas suppliers totaled approximately \$497,000. While this discrepancy does not necessarily indicate noncompliance with City sales tax ordinances, it does warrant further investigation.

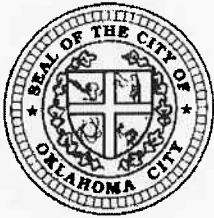
² 68 O.S. §223(A) generally limits sales tax assessments to three (3) years.

Recommendation (3)

The City Treasurer should work with the Oklahoma Tax Commission to investigate compliance with City sales tax ordinances relating to transport gas.

Finance Department Response (3)

Agree. By January 31, 2012, the City Treasure will contact the Oklahoma Tax Commission to request a compliance review of transport gas sales by third-party gas suppliers identified in this audit.



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor

THROUGH: Jim Couch, City Manager

FROM: Craig Freeman, Finance Director

DATE: December 16, 2011

SUBJECT: Audit #10-06 - Oklahoma Natural Gas Company Franchise Fee Audit

Following are Finance management's responses to recommendations outlined in the recent Oklahoma Natural Gas Company Franchise Fee Audit.

Recommendation 1 Agree. By January 31, 2012, the City Treasurer will contact ONG to begin determining franchise fees due the City for the period January 1, 2007 through August 31, 2011 for 403 incorrectly coded City addresses and verify 42 of these addresses identified by ONG as being correctly coded. Following this determination, the City Treasurer will attempt to collect all fees due by June 30, 2012.

Recommendation 2 Agree. By January 31, 2012, the City Treasurer will contact ONG to begin determining sales taxes due on 403 incorrectly coded City addresses, adjusting as needed for 42 addresses identified by ONG as being correctly coded. Within 30 days following this determination, the City Treasurer will notify the Oklahoma Tax Commission to seek collection of applicable taxes, in accordance with statute and contractual requirements.

Recommendation 3 Agree. By January 31, 2012, the City Treasurer will contact the Oklahoma Tax Commission to request a compliance review of transport gas sales by third-party gas suppliers identified in this audit.

Thank you for your professional review of this program.