

Audit Services Department

Review of Controls for the Service Corporation Billing Process

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BACKGROUND:

The AEP Service Corporation (AEPSC) is the centralized service company for the AEP system. The companies of the AEP System obtain certain accounting, administrative, information systems, engineering, financial, legal, maintenance and other services at cost from a common provider, AEPSC. AEPSC activities are allowed by FERC under the Public Utility Holding Company Act of 2005. AEPSC employs over 5,000 professionals to provide centralized services to the AEP companies.

Whenever possible, charges are directly billed to a company benefiting from a service. When a cost cannot be discretely divided, an allocation factor is used to bill to those companies who benefit from or give rise to the cost. AEPSC uses a catalog of 55 active allocation factors to bill AEP companies. Allocation factors are based on statistics such as number of customers, number of transmission pole miles, number of employees, etc. Allocation factors determine the spread to each company based upon mathematical formulas developed to provide fair and reasonable methods to allocate costs.

All work orders (excluding G work orders) have a benefiting location and allocation factor assigned at the time of creation, which tells who to bill the costs to and how to bill it. G work orders (general work orders) have a benefiting location assigned at the time of creation which tells who to bill the costs to. The ABM (Activity Based Management code) activity is then used to determine how the cost should be allocated. ABM activities have an allocation factor assigned when created.

OBJECTIVE:

The objective of this review was to evaluate the adequacy and test the effectiveness of controls over the Service Corporation Billing processes to ensure that AEPSC affiliates are correctly billed at cost using the appropriate allocation factors.

SCOPE:

The scope of this review was:

- Evaluation of controls and testing of work orders for accurate set up
- Evaluation of the controls around compiling allocation factors
- Evaluation of the automated Service Corporation billing process controls in PeopleSoft
- Evaluation of the monthly independent AEPSC billing review controls by operating companies

CONCLUSION:

This scorecard summarizes our conclusions for each scope area covered in the review.

Scope Area	Comments Present	Conclusion Classification
Evaluation of controls and testing of work orders for accurate set up	None	Well-controlled
Evaluation of the controls around compiling allocation factors	None	Well-controlled
Evaluation of the automated Service Corporation billing process controls in People Soft	None	Well-controlled
Evaluation of the monthly independent AEPSC billing review controls by operating companies	None	Well-controlled
OVERALL CONCLUSION FOR REVIEW		Well-controlled

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Appendix 1

Classification of Audit Report Conclusions

Operational/Financial (Internal Controls Reviews):

Conclusion	Definition
Well-controlled	Controls are appropriately designed and are operating effectively to manage risks. Control issues may exist, but are minor.
Well-controlled but minor improvements needed	Medium-level control issues (either design or operating effectiveness) are present but do not compromise achievement of important control objectives.
Improvements in controls needed	High or medium-level control weaknesses are present that compromise achievement of one or more important control objectives but do not prevent the process or function from achieving its overall purpose. While important weaknesses exist, their impact on the management of risks is limited rather than widespread.
Major improvements in controls needed	High-level control weaknesses exist across numerous control objectives that potentially prevent the process or function from achieving its overall purpose. The impact of weaknesses on management of risks is widespread rather than isolated either due to the number or nature of control weaknesses.

Classification of Audit Comments

Financial Audits:

Risk Significance	Risk Definition
High	Likelihood of the condition occurring must be more than remote and potential impact must be significant in relationship to the underlying financial information, overall objectives, or level of compliance of the function or process audited.
Medium	Likelihood of the condition occurring must be more than remote or potential impact must be significant in relationship to the underlying financial information, overall objectives, or level of compliance of the function or process audited.
Low	Enhancement to a current process that would add value, but not necessarily have a significant impact to the company from a financial, compliance, effectiveness, or efficiency standpoint. Would entail process improvement or have a relatively small monetary impact.