



CITY OF WILMINGTON

Delmarva Franchise Fee

Internal Audit Review

March 31, 2021

City Auditor's Office

Terence J. Williams
City Auditor
(302) 576-2165

Highlights

Why We Did This Audit

This audit looked to address Delmarva's system for calculating gross receipts from the sale of electricity inside the corporate limits of the City, procedures for confirming customers located inside the City's incorporated limits, and gross receipts included in, and excluded from, the calculation of franchise fees.

Methodology

To meet the objectives the Delmarva Franchise agreement with the City, customer classes and customer charges, & Delmarva's electric tariff remittance history were reviewed. Tax amounts remitted were confirmed. Property taxes deducted & billed franchise fee amounts were recalculated & reconciled.

Distribution

Ronald Pinkett (*Chair*)

Marchelle Basnight
Angelique Dennis
Christofer C. Johnson
Tanya Washington

Objective

The objectives of this audit were: 1) determine if franchise fees were properly calculated; 2) verify all appropriate gross receipts were included in those calculations; and 3) to confirm the methodology for calculating and remitting franchise fees.

Scope

This report was completed by Avenu Insights and Analytics, LLC d/b/a MuniServices, LLC, for the period of January 1, 2015 through December 31, 2017 of Delmarva operating within the City of Wilmington, Delaware. Avenu was contracted as a third party to conduct a compliance review of the City's franchise agreement with Delmarva.

Background

Delmarva is a public utility owned by Exelon Corporation. Delmarva serves approximately 527,000 customers throughout the states of Delaware and Maryland. The Agreement between Delmarva and the City has been in effect since March 1, 1912.

Delmarva currently remits two percent (2%) of gross receipts as compensation (franchise fee) to the City for the use of the rights-of-way located within the City. Each service charge or activity, charged to a customer, is given an account number that appears on Delmarva's Chart of Accounts. These accounts are coded within Delmarva's billing systems as either taxable or non-taxable. If the account is coded as taxable, then that account is used to calculate the franchise fee charged to their customers as well as to accrue and remit to the City on an annual basis. When a new account is set up, Delmarva codes that account with a geocode, which is used to determine the local taxing authority in which to charge and pay applicable taxes, fee, licenses, etc.

At the end of each month, Delmarva pulls together all revenues for each taxing jurisdiction and calculates their franchise fee liabilities. The revenues associated with the City are calculated and the net revenues are multiplied by the two percent franchise rate to calculate franchise fees owed to the City. The franchise fee agreement allows for a deduction for property taxes paid to the City. The property taxes, including penalties and interest, for specific parcel numbers are deducted, based on a monthly proration, from the franchise fees paid to the City. Franchise fees due to the City are paid on an annual basis on or before the first day of March.

Key Statistics:

During the period under review, Delmarva reported approximately \$187,586,429 in gross receipts and paid the City approximately \$2,762,279 in franchise fees. The adjusted franchise fees due to the City for the audit period are \$243,720. The adjusted franchise fees due are the result of 1) revenue accounts excluded from the franchise fee calculation; 2) improper property tax deductions; and 3) miscoded customer accounts. The additional franchise fees due to the City for the audit period are summarized as follows:

Summary of Audit Results	
1. Excluded Gross Receipts	
Unsupported Deductions	\$63,710
2. Improper Property Tax Deductions	
Overstated Property Tax Deductions	\$103,648
3. Miscoded Addresses	
Miscoded Address Estimation	\$76,362
TOTAL FRANCHISE FEE DUE	\$243,720

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk Ranking:		(See Attachment A for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
Compliance	N/A				✓
Errors & Omissions	N/A				✓

Compliance

Improper Property Tax Deductions

It was found that Delmarva was overstating property taxes by including property taxes paid to localities other than the City in the deduction of annual franchise fees paid to the City.

Errors & Omissions

1. Excluded Gross Receipts

The franchise fee is calculated based on the gross amounts from the sale of electricity; however, Delmarva is excluding from the calculation amounts without providing any support that they should be removed. Therefore, due to Delmarva failing to provide such documentation to affirm the deductions, the amounts are being placed back into the taxable measure so that the franchise fee rate of two percent (2%) can be calculated.

2. Miscoded Address Estimation

A list of customers located within the corporate limits of the City and connecting zip codes was requested. Delmarva sent a sample of 1,004 address located throughout New Castle County. Avenu requested all addresses for zip codes 19801, 19802, 19806. Delmarva was going to provide all addresses for 19801 but the addresses could not be provided in a timely manner. An estimated error rate of two percent (2%) was applied to the gross receipts to cover any miscoding in Delmarva's system.

Audit Team

Avenu Insights and Analytics, LLC Audit Division