

Columbia Gas of Pennsylvania, Inc.  
2015 General Rate Case  
Docket No. R-2015-2468056  
Standard Filing Requirements  
Exhibit 13  
Volume 4 of 10

COLUMBIA GAS OF PENNSYLVANIA, INC.

53.52

Applicability; public utilities other than canal, turnpike, tunnel, bridge and wharf companies.

- (a) Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered, it shall submit to the Commission, with the tariff, revision or supplement, statements showing all of the following:

- (1) The specific reasons for each change.

Response (Kempic):

The rate changes are being proposed to allow Columbia Gas of Pennsylvania a reasonable opportunity to recover revenue sufficient to cover its operating expenses and increases to rate base and provide a reasonable opportunity to earn a fair rate of return.

- (2) The total number of customers served by the utility.

Response (Kempic): Refer to Exhibit No. 3.

- (3) A calculation of the number of customers, by tariff subdivisions, whose bills will be affected by the change.

Response (Balmert): Refer to Exhibit No. 103, Schedule No. 8.

- (4) The effect of the change on the utility's customers.

Response (Balmert): Refer to Exhibit No. 103, Schedule No. 8.

- (5) The direct or indirect effect of the proposed change on the utility's revenues and expenses.

Response (Kempic): Refer to Exhibit Nos. 3 and 4.



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- (6) The effect of the change on the service rendered by the utility.

Response (Kempic): Service rendered by the utility will not be impacted by the changes to rates.

- (7) A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa. C.S. §1308 (relating to voluntary changes in rates).

Response (Kempic): Not Applicable.

- (8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa. C.S. §1308.

Response (Kempic): Not Applicable.

- (9) Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided

Response (Kempic): No customer polls were taken to indicate customer acceptance and desire for the proposed rate changes.

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- (10) Plans the utility has for introducing or implementing the changes with respect to its ratepayers.

Response (Kempic): Columbia will notify its ratepayers of the proposed changes through a bill insert in compliance with the Commission's Regulations (Pa Code Section 53.45).

- (11) F.C.C., F.E.R.C. or Commission orders or rulings applicable to the filing.

Response (Kempic): There are no orders or rulings that directly apply to this change.

- (b) Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision, or supplement which will increase or decrease the bills to its customers, it shall submit in addition to the requirements of subsection (a), to the Commission, with the tariff, revision or supplement, statements showing all of the following:

- (1) The specific reason for each increase or decrease.

Response (Kempic): The rate changes are being proposed to allow Columbia Gas of Pennsylvania a reasonable opportunity to recover revenue sufficient to cover its operating expenses and increases to rate base and provide a reasonable opportunity to earn a fair rate of return.

- (2) The operating income statement of the utility for a 12-month period, the end of which may not be more than 120 days prior to the filing.

Response (Kempic): Refer to Exhibit No.2.

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- (3) A calculation of the number of customers, by tariff subdivision, whose bills will be increased.

Response (Balmert): Refer to Exhibit No. 103, Schedule No. 8.

- (4) A calculation of the total increase, in dollars, by tariff subdivision, projected to an annual basis.

Response (Balmert): Refer to Exhibit No. 103, Schedule No. 8.

- (5) A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.

Response (Balmert): Refer to Exhibit No.103, Schedule No. 8.

- (6) A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.

Response (Balmert): Refer to Exhibit No.103, Schedule No.8.

COLUMBIA GAS OF PENNSYLVANIA, INC  
53.53 II RATE OF RETURN  
A. ALL UTILITIES

13. Attach copies of the summaries of the projected two years' Company's budgets (revenues, expense, and capital).

Response:

Please see Exhibit GAS-ROR-13 for projected revenues and expenses.

Please see Exhibit GAS-ROR-14 for the projected construction budget.

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Commission Regulation Number	Commission Regulation	Historic Test Year Twelve Months Ended <u>November 30, 2014</u>		Fully Forecasted Rate Year Twelve Months Ended <u>December 30, 2016</u>		Witness
		Exhibit	Schedule	Exhibit	Schedule	
<del>53.52</del>	<del>Applicability: Public Utilities Other Than Canal, Turnpike, Bridge, and Wharf Companies</del>					
53.52(a)	Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement effecting changes in the terms and conditions of service rendered or to be rendered, it shall submit to the Commission, with the tariff, revision, or supplement, statements showing all of the following:	13	3			Kempic
53.52(a)1	The specific reasons for each change.	13	1	113	1	Kempic
53.52(a)2	The total number of customers served by the utility.	3		103		Lai
		13	1	113	1	Kempic
53.52(a)3	A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.	3		103		Lai
		13	1	113	1	Kempic
53.52(a)4	The effect of the change on the utility's customers.	3		103		Lai
		13	1	113	1	Kempic
53.52(a)5	The direct or indirect effect of the proposed change on the utility's revenue and expenses.	13	1	113	1	Kempic
53.52(a)6	The effect of the change on the service rendered by the utility	13	1	113	1	Kempic
53.52(a)7	A list of factors considered by the utility in its determination to make the change. The list shall include a comprehensive statement about why these factors were chosen and the relative importance of each. This subsection does not apply to a portion of a change seeking a general rate increase as defined in 66 Pa. C. S. & 1308 (relating to voluntary changes in rates).	13	1	113	1	Kempic
53.52(a)8	Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of a tariff change seeking a general rate increase as defined in 66 Pa. C. S. & 1308.	13	1	113	1	Kempic
53.52(a)9	Customer polls taken and other documents which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernible public opposition, an explanation of why the change is in the public interest shall be provided.	13	1	113	1	Kempic
53.52(a)10	Plans the utility has for introducing or implementing the changes with respect to its ratepayers.	13	1	113	1	Kempic
53.52(a)11	FCC, FERC or Commission orders or rulings applicable to the filing.	13	1	113	1	Kempic
53.52(b)	Whenever a public utility, other than a canal, turnpike, tunnel, bridge or wharf company files a tariff, revision or supplement which will increase or decrease the bills to its customers, it shall submit in addition to the requirements of subsection (a), to the Commission, with the Tariff, revision, or supplement, statements showing all of the following:	13	3			Kempic

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		Exhibit	Schedule	Exhibit	Schedule	
53.52(b)1	The specific reasons for each Increase or decrease.	13	1	113	1	Kempic
53.52(b)2	The operating income statement of the utility for a 12-month period, the end of which may not be more than 120 days prior to the filing.	2 3 13	1	102 103 113	1	Lai Balmert Kempic Miller
53.52(b)3	A calculation of the number of customers, by tariff subdivision, whose bills will be increased.	3 13	1	103 113	1	Lai Balmert Kempic
53.52(b)4	A calculation of the total increases, in dollars, by tariff subdivision, projected to an annual basis.	3 13	1	103 113	1	Lai Balmert Kempic
53.52(b)5	A calculation of the number of customers, by tariff subdivision, whose bills will be decreased.	3 13	1	103 113	1	Lai Balmert Kempic
53.52(b)6	A calculation of the total decreases, in dollars, by tariff subdivision, projected to an annual basis.	3 13	1	103 113	1	Balmert Lai Kempic
53.52(c)1	A Statement showing the utility's calculation of the rate of return earned in the 12-month period referred to on subsection (b)(2), and the anticipated rate of return to be earned when the tariff, revision, or supplemental becomes effective. The rate base used in this calculation shall be supported by summaries of original cost for the rate of return calculation.	8		108		Paloney
53.52(c)2	A detailed balance sheet of the utility as of the close of the period referred to in subsection (b)f2).	1	1	101		Miller
53.52(c)3	A summary, by detailed plant accounts, of the book value of the property of the utility at the date of the balance sheet required by paragraph (2).	8	1, 2	108		Paloney
53.52(c)4	A statement showing the amount of the depreciation reserve, at the date of the balance sheet required by paragraph (2), applicable to the property, summarized as required by paragraph (3).	8	3	108	3	Paloney
53.52(c)5	A statement of operating income, setting forth the operating revenues and expenses by detailed accounts for the 12-month period ending on the balance sheet required by paragraph (2).	2	1	102	1	Miller
53.52(c)6	A brief description of a major change in the operating or financial condition of the utility occurring between the date of the balance sheet required by paragraph (2) and the date of transmittal of the tariff, revision or supplement. As used on this paragraph, a major change is one which materially alters the operating or financial condition of the utility from that reflected in paragraphs (1) - (5).	1	2	101		Miller
53.53.LA	<b>53.53.L VALUATION</b> <b>A. ALL UTILITIES</b>					
53.53.LA.1	Provide a corporate history (include the dates of original incorporation, subsequent mergers and/or acquisitions). Indicate all countries and cities and other governmental subdivisions to which service is provided (including service areas outside the state), and the total population in the area served.	15	1	115		Paloney

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		Exhibit	Schedule	Exhibit	Schedule	
53-53.1.A.2	Provide a schedule showing the measures of value and the rates of return at the original cost and trended original cost measures of value at the spot, three-year and five-year average price levels. All claims made on this exhibit should be cross-referenced to appropriate exhibits. Provide a schedule similar to the one listed above, reflecting respondent's final claim in its previous rate case.	8		108		Paloney
53-53.1.A.3	Provide a description of the depreciation methods utilized in calculating annual depreciation amounts and depreciation reserves, together with a discussion of all factors which were considered in arriving at estimates of service life and dispersion by account. Provide dates of all field inspections and facilities visited.	9	1	109	1	Spanos
53-53.1.A.4	Set forth, in exhibit form, charts depicting the original and estimated survivor curves and a tabular presentation of the original life table plotted on the chart for each account where the retirement rate method of analysis is utilized. a. If any utility plant was excluded from the measures of value because it was deemed not to be "used and useful" in the public service, supply a detailed description of each item of property. b. Provide the surviving original cost at test year end by vintage by account and include applicable depreciation reserves and annuities. (i) These calculations should be provided for plant in service as well as other categories of plant, including, but not limited to, contributions in aid of construction, customer's advances for construction, and anticipated retirements associated with any construction work in progress claims (if Applicable)	9	1	109	1	Spanos  Spanos  Spanos
53-53.1.A.5	Provide a comparison of respondent's calculated depreciation reserve vs. book reserve by account at the end of the test year.	9	2	109	2	Spanos
53-53.1.A.6	Supply a schedule by account and depreciable group showing the survivor curve and annual accrual rate estimated to be appropriate: a. For the purposes of this filing. b. For the purposes of the most recent rate increase filing prior to the current proceedings. (i) Supply a comprehensive statement of any changes made in method of depreciation and in the selection of average service lives and dispersion.	9	3	109	3	Spanos
53-53.1.A.7	Provide a table, showing the cumulative depreciated original cost by year of installation for utility plant in service at the end of the test year (depreciable plant only) as claimed in the measures of value, in the following form: a. Year installed. b. Original cost - the total surviving cost associated with each installation year from all plant accounts.	9	4	109	4	Spanos

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		Exhibit	Schedule	Exhibit	Schedule	
	c. Calculated depreciation reserve-the calculated depreciation reserve associated with each installation year from all plant accounts. d. Depreciated original cost - (Column B minus Column C). e. Total - cumulation year by year of the figures from Column D. f. Column E divided by the total of the figure in Column D.					Spanos
53.53.I.A.8	Provide a description of the trending methodology which was utilized. Identify all indexes which were used (include all backup workpapers) and all the reasons particular indexes were chosen. If indexes were spliced, indicate which years were utilized in any splices. if indexes were composite, show all supporting calculations, include any analysis made to "test" the applicability of any index.	8		108		Paloney
53.53.I.A.9	Provide an exhibit indicating the spot trended original cost at test year end by vintage by account and include applicable depreciation reserves. Include total by account for all other trended measures of value.	8		108		Paloney
53.53.I.A.10	Supply an exhibit indicating the percentages of Undepreciated original cost which were trended with the following indexes: a. Boeckh. b. Handy-Whitman. c. Indexes developed from suppliers' prices. d. Indexes developed from company records and company price histories. e. Construction equipment. f. Government statistical releases.	8		108		Paloney
		8		108		Paloney
		8		108		Paloney
		8		108		Paloney
		8		108		Paloney
		8		108		Paloney
53.53.I.A.11	Provide a table, showing the cumulative trended depreciated original cost (at the spot price level) by year installation for utility plant in service at the end of the test year (depreciable plant only) as claimed in the measures of value, in the following form: a. Year installed. b. Trended original cost (at the spot price level) - the total surviving cost associated with each installation year from all plant accounts. c. Trended calculated depreciation reserve - the calculated depreciation reserve associated with each installation year from all plant accounts. d. Depreciated trended original cost - (Column B minus Column C). e. Total-accumulation year by year of the figures from Column D. f. Column E divided by the total of the figures in Column D.	8		108		Paloney
		8		108		Paloney
		8		108		Paloney
		8		108		Paloney
		8		108		Paloney
		8		108		Paloney
53.53.I.A.12	If a claim is made for construction work in progress, include, in the form of an exhibit, the summary page from all work orders, amount expensed at the end of the test year and anticipated in-service dates. Indicate if any of the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include final completion date and estimated total amounts to be spent on each project. [These exhibits should be updated at the conclusion of these proceedings.]	8		108		Paloney



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		<u>Exhibit</u>	<u>Schedule</u>	<u>Exhibit</u>	<u>Schedule</u>	
53-53.1.A.13	If a claim is made for non-revenue producing construction work in progress, include, in the form of an exhibit, the summary page from all work orders, amount expended at the end of the test year and anticipated in-service dates. Indicate if any of the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include final completion date and estimated total amounts to be spent on each project. [These exhibits should be updated at the conclusion of these proceedings.]	8		108		Paloney
53-53.1.A.14	If a claim is made for plant held for future use, supply the following: a. A brief description of the plant or land site and its cost. b. Expected date of use for each item claimed. c. Explanation as to why it is necessary to acquire each item in advance of its date of use. d. Date when each item was acquired. e. Date when each item was placed in plant held for future use.	8		108		Paloney
						Paloney
						Paloney
						Paloney
						Paloney
53-53.1.A.15	If materials and supplies comprise part of the cash working capital claim, attach an exhibit showing the actual book balances for materials and supplies by month for the thirteen months prior to the end of the test year. Explain any abrupt changes in monthly balances. [Explain method of determining claim if other than that described above.]	8		108		Paloney
53-53.1.A.16	If fuel stocks comprise part of the cash working capital claim, provide an exhibit showing the actual book balances (quantity and price) for the fuel inventories by type of fuel for the thirteen months prior to the end of the test year by location, station, etc. [Explain the method of determining claim if other than that described above.]	8		108		Paloney
53-53.1.A.17	Regardless of whether a claim for net negative or positive salvage is made, attach an exhibit showing gross salvage, cost of removal, and net salvage for the test year and four previous years by account.	9	5	109	5	Spanos
53-53.1.A.18	Explain in detail by statement or exhibit the appropriateness of claiming any additional items, not previously mentioned, in the measures of value.	8		108		Paloney
<b>53-53.I.C</b>	<b>53-53.I VALUATION</b> <b>C. GAS UTILITIES</b>					
53-53.I.C.1	Provide, with respect to the scope of operations of the utility, a description of all property, including an explanation of the system's operation, and all plans for any significant future expansion, modification, or other alterations of facilities. This description should include, but not be limited to, the following: a. If respondent has various gas service areas, indicate if they are integrated, such that the gas supply is available to all customers. b. Provide all pertinent data regarding company policy related to the addition of new consumers in the company's service area. c. Explain how respondent obtains its gas supply, as follows: (i) Explain how respondent stores or manufactures gas; if applicable. (ii) State whether the company has peak shaving facilities. (iii) Provide details of coal-gasification programs, if any. iv) Describe the potential for emergency purchases of gas. (v) Provide the amount of gas in MCF supplied by various suppliers in the test year (include a copy of all contracts).	17		117		Paloney

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		Exhibit	Schedule	Exhibit	Schedule	
	d. Provide plans for future gas supply, as follows: (i) Supply details of anticipated gas supply from respondent's near-term development of gas wells, if any. (ii) Provide gas supply agreements and well development ventures and identify the parties thereto.  e. Indicate any anticipated curtailments and explain the reasons for the curtailments. f. Provide current data on any Federal Power Commission action or programs that may affect, or tend to affect, the natural gas supply to the gas utility.					
53.53.I.C.2	Provide an overall system map, including and labeling all measuring and regulating stations, storage facilities, production facilities transmission and distribution mains, by size, and all interconnections with other utilities and pipelines.	15	2	115		Paloney
<b>53.53.II.A</b>	<b>53.53.II. RATE RETURN</b> <b>A. ALL UTILITIES</b>					
53.53.II.A.1	Provide capitalization and capitalization ratios for the last five-year period and projected through the next two years. (With short-term debt and without short-term debt.) Company, Parent and System (consolidated). a. Provide year-end interest coverages before and after taxes for the last three years and at latest date. (Indenture and SEC Bases.) (Company, Parent and System (consolidated)). b. Provide year-end preferred stock dividend coverages for last three years and at latest date (Charter and SEC bases).	401		401		Moul
53.53.II.A.2	Provide latest quarterly financial report (Company and Parent).	402		402		Moul
53.53.II.A.3	Provide latest Stockholder's Report (Company and Parent).	403		403		Moul
53.53.II.A.4	Provide latest Prospectus (Company and Parent).	404		404		Moul
53.53.II.A.5	Supply projected capital requirements and sources of Company, Parent and System (consolidated) for each of future three years.	405		405		Moul
53.53.II.A.6	Provide a schedule of debt and preferred stock of Company, Parent and System (Consolidated) as of test year-end and latest date, detailing for each issue (if applicable): a. Date of issue b. Date of maturity c. Amount issued d. Amount outstanding e. Amount retired f. Amount reacquired g. Gain on reacquisition h. Coupon rate i. Discount or premium at issuance j. Issuance expenses k. Net proceeds l. Sinking Fund requirements m. Effective interest rate n. Dividend rate o. Effective cost rate p. Total average weighted effective Cost Rate	406		406		Moul

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Commission Regulation Number	Commission Regulation	Historic Test Year Twelve Months Ended <u>November 30, 2014</u>		Fully Forecasted Rate Year Twelve Months Ended <u>December 30, 2016</u>		Witness
		Exhibit	Schedule	Exhibit	Schedule	
53-53.II.A.7	Supply financial data of Company and/or Parent for last five years: a. Earnings-price ratio (average) b. Earnings-book value ratio (per share basis) (avg. book value) c. Dividend yield (average) d. Earnings per share (dollars) e. Dividends per share (dollars) f. Average book value per share yearly g. Average yearly market price per share (monthly high-low basis) h. Pre-tax funded debt interest coverage i. Post-tax funded debt interest coverage j. Market price-book value ratio	407		407		Moul
53-53.II.A.8	State amount of debt interest utilized for income tax calculations, and details of debt interest computations, under each of the following rate cases vases: a. Actual test year b. Annualized test year-end c. Proposed test year-end	7		107		Fischer
53-53.II.A.9	State amount of debt interest utilized for income tax calculations which has been allocated from the debt interest of an affiliate, and details of the allocation, under each of the following rate cases vases: a. Actual test year b. Annualized test year-end c. Proposed test year-end	7		107		Fischer
53-53.II.A.10	Under Section 1552 of the Internal Revenue Code and Regulations 1.1552-1 thereunder, if applicable, Parent Company, in filing a consolidated income tax return for the group, must choose one of four options by which it must allocate total income tax liability of the group to the participating members to determine each member's tax liability to the federal government. (If this interrogatory is not applicable, so state.)  a. State what option has been chosen by the group. b. Provide, in summary form, the amount of tax liability that has been allocated to each of the participating members in the consolidated income tax return c. Provide a schedule, in summary form, of contributions, which were determined on the basis of separate tax return calculations, made by each of the participating members to the tax liability indicated in the consolidated group tax return. Provide total amounts of actual payments to the tax depository for the tax year, as computed on the basis of separate returns of members. d. Provide annual income tax return for group, and if income tax return shows net operating loss, provide details of amount of net operating loss allocated to the income tax returns of each of the members of the consolidated group.	7		107		Fischer

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		Exhibit	Schedule	Exhibit	Schedule	
53-53-II.A.11	Provide AFUDC charged by company at test year-end and latest date, and explain method by which rate was calculated.	408		408		Miller
53-53-II.A.12	Set forth provisions of Company's and Parent's charter and indentures (if applicable) which describe coverage requirements, limits on proportions of types of capital outstanding, and restrictions on dividend payouts.	409		409		Moul
53-53-II.A.13	Attach copies of the summaries of the projected 2 year's Company's budgets (revenue, expense and capital).	13	2	113	2	Miller
53-53-II.A.14	Describe long-term debt reacquisition's by Company and Parent as follows: a. Reacquisition's by issue by year. b. Total gain on reacquisition's by issue by year. c. Accounting of gain for income tax and book purposes.	410		410		Moul
53-53-II.A.15	Set forth amount of compensating bank balances required under each of the following rate base bases: a. Annualized test year operations. b. Operations under proposed rates.	411		411		Moul
53-53-II.A.16	Provide the following information concerning compensating bank balance requirements for actual test year: a. Name of each bank. b. Address of each bank. c. Types of accounts with each bank (checking, savings, escrow, other services, etc.). d. Average Daily Balance in each account. e. Amount and percentage requirements for compensating bank balance at each bank. f. Average daily compensating bank balance at each bank. g. Documents from each bank explaining compensating bank balance requirements. h. Interest earned on each type of account.	411		411		Moul
53-53-II.A.17	Provide the following information concerning bank notes payable for actual test year: a. Line of Credit at each bank. b. Average daily balances of notes payable to each bank, by name of bank. c. Interest rate charged on each bank note (Prime rate, formula rate or other). d. Purpose of each bank note (e.g., construction, fuel storage, working capital, debt retirement). e. Prospective future need for this type of financing	412		412		Moul
53-53-II.A.18	Set forth amount of total cash (all cash accounts) on hand from balance sheets for last 24-calendar months preceding test year-end.	1	3	101		Miller
53-53-II.A.19	Submit details on Company or Parent common stock offerings (past 5 years to present) as follows: a. Date of Prospectus b. Date of offering c. Record date d. Offering period-dates and number of days e. Amount and number of share of offering	413		413		Moul

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		Exhibit	Schedule	Exhibit	Schedule	
	f. Offering ratio (if rights offering) g. Per cent subscribed h. Offering price i. Gross proceeds per share j. Expenses per share k. Net proceeds per share (i-j) l. Market price per share 1. At record date 2. At offering date 3. One month after close of offering m. Average market price during offering 1. Price per share 2. Rights per share-average value of rights n. Latest reported earnings per share at time of offering o. Latest reported dividends at time of offering					Moul
53-53.II.A.20	Provide latest available balance sheet and income statement for Company, Parent and System (consolidated).	414		414		Miller
53-53.II.A.21	Provide Original Cost, Trended Original Cost and Fair Value rate base claims.	8		108		Paloney
53-53.II.A.22	a. Provide Operating Income claims under: (i) Present rates (ii) Pro forma present rates (annualized & normalized) (iii) Proposed rates (annualized & normalized) b. Provide Rate of Return on Original Cost and Fair Value claims under: (i) Present rates (ii) Pro forma present rates (iii) Proposed rates	2	2	102	2	Miller
53-53.II.A.23	List details and sources of "Other Property and Investments," "Temporary Cash Investments and Working Funds on test year-end balance sheet.	1	4	101		Miller
53-53.II.A.24	Attach chart explaining Company's corporate relationship to its affiliates (System Structure).	15	3	115		Paloney
53-53.II.A.25	If the utility plans to make a formal claim for a specific allowable rate of return. Provide the following data in statement form: a. Claimed capitalization and capitalization ratios with supporting data. b. Claimed cost of long-term debt with supporting data. c. Claimed cost of short-term debt with supporting data. d. Claimed cost of total debt with supporting data. e. Claimed cost of preferred stock with supporting data f. Claimed cost of common equity with supporting data.	400		400		Moul
53-53.II.A.26	Provide the following income tax data: a. Consolidated income tax adjustments, if applicable. b. Interest for tax purposes (basis).	7		107		Fischer
<b>53-53.II.C</b>	<b>53-53.II. RATE RETURN</b> <b>C. GAS UTILITIES</b>					
53-53.II.C.1	Provide test year monthly balances for "Current Gas Storage" and notes financing such storage.	1	5	101		Miller

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		Exhibit	Schedule	Exhibit	Schedule	
53-53.III.A	<b>53-53.III. BALANCE SHEET AND OPERATING STATEMENT A ALL UTILITIES</b>					
53-53.III.A1	Provide a comparative balance sheet for the test year and the preceding year which corresponds with the test year date.	1	1	101		Miller
53-53.III.A2	Set forth the major items of Other Physical Property, Investments in Affiliated Companies and Other Investments.	1	6	101		Miller
53-53.III.A3	Supply the amounts and purpose of Special Cash Accounts of all types, such as: a. Interest and Dividend Special Deposits. b. Working Funds other than general operating cash accounts. c. Other special cash accounts and amounts (Temporary cash investments).	1	7	101		Miller
53-53.III.A4	Describe the nature and/or origin and amounts of notes receivable, accounts receivable from associated companies, and any other sign fact receivables, other than customer accounts, which appear on balance sheet.	1	8	101		Miller
53-53.III.A5	Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued, and amounts written-off in each of the last three years.	1	9	101		Miller
53-53.III.A6	Provide a list of prepayments and give an explanation of special prepayments.	1	10	101		Miller
53-53.III.A7	Explain in detail any other significant (in amount) current assets listed on balance sheet.	1	11	101		Miller
53-53.III.A8	Explain in detail, including the amount and purpose, the deferred asset accounts that currently operate to effect or will at a later date effect the operating account supplying: a. Origin of these accounts. b. Probable changes to this account in the near future. c. Amortization of these accounts currently charged to operations or to be charged in the near future.  d. Method of determining yearly amortization for the following accounts: Temporary Facilities Miscellaneous Deferred Debits Research and Development Property Losses Any other deferred accounts that effect operating results.	1	12	101		Miller
53-53.III.A9	Explain the nature of accounts payable to associated companies, and note amounts of significant items.	1	13	101		Miller
53-53.III.A10	Provide details of other deferred credits as to their origin and disposition policy (e.g. - amortization).	1	14	101		Miller
53-53.III.A11	Supply basis for Injury and Damages reserve and amortization thereof.	1	15	101		Miller
53-53.III.A12	Provide details of any significant reserves, other than depreciation, bad debt, injury and damages, appearing on balance sheet.	1	16	101		Miller
53-53.III.A13	Provide an analysis of Unappropriated retained earnings for the test year and three preceding calendar years.	1	17	101		Miller
53-53.III.A14	Provide schedules and data in support of the following working capital items: a. Prepayments - List and identify all items b. Federal Excise Tax accrued and prepaid c. Federal Income Tax accrued or prepaid d. Pa. State Income Tax accrued or prepaid e. Pa. Gross Receipts Tax accrued or prepaid	8		108		Paloney

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	f. Pa. Capital Stock Tax accrued or prepaid g. Pa. Public Utility Realty Tax accrued or prepaid h. State sales tax accrued or prepaid i. Payroll taxes accrued or prepaid j. Any adjustment related to the above items for ratemaking purposes.					
53-53.III.A15	Supply an exhibit supporting the claim for working capital requirement based on the lead-lag method. a. Pro forma expenses and revenues are to be used in lieu of book data for computing lead-lag days.  b. Respondent must either include sales for resale and related expenses in revenues and in expenses or exclude from revenues and expenses. Explain procedures followed (exclude telephone).	8	4	108	4	Elliott
53-53.III.A16	Provide detailed calculations showing the derivation of the tax liability offset against gross cash working capital requirements.	8	4	108	4	Elliott
53-53.III.A17	Prepare a Statement of Income for the various time frames of the rate proceeding including:  Col. 1-Book recorded statement for the test year. 2-Adjustments to book record to annualize and normalize under present rates. 3-Income statement under present rates after adjustment in Col. 2 4-Adjustment to Col. 3 for revenue increase requested. 5-Income statement under requested rates. a. Expenses may be summarized by the following expense classifications for purposes of this statement: Operating Expenses (by category) Dpreciation Amortization Taxes, Other than Income Taxes Total Operating Expense Operating Income Before Taxes Federal Taxes State Taxes Deferred Federal Deferred State Income Tax Credits Other Credits Other Credits and Charges, etc. Total Income Taxes Net Utility Operating Income Other Income & Deductions Other Income Detailed listing of Other Income used in Tax Calculation Other Income Deduction Detailed Listing Taxes Applicable to Other Income and Deductions	2  2	3  4	102	3	Miller  Miller

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	Listing Income Before Interest Charges Listing of all types of Interest Charges and all amortization of Premiums and/or Discounts and expenses on Debt issues Total Interest Net Income After Interest Charges (Footnote each adjustment to the above statements with explanation in sufficient clarifying detail.)					
53.53.III.A18	Provide comparative operating statements for the test year and the immediately preceding 12 months showing increases and decreases between the two periods. These statements should supply detailed explanation of the causes of the major variances between the test year and preceding year by detailed account number.	2	5	102	4	Miller
53.53.III.A19	List extraordinary property losses as a separate item, not included in operating expenses or depreciation and amortization. Sufficient supporting data must be provided.	13	5	113	3	Miller Paloney
53.53.III.A20	Supply detailed calculations of amortization of rate case expense, including supporting data for outside services rendered. Provide the items comprising the rate case expense claim (include the actual billings or invoices in support of each kind of rate case expense), the items comprising the actual expenses of prior rate cases and the unamortized balances.	4	4	104	4	Miller
53.53.III.A21	Submit detailed computation of adjustments to operating expenses for salary, wage and fringe benefit increases (union and non-union merit, progression, promotion and general) granted during the test year and six months subsequent to the test year. Supply data showing for the test year: a. Actual payroll expense (regular and overtime separately) by categories of operating expenses, i.e. maintenance, operating transmission, distribution, other. b. Date, percentage increase, and annual amount of each general payroll increase during the test year. c. Dates and annual amounts of merit increases or management salary adjustments. d. Total annual payroll increases in the test year e. Proof that the actual payroll plus the increases equal the payroll expense claimed in the supporting data (by categories of expenses). f. Detailed list of employee benefits and cost thereof for union and non-union personnel. Any specific benefits for electives and officers should also be included, and cost thereof. g. Support the annualized pension cost figures (i) State whether these figures include any unfunded pension costs. Explain. (ii) Provide latest actuarial study used for determining pension accrual rates. h. Submit a schedule showing any deferred income and consultant fee to corporate officers or employees.	4	5	104	5	Miller
53.53.III.A22	Supply an exhibit showing an analysis, by functional accounts, of the charges by affiliates (Service Corporations, etc.) for services rendered included in the operating expenses of the filing company for the 12-month period ended prior to the test year. a. Supply a copy of contracts, if applicable. b. Explain the nature of the services provided. c. Explain basis on which charges are made. d. If charges allocated, identify allocation factors used.	4	11	104	9	Miller



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		Exhibit	Schedule	Exhibit	Schedule	
	e. Supply the components and amounts comprising the expense in this account. f. Provide details of initial source of charge and reason thereof.					
53-53.III.A23	Describe costs relative to leasing equipment, computer rentals, and office space, including terms and conditions of the lease. State method for calculating monthly or annual payments.	4	12	104	9	Miller
53-53.III.A24	Submit detailed calculations (or best estimates) of the cost resulting from major storm damage.	4	13	104	9	Miller
53-53.III.A25	Submit details of expenditures for advertising (National and Institutional and Local media). Provide a schedule of advertising expense by major media categories for the test year and the prior two comparable years with respect to: a. Public health and safety b. Conservation of energy c. Explanation of Billing Practices, Rates, etc. d. Provision of factual and objective data programs in educational institutions e. Other advertising programs f. Total advertising expense	4	8	104	6	Miller
53-53.III.A26	Provide a list of reports, data, or statements requested by and submitted to the Commission during and subsequent to the test year.	14	1	114	1	Bardes
53-53.III.A27	Prepare a detailed schedule for the test year showing types of social and service organization memberships paid for by the Company and the cost thereof.	4	14	104	9	Miller
53-53.III.A28	Submit a schedule showing, by major components, the expenditures associated with Outside Services Employed, Regulatory Commission Expenses and Miscellaneous General Expenses, for the test year and prior two comparable years.	4	14	104	9	Miller
53-53.III.A29	Submit details of information covering research and development expenditures, including major projects within the company and forecasted company programs.	4	9	104	7	Miller Hanson
53-53.III.A30	Provide a detailed schedule of all charitable and civic contributions by recipient and amount for the test year.	4	15	104	9	Miller
53-53.III.A31	Provide a detailed analysis of Special Services-Account 795.	4	14	104	9	Miller
53-53.III.A32	Provide a detailed analysis of Miscellaneous General Expense-Account No. 801.	4	14	104	9	Miller
53-53.III.A33	Provide a labor productivity schedule.	4	10	104	8	Miller
53-53.III.A34	List and explain all non-recurring abnormal or extraordinary expenses incurred in the test year which will not be present in future years.	4	16	104	9	Miller
53-53.III.A35	List and explain all expenses included in the test year which do not occur yearly but are of a nature that they do occur over an extended period of years. (e.g., -Non-yearly maintenance programs, etc.)  (Responses shall be submitted and identified as exhibits.)	4	16	104	9	Miller
53-53.III.A36	Using the adjusted year's expenses under present rates as a base, give detail necessary for clarification of all expense adjustments. Give clarifying detail for such adjustments that occur due to changes in accounting procedure, such as charging a particular expense to a different account than was used previously. Explain any extraordinary declines in expense due to such change of account use.	4	16	104	9	Miller

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		Exhibit	Schedule	Exhibit	Schedule	
53-53.III.A37	Indicate the expenses that are recorded in the test year, which are due to the placement in operating service of major plant additions or the removal of major plant from operating service, and estimate the expense that will be incurred on a full-year's operation.	4	16	104	9	Miller
53-53.III.A38	Submit a statement of past and anticipated changes, since the previous rate case, in major accounting procedures.	4	16	104	9	Miller
53-53.III.A39	Identify the specific witness for all statements and schedules of revenues, expenses, taxes, property, valuation, etc.	13	3	113	3	Kempic Paloney
53-53.III.A40	Adjustments which are estimated shall be fully supported by basic information reasonably necessary.	13	4	113	3	Paloney Miller
53-53.III.A41	Submit a statement explaining the derivation of the amounts used for projecting future test year level of operations and submit appropriate schedules supporting the projected test year level of operations.	13	4	113	3	Paloney Miller
53-53.III.A42	If a company has separate operating divisions, an income statement must be shown for each division, plus an income statement for company as a whole.	2	6	102	5	Miller
53-53.III.A43	If a company's business extends into different states or jurisdictions, then statements must be shown listing Pennsylvania jurisdictional data, other state data and federal data separately and jointly (Balance sheets and operating accounts)	2	6	102	5	Miller
53-53.III.A44	Ratios, percentages, allocations and averages used in adjustments must be fully supported and identified as to source.	13	4	113	3	Paloney Miller
53-53.III.A45	Provide an explanation of any differences between the basis or procedure used in allocations of revenues, expenses, depreciation and taxes in the current rate case and that used in the prior rate case.	13	4	113	3	Paloney Miller
53-53.III.A46	Supply a copy of internal and independent audit reports of the test year and prior calendar year, noting any exceptions and recommendations and disposition thereof.	13	4	113	3	Paloney
53-53.III.A47	Submit a schedule showing rate of return on facilities allocated to serve wholesale customers.	11		111		Elliott
53-53.III.A48	Provide a copy of the latest capital stock tax report and the latest capital stock tax settlement.	6	3	106	3	Fischer
53-53.III.A49	Submit details of calculations for Taxes, Other than Income where a company is assessed taxes for doing business in another state, or on its property located in another state.	6	4	106	3	Fischer
53-53.III.A50	Provide a schedule of federal and Pennsylvania taxes, other than income taxes, calculated on the basis of test year per books, pro forma at present rates, and pro forma at proposed rates, to include the following categories: a. social security b. unemployment c. capital stock d. public utility realty e. PUC assessment f. other property g. any other appropriate categories	6	2	106	2	Fischer
53-53.III.A51	Submit a schedule showing for the last five years the income tax refunds, plus interest (net of taxes), received from the federal government due to prior years' claims.	7		107		Fischer

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		Exhibit	Schedule	Exhibit	Schedule	
53.53.III.A52	Provide detailed computations showing the deferred income taxes derived by using accelerated tax depreciation applicable to post-1969 utility property increases productive capacity, and ADR rates on property. (Separate between state and federal, also rate used).	7		107		Fischer
	a. State whether tax depreciation is based on all rate base items claimed as of the end of the test year, and whether it is the annual tax depreciation at the end of the test year. b. Reconcile any difference between the deferred tax balance, as shown as a reduction to measures of value (rate base), and the deferred tax balance as shown on the balance sheet.	7		107		Fischer
53.53.III.A53	Submit a schedule showing a breakdown of the deferred income taxes by state and federal per books, <u>pro-forma existing rates, and under proposed rates.</u>	7		107		Fischer
53.53.III.A54	Submit a schedule showing a breakdown of accumulated investment tax (credits 3 percent, 4 percent, 7 percent, 10 percent and 11 percent), together with details of methods used to write-off the <u>unamortized balances.</u>	7		107		Fischer
53.53.III.A55	Submit a schedule showing the adjustments for taxable net income per books (including below-the-line items) and pro-forma under existing rates, together with an explanation of any difference between the adjustments. Indicate charitable donations and contributions in the tax calculation for <u>rate making purposes.</u>	7		107		Fischer
53.53.III.A56	Submit detailed calculations supporting taxable income before state and federal income taxes where the income tax is subject to allocation due to operations in another state, or due to operation of other taxable utility or non-utility business, or by operating divisions or areas.	7		107		Fischer
53.53.III.A57	Submit detailed calculations showing the derivation of deferred income taxes for amortization of repair allowance if such policy is followed. [Note: Submit additional schedules if the company has more than one accounting area.]	7		107		Fischer
53.53.III.A58	Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other <u>deferred income tax credits and reserves by accounting areas.</u>	7		107		Fischer
53.53.III.A59	Provide details of the Federal Surtax Credit allocated to the Pennsylvania jurisdictional area, if <u>applicable.</u>	7		107		Fischer
53.53.III.A60	Explain the reason for the use of cost of removal of any retired plant figures in the income tax <u>calculations.</u>	7		107		Fischer
53.53.III.A61	Submit the corresponding data applicable to Pennsylvania Corporate Income Tax deferral.  a. Show the amounts of straight line tax depreciation and accelerated tax depreciation, the difference between which gave rise to the normalizing tax charged back to the test year operating statement.  b. Show normalization for both Federal and State Income Taxes.  c. Show tax rates used to calculate tax deferral amount.	7		107		Fischer

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		Exhibit	Schedule	Exhibit	Schedule	
53-53.III.A62	Provide the accelerated tax depreciation and the book depreciation used to calculate test year deferrals in amounts segregated as follows: For: a. Property installed prior to 1970. b. Property installed subsequent to 1969 (indicate increasing capacity additions and no increasing capacity additions).	7		107		Fischer
53-53.III.A63	State whether all tax savings due to accelerated depreciation on property installed prior to 1970 have been passed through to income. (If not, explain).	7		107		Fischer
53-53.III.A64	Show any income tax loss/gain carryovers from previous years that may effect test year income taxes or future year income taxes. Show loss/gain carryovers by years of origin and amounts remaining by years at the end of the test year.	7		107		Fischer
53-53.III.A65	State whether the company eliminates any tax savings by the payment of actual interest on construction work in progress not in rate base claim. If response is affirmative: a. Set forth amount of construction claimed in this tax savings reduction. Explain the basis for this amount. b. Explain the manner in which the debt portion of this construction is determined for purposes of the deferral calculations. c. State the interest rate used to calculate interest on this construction debt portion, and the manner in which it is derived. d. Provide details of calculation to determine tax saving reduction. State whether state taxes are increased to reflect the construction interest elimination.	7		107		Fischer
53-53.III.A66	Provide a detailed analysis of Taxes Accrued per books as of the test year date. Also supply the basis for the accrual and the amount of taxes accrued monthly.	7		107		Fischer
53-53.III.A67	For the test year as recorded on test year operating statement: a. Supply the amount of federal income taxes actually paid. b. Supply the amount of the federal income tax normalizing charge to tax expense due to excess of accelerated tax depreciation over book depreciation. c. Supply the normalizing tax charge to federal income taxes for the 10% Job Development Credit during test year. d. Provide the amount of the credit of federal income taxes due to the amortization or normalizing yearly debit to the reserve for the 10% Job Development Credit. e. Provide the amount of the credit to federal income taxes for the normalizing of any 3% Investment Tax Credit Reserve that may remain on the utility books.	7		107		Fischer
53-53.III.A68	Provide the debit and credit in the test year to the Deferred Taxes due to Accelerated Depreciation for federal income tax, and provide the debit and credit for the Job Development Credits (whatever account) for test year.	7		107		Fischer

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53-53.III.A69	Reconcile all data given in answers to questions on income taxes charged on the test year operating statement with regard to income taxes paid, income taxes charged because of normalization and credits due to yearly write-offs of past years' income tax deferrals, and from normalization of <u>investment tax and development credits. (Both state and federal income taxes.)</u>	7		107		Fischer
53-53.III.A70	With respect to determination of income taxes, federal and state: a. Show income tax results of the annualizing and normalizing adjustments to the test year record before any rate increase. b. Show income taxes for the annualized and normalized test year. c. Show income tax effect of the rate increase requested. d. Show income taxes for the normalized and annualized test year after application of the full rate increase. [It is imperative that continuity exists between the income tax calculations as recorded for the test year and the final income tax calculation under proposed rates. If the company has more than one accounting area, then additional separate worksheets must be provided in addition to those for total company.]	7		107		Fischer
53-53.III.A71	In adjusting the test year to an annualized year under present rates, explain any changes that may be due to book or tax depreciation change and to debits and credits to income tax expense due to accelerated depreciation, deferred taxes, job development credits, tax refunds or other items. (The above refers only the adjustments going from recorded test year to annualized test year).	7		107		Fischer
<b>53-53.III.E</b>	<b>53-53.III.BALANCE SHEET AND OPERATING STATEMENT</b> <b>E. GAS UTILITIES</b>					
53-53.III.E.1	If Unrecovered Fuel Cost policy is implemented, provide the following: a. State manner in which amount of Unrecovered Fuel Cost on balance sheet at the end of the test year was determined, and the month in test year in which such fuel expense was actually incurred. Provide amount of adjustment made on the rate case operating account for test year-end unrecovered fuel cost. (If different than balance sheet amount, explain.) b. Provide amount of Unrecovered Fuel Cost that appeared on the balance sheet at the opening date of the test year, and the manner in which it was determined. State whether this amount is in the test year operating account..	1	18	101		Miller
53-53.III.E.2	Provide details of items and amounts comprising the accounting entries for Deferred Fuel Cost at the <u>beginning and end of the test year.</u>	1	18	101		Miller
53-53.III.E.3	Submit a schedule showing a reconciliation of test year MCF sales and line losses. List all amounts of <u>gas purchased, manufactured and transported.</u>	10	7	110	7	Paloney
53-53.III.E.4	Provide detailed calculations substantiating the adjustment to revenues for annualization of changes in number of customers and annualization of changes in volume sold for all customers for the test year. a. Break down changes in number of customers by rate schedules. b. If an annualization adjustment for changes in customers and changes in volume sold is not submitted, please explain.	3		103		Lai
53-53.III.E.5	Submit a schedule showing the sources of gas supply associated with annualized MCF sales.	12	1	112	1	Paloney

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		Exhibit	Schedule	Exhibit	Schedule	
53.53.III.E.6	Supply, by classification. Operating Revenues - Miscellaneous for test year	3		103		Lai
53.53.III.E.7	Provide details of respondent's attempts to recover uncollectible and delinquent accounts.	16		116	1	Paloney
53.53.III.E.8	Describe how the net billing and gross billing is determined. For example, if the net billing is based on the rate blocks plus FCA and STA, and the gross billing is determined by a percentage increase (1, 3, 5 percent), then state whether the percentage increase is being applied to all three items of revenue - rate blocks plus FCA and STA.	3		103		Lai
53.53.III.E.9	Describe the procedures involved in determining whether forfeited discounts or penalties are applied to customers billing.	3		103		Lai
53.53.III.E.10	Provide annualization of revenues as a result of rate changes occurring during the test year, at the level of operations as of end of the test year.	3		103		Lai
53.53.III.E.11	Provide a detailed billing analysis supporting present and proposed rates by customer classification and/or tariff rate schedule.	3		103		Lai
53.53.III.E.12	Provide a schedule showing residential and commercial heating sales by unit (MCF) per month and degree days for the test year and three preceding twelve month periods.	10	1	110	1	Efland
53.53.III.E.13	Provide a schedule of present and proposed tariff rates showing dollar change and percent of change by block. Also, provide an explanation of any change in block structure and the reasons therefore.	3		103		Lai
53.53.III.E.14	Provide the following statements and schedules. The schedules and statements for the test year portion should be reconciled with the summary operating statement. a. An operating revenues summary for the test year and the year preceding the test year showing the following (Gas MCF): (i) For each major classification of customers (a) MCF sales (b) Dollar Revenues (c) Forfeited Discounts (Total if not available by classification) (d) Other and Miscellaneous revenues that are to be taken into the utility operating account along with their related costs and expenses. (ii) A detailed explanation of all annualizing and normalizing adjustments showing method utilized and amounts and rates used in calculation to arrive at adjustment. (iii) Segregate, from recorded revenues from the test year, the amount of revenues that are contained therein, by appropriate revenue categories, from: (a) Fuel Adjustment Surcharge (b) State Tax Surcharge (c) Any other surcharge being used to collect revenues. (d) Provide explanations if any of the surcharges are not applicable to respondent's operations.  [The schedule should also show number of customers and unit of sales (Mcf), and should provide number of customers by service classification at beginning and end of test year.]	3		103		Lai

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	b. Provide details of sales for resale, based on periods five years before and projections for five years after the test year, and for the test year. List customers, Mcf sold, revenues received, source of Mcf sold (storage gas, pipeline gas, manufactured gas, natural or synthetic), contracted or spot sales, whether sales are to affiliated companies, and any other pertinent information.					
53.53.III.E.15	State manner in which revenues are being presented for ratemaking purposes: a. Accrued Revenues b. Billed Revenues c. Cash Revenues Provide details of the method followed.	3		103		Lai
53.53.III.E.16	If revenue accruing entries are made on the books at end of each fiscal period, give entries made accordingly at the end of the test year and at the beginning of the year. State whether they are reversed for ratemaking purposes.	2	7	102	6	Miller
53.53.III.E.17	State whether any adjustments have been made to expenses in order to present such expenses on a basis comparable to the manner in which revenues are presented in this proceeding (i.e.- accrued, billed or cash).	4	1	104	1	Miller Hanson
53.53.III.E.18	If the utility has a Fuel Adjustment Clause: a. State the base fuel cost per MCF chargeable against basic customers' rates during the test year. If there was any change in this basic fuel charge during the test year, give details and explanation thereof. b. State the amount in which the fuel adjustment clause cost per MCF exceeds the fuel cost per MCF charged in base rates at the end of the test year. c. If fuel cost deferral is used at the end of the test year, give (i) The amount of deferred fuel cost contained in the operating statement that was deferred from the 12-month operating period immediately preceding the test year. (ii) The amount of deferred fuel cost that was removed from the test period and deferred to the period immediately following the test year. d. State the amount of Fuel Adjustment Clause revenues credited to the test year operating account. e. State the amount of fuel cost charged to the operating expense account in the test year which is the basis of Fuel Adjustment Clause billings to customers in that year. Provide summary details of this charge f. From the recorded test year operating account, remove the Fuel Adjustment Clause Revenues. Also remove from the test year recorded operating account the excess of fuel cost over base rate fuel charges, which is the basis for the Fuel Adjustment charges. Explain any differences between FAC Revenues and excess fuel costs. [The above is intended to limit the operating account to existing customers' base rate revenues and expense deductions relative thereto].	12	2	112	2	Paloney
53.53.III.E.19	Provide growth patterns of usage and customer numbers per rate class, using historical and projected data.	10	2	110	2	Efland
53.53.III.E.20	Provide, for test year only, a schedule by tariff rates and by service classifications showing proposed increase and percent of increase.	3		103		Lai

Columbia Gas of Pennsylvania, Inc.  
 R-2015-2468056  
 Referenced by Commission Regulations

Commission Regulation Number	Commission Regulation	Historic Test Year Twelve Months Ended <u>November 30, 2014</u>		Fully Forecasted Rate Year Twelve Months Ended <u>December 30, 2016</u>		Witness
		Exhibit	Schedule	Exhibit	Schedule	
53-53.III.E.21	If a gas company is affiliated with another utility segment, such as a water or electric segment, explain the effects, if any, upon allocation factors used in the gas rate filing of current or recent rate increases allowed to the other utility segment (or segments) of the company.	2	8	102	7	Miller
53-53.III.E.22	Provide supporting data detailing curtailment adjustments, procedures and policies.	10	3	110	3	Paloney
53-53.III.E.23	Submit a schedule showing fuel cost in excess of base compared to fuel cost recovery for the period two months prior to test year and the test year	12	3	112	2	Paloney
53-53.III.E.24	Supply a detailed analysis of Purchased Gas for the test year and the twelve month period prior to the test year.	12	4	112	2	Paloney
53-53.III.E.25	Submit calculations supporting energy cost per MCF and operating ratio used to determine increase in costs other than production to serve additional load.	12	4	112	2	Paloney
53-53.III.E.26	Submit detailed calculations for bulk gas transmission service costs under supply and/or interconnection agreements.	12	4	112	2	Paloney
53-53.III.E.27	Submit a schedule for gas producing units retired or scheduled for retirement subsequent to the test year showing station, units, MCF capacity, hours of operation during test year, net output produced and cents/MCF of maintenance and fuel expenses.	13	6	113	4	Paloney
53-53.III.E.28	Provide a statement explaining the details of firm gas purchase (long-term) contracts with affiliated and nonaffiliated utilities, including determination of costs, terms of contract, and other pertinent information.	17		117		Paloney
53-53.III.E.29	Provide intrastate operations percentages by expense categories for two years prior to the test year.	4	17	104	9	Miller
53-53.III.E.30	Provide a schedule showing suppliers, MCF purchased, cost (small purchases from independent suppliers may be grouped); emergency purchases, listing same information; curtailments during the year; gas put into and taken out of storage; line loss, and any other gas input or output not in the ordinary course of business.	12	4	112	2	Paloney
53-53.III.E.31	Provide a schedule showing the determination of the fuel costs included in the base cost of fuel.	12	5	112	2	Paloney
53-53.III.E.32	Provide a schedule showing the calculation of any deferred fuel costs shown in Account 174. Also, explain the accounting, with supporting detail, for any associated income taxes.	1	19	101		Miller
53-53.III.E.33	Submit a schedule showing maintenance expenses, gross plant and the relation of maintenance expenses thereto as follows: (i) Gas Production Maintenance Expenses per MCF production, per \$1,000 MCF production, and per \$1,000 of Gross Production Plant; (ii) Transmission Maintenance Expenses per MMCF mile and per \$1,000 of Gross Transmission Plant; (iii) Distribution Maintenance Expenses per customer and per \$1,000 of Gross Distribution Plant; (iv) Storage Maintenance Expenses per MMCF of Storage Capacity and per \$1,000 of Gross Storage Plant. This schedule shall include three years prior to the test year, the test year and one year's projection beyond the test year.	4	18	104	9	Miller
53-53.III.E.34	Prepare a 3-column schedule of expenses, as described below for the following periods (supply sub-accounts, if significant, to clarify basic accounts): a. Column 1 - Test Year b. Column 2 and 3 - The two previous years	4	3 19	104	3	Miller



Columbia Gas of Pennsylvania, Inc.  
 R-2015-2468056  
 Referenced by Commission Regulations

Commission Regulation Number	Commission Regulation	Historic Test Year Twelve Months Ended November 30, 2014		Fully Forecasted Rate Year Twelve Months Ended December 30, 2016		Witness
		Exhibit	Schedule	Exhibit	Schedule	
	Provide the annual recorded expense by accounts. (Identify all accounts used but not specifically listed below.)					
53-53.III.E.35	Submit a schedule showing the Gross Receipts Tax Base used in computing Pennsylvania Gross Receipts Tax Adjustment.	6	1	106	1	Fischer
53-53.III.E.36	State the amount of gas, in MCF, obtained through various suppliers in past years.	12	4	112	2	Paloney
53-53.III.E.37	In determining pro forma expense, exclude cost of gas adjustments applicable to fuel adjustment clause and exclude fuel adjustment clause revenues, so that the operating statement is on the basis of base rates only.	3		103		Lai
53-53.III.E.38	Identify company's policy with respect to replacing customers lost through attrition.	10	4	110	4	Paloney
53-53.III.E.39	Identify procedures developed to govern relationship between the respondent and potential customers - i.e., basically expansion, alternate energy requirements, availability of supply, availability of distribution facilities, ownership of metering and related facilities.	10	4	110	4	Paloney
<b>53-53.IV.B</b>	<b>53-53.IV. RATE STRUCTURE B. GAS UTILITIES</b>					
	Each gas utility shall submit the following simultaneously with any rate increase filing:					
53-53.IV.B.1	Provide a Cost of Service Study showing the rate of return under the present and proposed tariffs for all customer classifications. The study should include a summary of the allocated measures of value, operating revenues, operating expenses and net return for each of the customer classifications at original cost and at the 5-year trended original cost.	11		111	1 - 3	Elliott
53-53.IV.B.2	Provide a statement of testimony describing the complete methodology of the cost of service study.	11		111		Elliott
53-53.IV.B.3	Provide a complete description and back-up calculations for all allocation factors.	11		111	4	Elliott
53-53.IV.B.4	Provide an exhibit for each customer classification showing the following data for the test year and the four previous years: a. The maximum coincident peak day demand. b. The maximum coincident 3-day peak day demand. c. The average monthly consumption in Mcf during the Primary Heating Season (November-March). d. The average monthly consumption in Mcf during the Non-heating season (April-October). e. The average daily consumption in Mcf for each 12-month period	10	5	110	5	Paloney
53-53.IV.B.5	Submit a Bill Frequency Analysis for each rate. The analysis should include the rate schedule and block interval, the number of bills at each interval, the cumulative number of bills at each interval, the Mcf or therms at each interval, the cumulative Mcf or therms at each interval, the accumulation of Mcf or therms passing through each interval, and the revenue at each interval for both the present rate and the proposed rates. The analysis should show only those revenues collected from the basic tariff.	11		111		Lai
53-53.IV.B.6	Supply copies of all present and proposed Gas Tariffs.	14	2	114	1	Bardes
53-53.IV.B.7	Supply a graph of present and proposed base rates on hyperbolic cross section paper.	11		111	5	Lai

Columbia Gas of Pennsylvania, Inc.  
R-2015-2468056  
Referenced by Commission Regulations

Commission Regulation Number	Commission Regulation	Historic Test Year Twelve Months Ended <u>November 30, 2014</u>		Fully Forecasted Rate Year Twelve Months Ended <u>December 30, 2016</u>		Witness
		Exhibit	Schedule	Exhibit	Schedule	
53-53-IV.B.8	Supply a map showing the Gas System Facilities and Gas Service Areas. The map should include transmission lines, distribution lines, other companies' lines interconnecting with the interconnecting points clearly designated, major compressor stations, gas storage and gas storage lines. The normal direction of gas flow within the transmission system should be indicated by arrows. Separate service areas within the system should be clearly designated.	15	2	115		Paloney
53-53-IV.B.9	Supply a cost analysis supporting minimum charges for all rate schedules.	11		111	2-3	Elliott
53-53-IV.B.10	Supply a cost analysis supporting demand charges for all tariffs which contain demand charges.	11		111		Elliott
53-53-IV.B.11	Supply the net fuel clause adjustment by month for the test year.	12	6	112	2	Paloney
53-53-IV.B.12	Supply a tabulation of base rate bills for each rate schedule comparing the existing rates to proposed rates. The tabulation should show the dollar difference and the per cent increase or decrease.	11		111	6	Balmert
53-53-IV.B.13	Submit the projected demands for all customer classes for both purchased and produced gas for the three years following the test year filing.	10	6	110	6	Efland
53-53-IV.B.14	Supply an exhibit showing the gas deliveries to each customer class for the most recent 24 month period. The exhibit should identify the source of the gas, such as "purchased" (pipeline), "production" (include purchases from local producers), "storage withdrawal", "propane/air", and "unaccounted for".	10	7	110	7	Paloney
<b>53.62</b>	<b>53.62 RECOVERY OF FUEL COSTS BY GAS UTILITIES</b> In addition to information otherwise required to be filed by a jurisdictional natural gas distributor with gross intrastate annual operating revenues in excess of \$40 million seeking a change in its base rates, each gas utility must also file updates to the information required by §53.64(c) (relating to filing requirements for natural gas distributors with gross intrastate annual operating revenues in excess of \$40 million). In the case of a utility purchasing gas as defined at §53.61 (a) (relating to purpose) from an affiliated interest, it shall also file updates to the information required at §53.65 (relating to special provisions relating to natural gas distributors with gross interstate annual operating revenues in excess of \$40 million with affiliated interests). These updates shall be made at the time the base rate case under 66 Pa.C.S. 1308 (relating to voluntary changes in rates) is originally filed. Deficiencies in filing will be treated as set forth at §53.51 (c) (relating to general).					
	Weather Normalization Adjustment	10	8	110	8	Efland
	Volumetric Portion of Load Growth Adjustment	10	9	103	4	Efland
	Estimated Number of Bills and Normalized Sales Volumes	10	2,4	110	9	Efland
	Future Test Year Sales Forecast	10	2	110	10	Efland
	Adjustment to Purchase Gas Expense	12	7	112	3	Paloney
	Recovery of Fuel Costs by Gas Utilities (1307-F)	12	8	112	4	Paloney

COLUMBIA GAS OF PENNSYLVANIA, INC  
53.53 III. BALANCE SHEET AND OPERATING STATEMENT  
A. ALL UTILITIES

40. Adjustments which are estimated shall be fully supported by basic information reasonably necessary.

Response: All adjustments made were based on annualizing and normalizing the 12 months ended November 30, 2014. The derivation and support behind the adjustments are shown on the following exhibits:

Exhibit No. 2	Income Statement
Exhibit No. 3	Revenues
Exhibit No. 4	Expenses
Exhibit No. 5	Depreciation
Exhibit No. 6	Taxes Other Than Income Taxes
Exhibit No. 7	Income Taxes
Exhibit No. 8	Measures of Value

41. Submit a statement explaining the derivation of the amounts used for projecting future test year level of operations and submit appropriate schedules supporting the projected test year level of operation.

Response: Exhibits explaining the derivation of the amounts used for projecting a future test year (12 months ending November 30, 2015) and a fully forecasted rate year (12 months ended December 31, 2016) are:

Exhibit No. 102	Income Statement
Exhibit No. 103	Revenues
Exhibit No. 104	Expenses
Exhibit No. 105	Depreciation
Exhibit No. 106	Taxes Other Than Income Taxes
Exhibit No. 107	Income Taxes
Exhibit No. 108	Measures of Value

COLUMBIA GAS OF PENNSYLVANIA, INC  
53.53 III. BALANCE SHEET AND OPERATING STATEMENT  
A. ALL UTILITIES

44. Ratios, percentages, allocations and averages used in adjustments must be fully supported and identified as to source.

Response: When allocation factors are used, they are identified on the appropriate exhibit.

45. Provide an explanation of any differences between the basis or procedure used in allocations of revenues, expenses, depreciation and taxes in the current rate case and that used in the prior rate case.

Response: There are no differences.

46. Supply a copy of internal and independent audit reports of the test year and prior calendar year, noting any exceptions and recommendations and disposition thereof.

Response: Please see the attached internal audits. There were no independent audit reports performed specifically for Columbia Gas of Pennsylvania during the test year and prior calendar year.

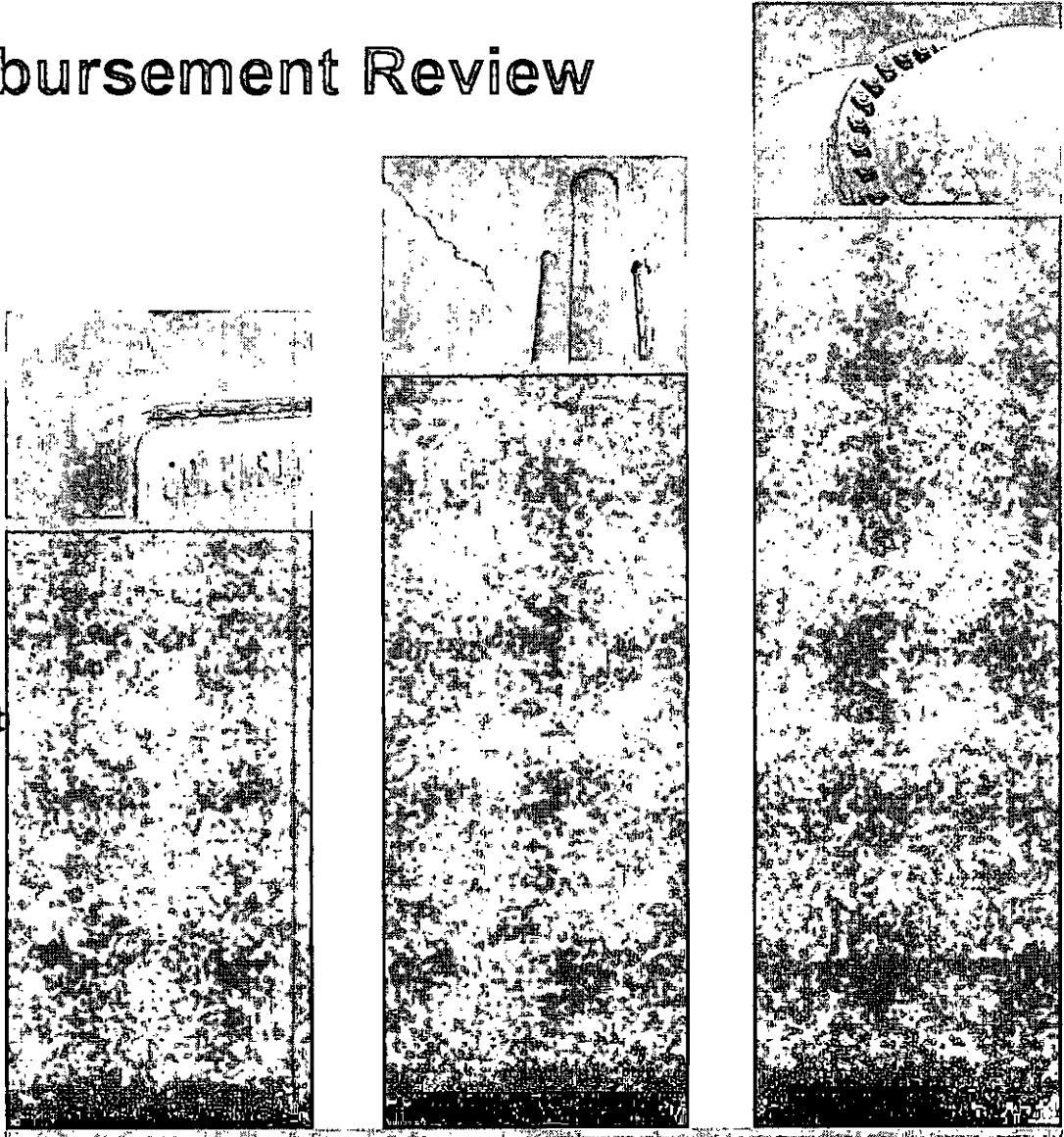
# B U I L D I N G

## Employee Expense Reimbursement Review NiSource Internal Audit

January 2, 2013

To: Susan Taylor, NiSource Corp.  
Services Segment Controller  
Michael Imhoff, VP Supply Chain,  
Real Estate, & Facility Management

From: Tiffany Fritchley, Senior Auditor  
Ryan Binkley, Audit Director  
Shelley Duling, Audit Manager



# Index

- Executive Summary..... Pages 3 - 7
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- Audit Procedures, Results and Recommendations.... Pages 20 - 40
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- Report Distribution..... Page 42
- Exhibits



Internal Audit conducted an audit of the controls and processes associated with the Policies and Procedures related to employee expense reimbursement for the period of July 1, 2009 to June 30, 2012 (audit period).

- The scope of the audit included the following NiSource entities:
  - Columbia Distribution Companies (CDCs)
  - Columbia Gas of Massachusetts (CMA)
  - NiSource Corporate Services (NCS)
  - NiSource Gas Transmission and Storage (NGT&S)
  - Northern Indiana Public Service Company (NIPSCO)
  
- Executive Council (Officer) expense statement reviews are performed annually. Internal Audit issued the 2012 Officer Expense Reimbursement Review report on June 4, 2012.

**Audit Purpose:** To assess the overall compliance with the requirements of Corporate policies related to expense reimbursement.

## Executive Summary (Cont'd)

Specifically, the focus of our audit included the following:

- Determine whether Policies and Procedures are adequate and reflect current processes;
- Verify that corporate credit card use is limited to authorized personnel;
- Determine whether employee expenses are incurred and reimbursed in accordance with corporate policy and Internal Revenue Service (IRS) guidelines, and
- Verify that reconciliations between American Express (AMEX) data and NiSource data are performed.





**Audit Objective 1:** Determine whether Policies and Procedures are adequate and reflect current processes.

- Generally, current policies and procedures reviewed by Internal Audit were determined to be adequate and reflect current processes.
  - However, Management should consider updating policies and procedures to provide more specific guidance for transactions with potential tax implications (such as charitable contributions), expense transactions identified during periodic Accounts Payable audits that relate to general changes in the overall business environment (home internet charges), and common expense transactions where the amount is subject to employee discretion (such as tips for meals, bellmen, etc.).
    - » These policy and procedure revisions would require updates to the ERS system. The cost/benefit of implementing these recommendations should be assessed, including an analysis of upgrading the ERS system to allow Management more flexibility and change control to add additional cost categories etc., in a timely and cost effective manner. Updates to the current ERS system can be cost prohibitive.

# Executive Summary (Cont'd)

**Audit Objective 2:** Determine that corporate credit card use is limited to authorized personnel.

- Cardholder agreements appear to have been properly approved and executed.
- Active American Express credit cards appear to be properly assigned to only active personnel.

**Audit Objective 3:** Determine that employee expenses are incurred and reimbursed in accordance with Corporate policy and Internal Revenue Service guidelines.

- Generally, employee expenses incurred are reimbursed in accordance with Corporate policies and are in compliance with IRS guidelines. However, Internal Audit was unable to fully conclude on **12** out of **476** total selected employee expense reports as the associated receipt documentation was not able to be provided by management – these expenses were pre-ERS implementation. The total of the 12 expense statements were deemed immaterial **(\$5,058)** and the risk of misplaced documentation in storage has been mitigated through the utilization of ERS. Additionally, Internal Audit identified minor variances from Corporate policies.

# Background

- The Internal Audit Department began performing regular audits of the expense reimbursement process in 2009.
- In addition to the reviews performed by Internal Audit, the Accounts Payable department performs audits of employee expenses, including, but not limited to, the following:
  - A pre-audit of all expense reports exceeding \$10,000;
  - A pre-audit of specifically identified employees based on historical experience and/or position within the Company;
  - A post audit of a random 10% sample of all expense submissions;
  - A post audit on all miscellaneous expenses exceeding \$250; and
  - A post audit on all cash out of pocket meals greater than \$25.

# Background (Cont'd)

- As of April 1, 2011, all business units process employee expenses through the Expense Reporting System (ERS); however, during the audit period the following systems were utilized by each respective business unit and timeframe:

Business Unit	Timeframe	Expense System
NiSource Transmission and Storage	7/1/2009 – 6/30/2012	ERS
NiSource Corporate Services	7/1/2009 – 6/30/2012	ERS
Columbia Distribution Companies	7/1/2009 – 3/31/2011	GEAC
Columbia Distribution Companies	4/1/2011 – 6/30/2012	ERS
Columbia Gas of Massachusetts	7/1/2009 – 8/31/2010	Lawson
Columbia Gas of Massachusetts	9/1/2010 – 6/30/2012	ERS
Northern Indiana Public Service Company (NIPSCO)	7/1/2009 – 9/30/2010	Material Accounts Payable Purchase System
Northern Indiana Public Service Company	10/1/2010 – 6/30/2012	ERS

# Background (Cont'd)

- AMEX corporate credit cards are provided to exempt employees to pay for travel and entertainment expenses and to approved non-exempt employees who travel frequently on company business. “Receipt Acknowledgments” are required to be signed by each employee, agreeing to the terms for using the AMEX card.
  - **ERS Users**
    - Expenses are submitted and approved through the online system.
    - Payments are remitted to AMEX by NiSource.
  - **Non-ERS Users (During Audit Period)**
    - Expenses were submitted and approved on an employee expense statement.
      - Systems such as Catalyst were utilized for approval and/or document retention for various business units.
    - Employees were responsible for remitting payment to AMEX and submitting charges to NiSource for reimbursement.
- Employees who are not issued corporate credit cards may still incur legitimate reimbursable business expenses.
  - Expenses are submitted and approved on an employee expense statement and sent to Accounts Payable for processing.

# Observations and Analysis

- Internal Audit analyzed employee spend data for the 12 month periods ending June 30, 2010, 2011 and 2012 noting the following:
  - Employee expenses have increased **\$14M** from the 12 month period ending July 31, 2010 to the 12 month period ending July 31, 2012 (**see Slides 16 – 17**).
  - While total spend has increased (as noted above), employee spend by category has remained consistent with travel related expenses (i.e. lodging, airfare, rental car, etc.) consistently comprising the majority of expenses.
    - Travel related expenses have ranged from **65%** to **67%** of total employee spend during the 12 month periods reviewed (**see Slide 18 for an illustration of the categorical spend for the audit period**).

# Observations and Analysis (Cont'd)

- Internal Audit analyzed employee spend data for the 12 month periods ending June 30, 2010, 2011 and 2012 noting the following:
  - NiSource Corporate Services (NCS) has comprised the highest percentage of employee spend during the three periods reviewed, ranging from **36%** to **42%** of total employee spend (**see Slide 19**).
  - The following departments were consistently in the **top 10** regarding department spend during each of the 12 month periods reviewed (**See Slides 13 – 15**):
    - NCS – Legal Regulatory
    - NGT&S – Project Teams
    - NCS – Technical Support





# Observations and Analysis (Cont'd)

The top departments in terms of spend for the 12 month period ending June 30, 2010 represented ~10% of total expenses. These departments are presented below:

Business Unit	Department	Amount
NiSource Gas Transmission and Storage	Project Teams	\$127,435
NiSource Corporate Services	Legal - Regulatory	\$122,828
NiSource Corporate Services	Technical Support	\$103,616
NiSource Gas Transmission and Storage	Marketing and Origination - South	\$95,053
NiSource Corporate Services	Organizational Development	\$92,289
NiSource Corporate Services	Columbia Distribution Company - Sales	\$91,241
Columbia Distribution Companies	Construction Services	\$90,284
Columbia Distribution Companies	Administration - Operations	\$86,327
NiSource Gas Transmission and Storage	Supply and Origination	\$85,856
NiSource Gas Transmission and Storage	System Integrity	\$82,188

# Observations and Analysis (Cont'd)

The top departments in terms of spend for the 12 month period ending June 30, 2011 represented ~11% of total expenses. These departments are presented below:

Business Unit	Department	Amount
NiSource Corporate Services	Legal - Regulatory	\$274,253
NiSource Corporate Services	Engineering Services	\$235,432
NiSource Gas Transmission and Storage	Public Affairs	\$201,883
NiSource Corporate Services	Technical Support	\$182,297
NiSource Corporate Services	Large Customer Relations	\$171,827
NiSource Gas Transmission and Storage	Project Teams	\$170,904
NiSource Corporate Services	Health, Safety and Environmental Technical Training Administration	\$164,351
NiSource Gas Transmission and Storage	Gulf Maintenance	\$158,075
NiSource Gas Transmission and Storage	FS Maintenance – St Albans	\$156,543
NiSource Gas Transmission and Storage	Gulf Compressor Maintenance	\$151,646



# Observations and Analysis (Cont'd)

The top departments in terms of spend for the 12 month period ending June 30, 2012 represented ~12% of total expenses. These departments are presented below:

Business Unit	Department	Amount
NiSource Corporate Services	Legal - Regulatory	\$384,615
NiSource Corporate Services	Technology and Application Support	\$359,616
NiSource Corporate Services	Health, Safety and Environmental Technical Training Administration	\$355,487
NiSource Gas Transmission and Storage	Project Teams	\$312,328
NiSource Gas Transmission and Storage	Rates and Regulatory Affairs	\$300,198
NiSource Corporate Services	Organizational Development	\$278,736
NiSource Corporate Services	Financial Transformation	\$251,050
NiSource Gas Transmission and Storage	Business Development	\$237,845
NiSource Gas Transmission and Storage	Pipeline Services	\$233,536
NiSource Corporate Services	Technical Support	\$213,471

# Observations and Analysis (Cont'd)

Employee expenses have increased ~\$14M from the 12 month period ending July 31, 2010 to the 12 month period ending July 31, 2012, primarily driven by a ~\$9M increase in travel expenses and ~\$3M increase in meals and entertainment (M&E) expenses.

(See *Slide 17* for graphical depiction of the year-over-year changes in spend.)

## Employee Spend By Category By Period (\$)

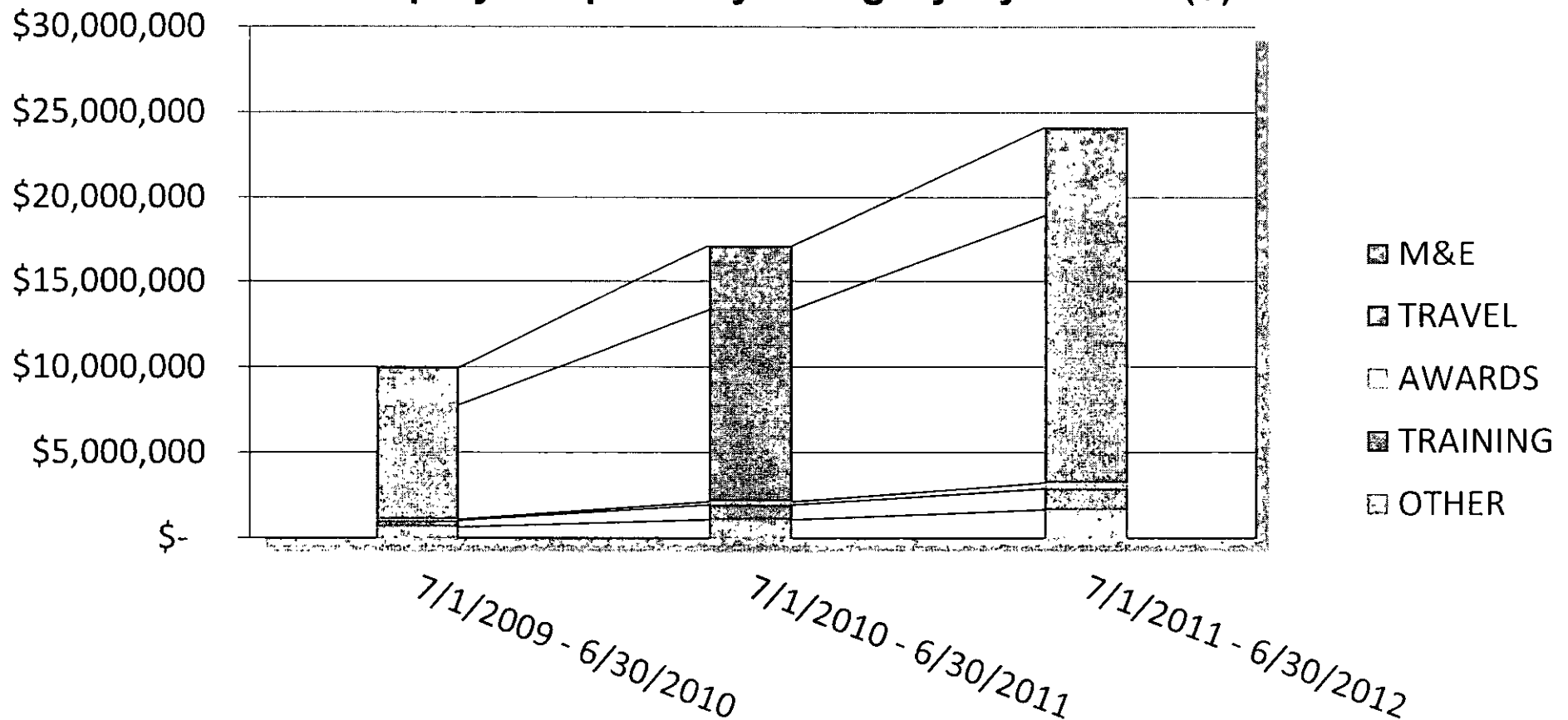
Spend Category	7/1/2009 – 6/30/2010	7/1/2010 – 6/30/2011	7/1/2011 – 6/30/2012
M&E	\$ 2,180,953	\$ 3,829,247	\$ 5,183,425
Travel	6,710,274	11,199,237	15,714,807
Awards	66,493	185,742	336,803
Training	395,160	871,515	1,231,648
Other	615,535	1,063,143	1,652,511
<b>Total</b>	<b>\$ 9,968,415</b>	<b>\$ 17,148,884</b>	<b>\$ 24,119,194</b>



# Observations and Analysis (Cont'd)

Employee expenses have increased ~\$14M from the 12 month period ending July 31, 2010 to the 12 month period ending July 31, 2012 primarily driven by a ~\$9M increase in travel expenses and ~\$3M increase in meals and entertainment (M&E) expenses.

### Employee Spend By Category By Period (\$)

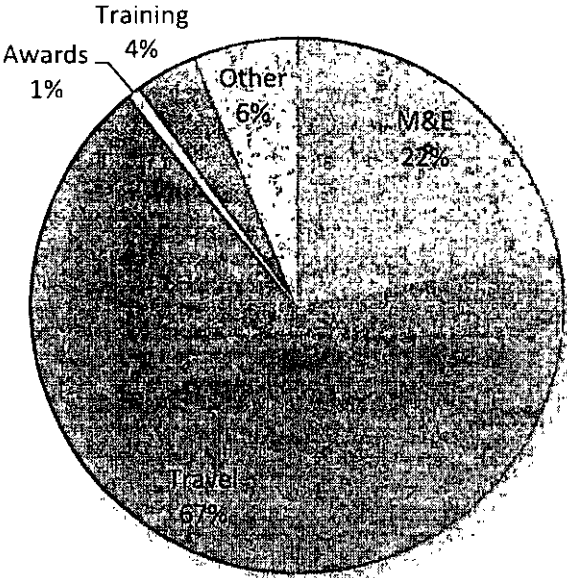


# Observations and Analysis (Cont'd)

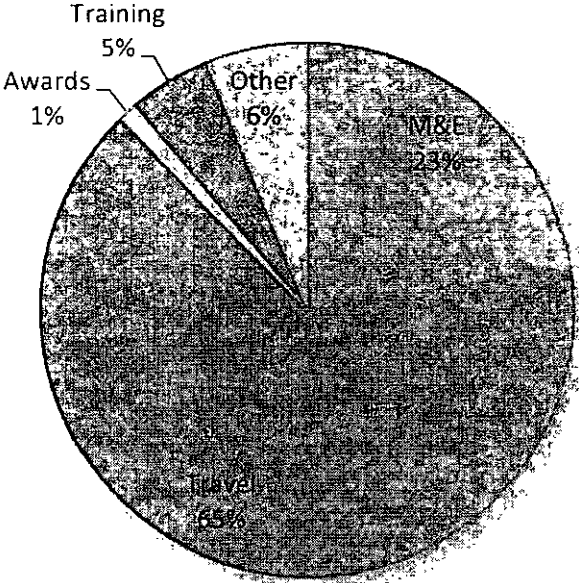
Employee spend by category has remained consistent during each of the 12 month periods reviewed with travel related expenses comprising between 65% to 67% of total expenses during the periods reviewed.

## Employee Spend By Category By Period (%)

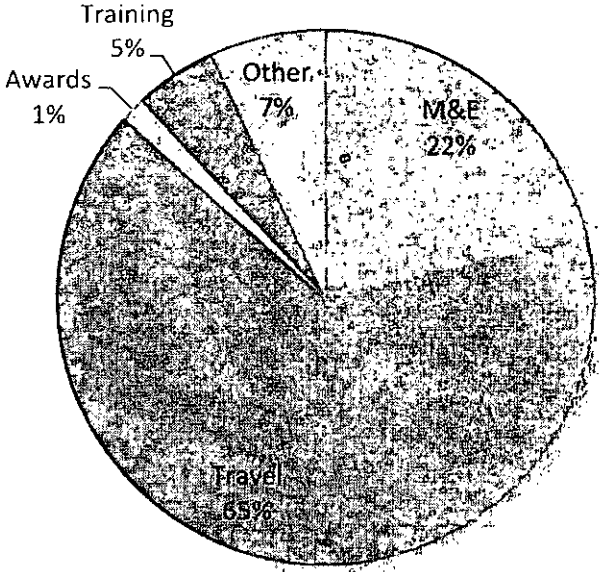
7/1/2009 - 6/30/2010



7/1/2010 - 6/30/2011



7/1/2011 - 6/30/2012



# Observations and Analysis (Cont'd)

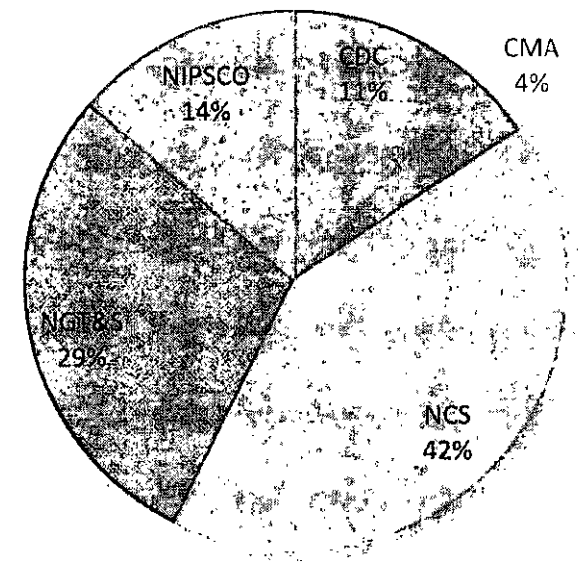
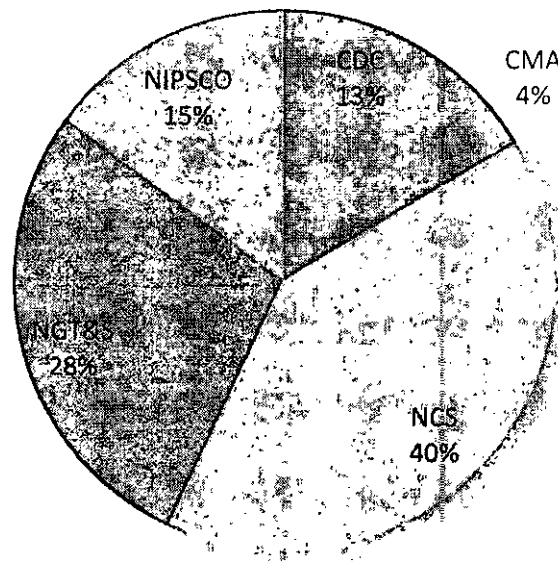
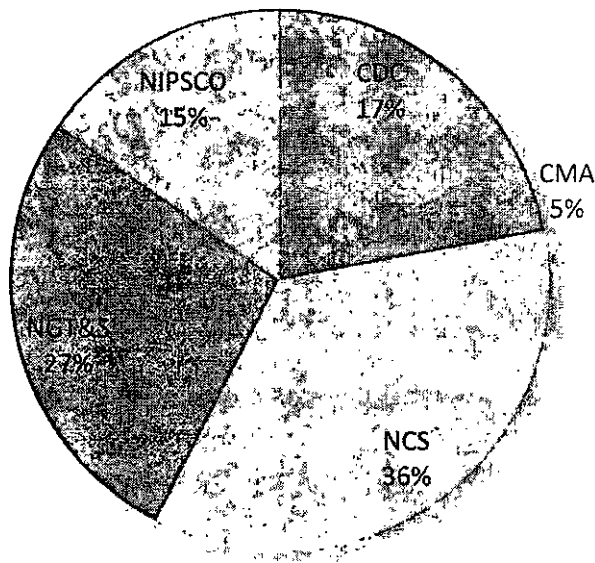
Employee spend by business unit has remained relatively consistent with NCS expenses comprising the highest spend level each of the three years, ranging from 36% to 42% of total spend. CDC expenses have decreased slightly (~6%) from the 12 month periods ending June 30, 2010 and June 30, 2012.

## Employee Spend By Business Unit (%)

7/1/2009 - 6/30/2010

7/1/2010 - 6/30/2011

7/1/2011 - 6/30/1012



# Audit Procedures, Results and Recommendations

## Objective 1

**Audit Objective 1:** Determine whether Policies and Procedures are adequate and reflect current processes.

### **Audit Procedures:**

1. Review existing Policies and Procedures for alignment with current processes and ensure communication and accessibility to all end users.



# Audit Procedures, Results and Recommendations

**Audit Procedure 1:** Review existing Policies and Procedures for alignment with current processes and ensure communication and accessibility to all end-users.

## ***Audit Results:***

- Internal Audit reviewed the following Policies and Procedures related to expense reimbursement for the period covering July 1, 2009 through June 30, 2012:
  - Business Expense Reimbursement and Reporting (ERS and non-ERS);
  - Employee Gift and Award Accounting and Reporting;
  - Gifts, Meals and Entertainment;
  - Travel;
  - Corporate Credit Card;
  - Cellular Devices and Cellular Services;
  - Information Technology Equipment; and
  - Internet Use Policy.

**NOTE:** During the audit period, several versions of the policies and procedures existed due to revisions to reflect the current processes at a specified time period.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont'd)

### ***Audit Procedure 1 – Audit results (Cont'd):***

- Overall, Internal Audit concluded that Policies and Procedures appear to be adequate, reflect current processes and are accessible to all employees via the MySource intranet;
  - However, based on the procedures performed the following was noted:
    - Policies and Procedures currently do ***not*** address the following items that were processed as employee expense items for the sample population reviewed:
      - **Charitable Contributions**
        - » Permissibility of this item is not addressed by policy and is not an expense category in ERS, if deemed an employee expense, to easily capture and assess these items for tax purposes and ensure proper accounting in the General Ledger.
          - *Through discussions with Management, it was noted that charitable contributions are also processed through the Accounts Payable cycle. These transactions are assessed for reasonableness by Management.*

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont'd)

### *Audit Procedure 1 – Audit results (Cont'd):*

- Policies and Procedures currently do **not** address the following items that were processed as employee expense items for the sample population reviewed (Cont'd):
  - **Home Internet Usage**
    - » Telecommuting arrangements could potentially increase given technological advancements requiring guidance for consistency across NiSource.
  - **Suggested Tip Guidance**
    - » In ~5% of the expense statements reviewed as part of testing in Objective 3, tips were in excess of **20%**, often times exceeding **25%**.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont'd)

### *Audit Procedure 1 (Cont'd):*

### *Internal Audit Recommendation(s):*

- Management should consider updating policies and procedures to provide more specific guidance regarding the following:
  - Employee expense transactions with potential tax implications, such as charitable contributions;
  - Home internet charges, as well as other expense transactions identified during periodic audits that relate to general changes in the overall business environment; and
  - Common expense transactions where the amount is subject to employee discretion, such as tips for meals, bellmen, etc.

# Audit Procedures, Results and Recommendations

**Audit Objective 2:** Determine that corporate credit card use is limited to authorized personnel.

## **Audit Procedures:**

1. Verify that cardholder agreements have been properly approved and executed.
2. Determine that active credit cards are only assigned to active personnel.

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont'd)

**Audit Procedure 1:** Verify that cardholder agreements have been properly approved and executed.

### ***Audit Results:***

- Internal Audit used a combination of judgmental and random sampling to select **25** employees from a listing of active AMEX cardholders as of June 30, 2012.
  - Out of the **25** “Receipt Acknowledgements” reviewed, **11 (44%)** were not signed within **30 days** of the card set-up date, which is the date Supply Chain approved the card to be issued by AMEX.
- The “Receipt Acknowledgment” states that forms should be returned to Supply Chain within 5 days of receipt of the AMEX card by the employee.
  - Receipt date of the AMEX card by the employee could not be verified, thus Internal Audit used a 30 day time period between the set-up date and the date the acknowledgment was signed to assess whether forms were being signed in a timely manner.

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont'd)

### ***Audit Procedure 1 – Audit Results (Cont'd):***

- Internal Audit noted that **all** of the agreements reviewed were signed as of the testing date.
  - Through discussions with Supply Chain, a database has been created to track the signing of the cardholder agreements and it is periodically assessed against the listing of active AMEX cards.
    - Any missing agreements are requested from the cardholder.

***Internal Audit Recommendations:*** None.

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont'd)

**Audit Procedure 2:** Determine that active credit cards are only assigned to active personnel.

### ***Audit Results:***

AMEX cards are cancelled as of month end for all employees terminated during that month to allow all charges to fully process. At the request of a supervisor, the card may be cancelled immediately upon termination.

- **Twice a year** (January and July), Supply Chain compares an active AMEX cardholder listing as provided by AMEX to a listing of active employees; any cards assigned to inactive personnel are investigated and cancelled, if necessary.
- Internal Audit compared a listing of active AMEX cardholders as of June 30, 2012 to a listing of active personnel as of June 30, 2012 noting the following:
  - **One** card was shown as active on the cardholder file provided by AMEX, but was actually an inactive card as verified by Internal Audit through review of the Card Profile maintained on the AMEX website.
    - As of the report date, Supply Chain is working with AMEX to correct this item.



# Audit Procedures, Results and Recommendations

## Objective 2 (Cont'd)

### ***Audit Procedure 2 - Audit Results (Cont'd):***

- **14** employees listed as having an active card were not included in the active personnel file.
  - All **14** cards were cancelled as of August 2, 2012.
    - **10** cards were cancelled more than 30 days after the employee's termination date with dates ranging back to May 22, 2009.
      - » Cards were identified and cancelled during Supply Chain's semi-annual review process (**See Slide 28**).
    - All terminations that occurred in June 2012 were cancelled within **30** days (in June or July 2012).
  - Internal Audit verified cancellation for a selection of the **14** cards noted above through review of the Card Profile maintained on the AMEX website.

***Internal Audit Recommendation(s):*** None.

# Audit Procedures, Results and Recommendations

## Objective 3

**Audit Objective 3:** Determine that employee expenses are incurred and reimbursed in accordance with corporate policy and Internal Revenue Service guidelines.

### **Audit Procedures:**

1. Examine a sample of employee expense reports and evaluate their compliance with corporate policy, including:
  - Permissibility of expense;
  - Expense statement approval;
  - Timely submission of expense reports; and
  - Presence of receipts when required.
  
2. Analyze a sample of gift and award transactions and verify appropriate support, approval and proper tax treatment.

# Audit Procedures, Results and Recommendations

## Objective 3 (Cont'd)

**Audit Procedure 1:** Examine a sample of employee expense reports and evaluate their compliance with corporate policy.

### ***Audit Results:***

- Internal Audit used Audit Command Language (ACL) software to randomly select a statistical sample of expense reports using the Poisson Distribution Model embedded in ACL.
  - A total of **119** selections were required from **each** employee expense system utilized during the audit period (**see Slide 9**) equating to **476** total selections.
  - An additional **32** selections were judgmentally made by Internal Audit focusing on the following attributes:
    - Top spenders within each Business Unit;
    - Top expense vouchers within each Business Unit; and
    - Members of upper management.
  - The receipt documentation for **12** CDC selections processed through GEAC could not be located in storage, thus Internal Audit could not conclude on the appropriateness of these transactions.

# Audit Procedures, Results and Recommendations

## Objective 3 (Cont'd)

### *Audit Procedure 1 – Audit results (Cont'd)*

- Overall the expense reports reviewed appeared to represent valid business expenses in accordance with policy; receipts were submitted as required and approved by the employee's supervisor.
- For the total population of selections of **476** expense submissions, Internal Audit did identify the following minor deviations from policy and procedures:
  - Expense submissions were not processed timely in accordance with policy guidelines, potentially impacting period end accruals (**25 occurrences**); and
  - Spousal related expenses were not properly coded in ERS to ensure accurate taxability of the expense item (**2 occurrences**).
    - When properly classifying the expense in ERS, an explanation should be included to support the business justification for the spousal expense.

# Audit Procedures, Results and Recommendations

## ***Audit Procedure 1 – Audit results (Cont'd)***

- AMEX late fees were reimbursed to **1** employee without a documented explanation in ERS as to why it was appropriate.
- Hotel receipts were submitted for reimbursement without a **\$0** balance noted; policy requires a **\$0** balance receipt (**10 occurrences**).
  - A “0” balance receipt prohibits an employee from cancelling a room reservation and subsequently submitting the expense for cash reimbursement.
- Receipts supporting the expense item were not submitted as required by policy (**28 occurrences**).
  - Most of these occurrences were under pre-ERS systems.
- Internal Audit also noted the following through review of the sample selections:
  - Flight credits issued for cancelled flights are not independently tracked and monitored to ensure the credit is utilized for business purposes.

# Audit Procedures, Results and Recommendations

## Objective 3 (Cont'd)

### ***Audit Procedure 1 – Audit results (Cont'd)***

- Internal Audit also noted the following through review of the sample selections (Cont'd):
  - ERS currently does not require location details (i.e. to/from location with the number of miles) to support total mileage reimbursement.

### ***Internal Audit Recommendation(s):***

- Management should create additional employee expense categories and/or fields within ERS for allowable employee expense transactions that carry tax and/or other business implications to ensure these transactions are easily captured from ERS assuming proper coding by employees.
  - Additional fields, such as detailed mileage information, should also be considered to ensure an adequate review of the expense by the supervisor.
  - The cost/benefit of implementing this recommendation should be assessed, including an analysis of upgrading the ERS system to allow Management more flexibility and change control to add additional cost categories etc. to ERS in a timely and cost effective manner. The current ERS system can be cost prohibitive.

# Audit Procedures, Results and Recommendations

## Objective 3 (Cont'd)

Exhibit No. 18  
Schedule No. 4  
Page 35 of 42  
Witness N. M. Paloney

### *Audit Procedure 1 – Audit results (Cont'd)*

### *Internal Audit Recommendation(s) (Cont'd):*

- Management should implement a process to monitor flight credits within “Orbitz for Business” to ensure they are utilized for business purposes.
- Management should continue to communicate policies and procedures related to employee expense reimbursements with a focus on recurring exceptions noted during sample audits, as well as those items carrying potential tax implications.
  - Management should consider providing recommendations to employees to enhance the overall documentation in ERS, such as including mileage details and explanations for submitted expenses that do not align with policy.

# Audit Procedures, Results and Recommendations

## Objective 3 (Cont'd)

**Audit Procedure 2:** Analyze a sample of gift and award transactions and verify appropriate support, approval and proper tax treatment.

### ***Audit Results:***

#### ***Non-ERS Systems***

- Internal Audit identified **6** gift/award transactions from the non-ERS sample population tested at ***Procedure 1***.
  - An employee income reporting form was not submitted to Payroll to properly reflect the amount of the gift in the recipient employee's gross income.
  - The utilization of ERS by all business units has mitigated this risk as Payroll is able to generate a monthly report from ERS providing the gift/award information necessary for income and tax purposes if the item is coded properly in ERS.



# Audit Procedures, Results and Recommendations

## Objective 3 (Cont'd)

### ***Audit Procedure 2 – Audit Results (Cont'd):***

#### ***ERS***

- 2 of the **151** ERS selections were coded as “Gifts.”
  - Expenses appeared to be properly recorded in ERS and submitted in accordance with policy.
- Through testing of all **151** ERS selections, Internal Audit identified **1** gift/award transaction that was improperly coded as “Other Miscellaneous.”
  - A **\$200** gift card purchase as part of a lead incentive program (not related to safety) was improperly coded as “Other/Miscellaneous” and was not included in the recipient employee’s gross income.
    - “Other/Miscellaneous” charges in excess of \$250 are reviewed by Accounts Payable as noted at **Slide 8**, thus expense was not subject to their review.
    - Accounts Payable communicated the policies and procedures related to gift and award purchases to employees via email on December 3, 2012 due to an increase in gifts in December based on historical trends.

# Audit Procedures, Results and Recommendations

## Objective 3 (Cont'd)

### *Audit Procedure 2 – Audit Results (Cont'd):*

### *Internal Audit Recommendation(s):*

- Management should continue to communicate policies and procedures related to gift/award transactions and monitor the proper coding of gift/award transactions to ensure proper accounting in accordance with policy.

# Audit Procedures, Results and Recommendations

## Objective 4

**Audit Objective 4:** Determine that reconciliations between AMEX data and NiSource data are performed.

### **Audit Procedures:**

1. Confirm that periodic reconciliations between data sources are performed with any variances and/or reconciling items investigated for reasonableness.

# Audit Procedures, Results and Recommendations

## Objective 4 (Cont'd)

**Audit Procedure 1:** Confirm that periodic reconciliations between data sources are performed with any variances and/or reconciling items investigated for reasonableness.

### ***Audit Results:***

- Internal audit reviewed the following:
  - A sample of **15** daily reconciliations performed by Accounts Payable; and
  - A sample of **2** monthly reconciliations performed by Corporate Services Accounting.
- The reconciliation files (including corresponding approvals) were obtained from Management for each sample selection in order to verify that the amounts paid to AMEX agreed to the amounts withdrawn from the bank.
- Internal Audit concluded that the selected reconciliations were properly completed with no outstanding reconciling items.

***Internal Audit Recommendations:*** None.

# Employee Spend Data by Business Unit (Exhibits)

Exhibit No. 3  
Schedule No. 4  
Page 41 of 42  
Witness: N. M. Paloney

Specific employee spend data related to each of the business entities are included in the following exhibits:

- Exhibit A – Columbia Distribution Companies
- Exhibit B – Columbia Gas of Massachusetts
- Exhibit C – Northern Indiana Public Service Company
- Exhibit D – NiSource Gas Transmission and Storage
- Exhibit E – NiSource Corporate Services

Relative Exhibits have been provided to each business entity's executive management for informational purposes and additional internal use as deemed appropriate.

# Report Distribution

cc: R. C. Skaggs (All Exhibits)  
S. P. Smith (All Exhibits)  
C. J. Hightman (All Exhibits)  
J. D. Staton (Exhibit D)  
J. Stanley (Exhibit C)  
J. Hamrock (Exhibits A&B)  
V. G. Sistovaris  
L. J. Francisco (All Exhibits)  
B. M. Sedlock  
J. M. Matusz  
J. D. Veurink (Exhibit E)  
T. L. Tucker  
Deloitte & Touche, LLP



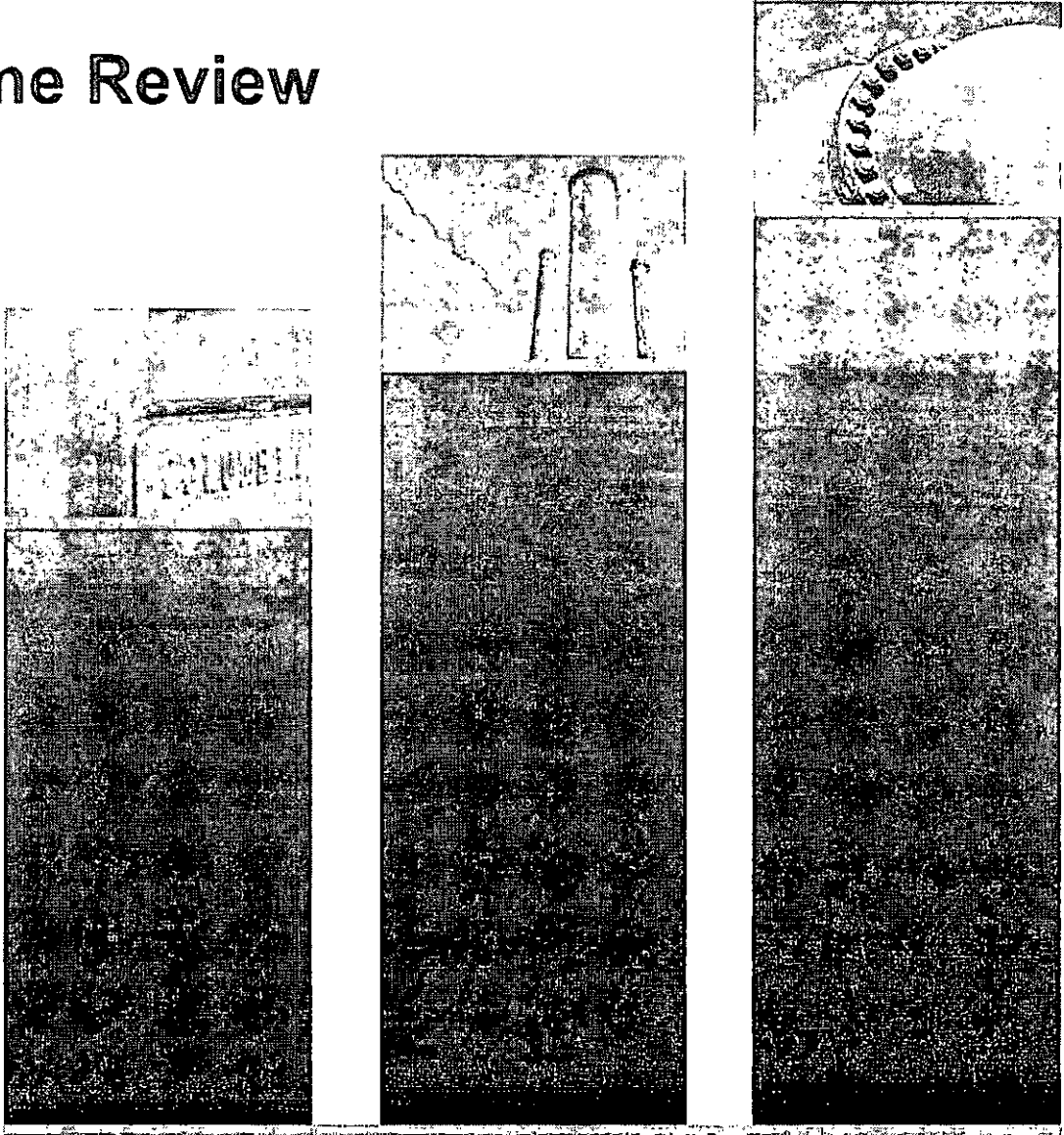
# B U I L D I N G

## NiFiT Charge Code / Time Review

January 7, 2013

To: Richard Fontaine,  
*V.P Financial Transformation*  
Sandeep Rustagi,  
*Director of Transformation Programs*

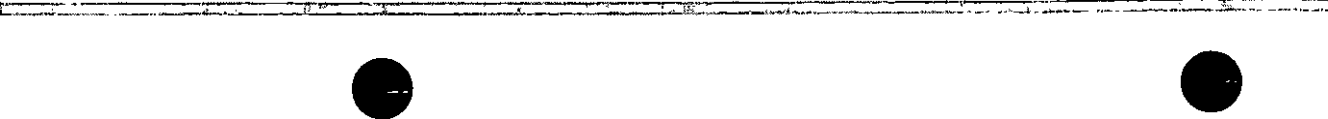
From: Ryan Binkley,  
*Director of Internal Audit*  
Chris Marlatt,  
*Internal Audit Senior*  
John Manfreda,  
*Internal Audit IT Project Manager*



# NiFiT Charge Code / Time Review

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# Executive Summary

Internal Audit has performed procedures to review time recorded to NiFiT project charge codes associated with project tasks tracked by the Microsoft Project Server (PWA) system at the request of NiFiT Management. NiFiT Management requested our review to verify that the project time reporting processes were sound and being followed; this is important to accurately capture and classify time spent on the project, and thereby accurately cost the software asset created by the project. Internal Audit engaged appropriate members of the NiFiT Transformation team to assist us in our audit procedures.

- The focus of our review included the following Objectives/procedures:
  - **Objective 1** - A review of a sample of PWA system charge codes and related tasks to ensure their alignment with established accounting guidance;
  - **Objective 2** - A review of a sample of NiFiT team members charging time in the PWA system to ensure their time has been charged to established NiFiT Project tasks in accordance with Project guidelines and/or instructions for Capital and O&M charges; and
  - **Objective 3** - A review of controls that have been established to ensure the accuracy and completeness of NiFiT Project costs.

Internal Audit has reviewed our results with NiFiT management and they are in agreement with our results.

# Executive Summary

**Objective 1:** Verify that NiFiT charge codes are aligned with established accounting guidance.

## Internal Audit Observations:

- Internal Audit reviewed the guidelines used to record Capital and O&M costs associated with the Project and noted that they were aligned with current Accounting guidance. Internal Audit also noted that charge codes have been established to track both Capital and O&M costs associated with each NiSource Business unit/Company depending upon the Project tasks.
- Internal Audit reviewed a sample of Project tasks and noted that each task reviewed appeared to be assigned appropriate charge codes that properly Capitalize/Expense Project task activities. Internal Audit did note some minor exceptions where certain Project tasks were not assigned the appropriate charge code – management noted that each of these exceptions have been addressed as of our report date. Internal Audit also identified a number of Project tasks that were not assigned associated charge codes – management noted that each of these exceptions have been addressed as of our report date.

## Internal Audit Recommendations:

- Internal Audit has made a recommendation to NiFiT Project management to review tasks on a recurring basis to ensure that charge codes are properly assigned to Project tasks for proper accounting and time reporting. As of the date of our report, NiFiT management noted that a process has been established to review the charge codes assignments to tasks on a weekly basis.



# Executive Summary

**Objective 2:** Verify that both internal and third-party resources have charged time to NiFiT Project tasks in accordance with established Project guidelines and/or instructions.

## Internal Audit Observations:

- Internal Audit reviewed a sample of NiSource employees and third-party employees who have charged time to the Project in PWA for a five week period in 2012. Internal Audit compared the actual hours charged for each individual selected for the time period under review to the total hours budgeted in both PWA, and the established Staffing Plan, noting that actual hours charged varied from PWA budget amounts and the Staffing Plan budget amounts; variances of actual hours to the budgeted hours in the Staffing Plan were minor. Additionally, Internal Audit reviewed the charged Capital/O&M split, noting that the allocation of charged hours between Capital and O&M was within a variance of approximately 1% - 3% of the budgeted amounts in both the PWA system and Staffing Plan.

## Internal Audit Recommendations:

- Internal Audit made a recommendation to NiFiT Project management to review budget to actual charges on a recurring basis to ensure time is being properly charged to tasks and allocated to Capital and O&M. Additionally, Internal Audit recommended that budgeted hours should be consistent between PWA and the Staffing Plan; management should consider reconciling budgeted hours between PWA and the Staffing Plan on a recurring basis. As of the date of our report, NiFiT management noted that the Staffing Plan forecast is being updated on a real-time basis and that a process to reconcile PWA and the Staffing Plan is underway.

# Executive Summary

**Objective 3:** Verify that controls have been established to ensure the accuracy and completeness of NiFiT Project costs.

## Internal Audit Observations:

- Internal Audit reviewed the processes and controls of approving time in the PWA system with Project management. Internal Audit also reviewed documentation provided by Project management that illustrated the process and policy for individuals charging time to the Project. Internal Audit concluded that NiFiT management has an established policy and documented process whereby Project participants are required to enter all time on a weekly basis; time is reviewed at least weekly by Project Team Leads.

## Process / Scope Comment:

*Internal Audit noted that NiSource personnel time is recorded in both the PWA system and Workbrain, as PWA does not currently interface with the Company's accounting system. As such, it is "key" that personnel are accurate in their time reporting when entering time in both PWA and Workbrain. Internal Audit's review was limited to the review of time entered and traced in PWA.*



# NiFiT Charge Code / Time Review

**Objective 1: Verify that NiFiT charge codes are aligned with established accounting guidance.**

- Review a sample of (50) Microsoft Project Server (PWA) system charge codes out of a total population of 1,307 charge codes to ensure they have been developed in accordance with established accounting guidance.

## ***Background***

The process of applying a charge code to a task occurs at two different points:

- During the planning phase of the deliverable/task; and
- When the task is being performed.

The majority of tasks are coded during the planning phase. During the planning phase workstream leads will budget out specific tasks and apply charge codes to the task as either Capital or O&M. Once the initial assessment is complete, Corporate Accounting and Project Management will review and approve the Capital/O&M classification.

# NiFiT Charge Code / Time Review

## Objective 1:

### *Background (Cont'd):*

Occasionally, an additional task will come up that needs to be coded when work on a deliverable has started. These task go through a change management process that is handled by workstream leads.

Once the coding is complete for these items, they are not reviewed by Corporate Accounting or Project Management.

- Ultimately, the coding of Capital or O&M for NiFiT charge codes have gone through a four layer review process completed by:
  - Workstream Leads;
  - Project Management Office;
  - Corporate Accounting; and
  - Internal Audit - on a test basis herein.

# NiFiT Charge Code / Time Review

## Objective 1:

### Results:

- Internal Audit obtained detail of all NiFiT transformation Project (the “Project”) charge codes and related “tasks” tracked by the PWA system. Internal Audit also obtained accounting policy (15.5 Software Capitalization Policy) and related guidelines for the appropriate capitalization and expense of activities related to the Project.
  - Internal Audit concluded that the accounting policy appears to be consistent with the guidelines used to record Capital and O&M costs associated with the Project.
  - Internal Audit noted that charge codes are established to track both Capital and O&M costs associated with each NiSource Business unit/Company depending upon the Project tasks (CMA/CDC/NGD/NIPSCO/Common).
- Internal Audit sub-selected (50) Project tasks from PWA data and reviewed the related charge codes.
  - Internal Audit noted that most of the selected tasks reviewed appear to be assigned appropriate charge codes that properly Capitalize/Expense Project task activities. However, Internal Audit did note some exceptions – please see the **next slide** for a listing of exceptions identified by Internal Audit.

# NiFiT Charge Code / Time Review

## Objective 1:

### *Results (Cont'd):*

- Internal Audit identified instances where groups of charges/tasks appeared to be improperly allocating hours to Capital rather than properly allocating time/costs to O&M – these tasks have been noted below. Internal Audit discussed tasks below with NiFiT Project Management, and based on discussion, it appears that tasks either need to be reclassified as O&M, or renamed as the task performed was capital in nature, but the description is misleading.
  - ALL\_PowerPlant\_Administration Time
  - ALL\_SCM\_ADMINISTRATION TIME
  - CMA\_TandL\_Administration
  - ALL\_Accounting\_ADMINISTRATION TIME - Common Capital
  - ALL\_CoA\_Capital\_ADMINISTRATION TIME
  - ALL\_Reporting\_ADMINISTRATION TIME - CAPITAL
  - Project Management – Capital
- As of the date of our report, NiFiT management noted that all tasks noted above have been renamed to accurately reflect the activity.



# NiFiT Charge Code / Time Review

## Objective 1:

### *Results (Cont'd):*

- Internal Audit identified **182** tasks out of a total **1,307** Project tasks (~14%) that did not have an assigned charge code; these tasks should have been assigned a charge code through the change management process performed by Workstream Leads.
  - NiFiT Management noted the following regarding the **182** tasks identified by Internal Audit:
    - **105** (~8%) tasks are associated with the CMA 3.0 Warehousing initiative.
      - These tasks will not have a charge code behind them, as that is an initiative external to NiFiT. However, for clarity in future analysis, the field "Charge Code" will be populated by text "CMA " for appropriate identification.
    - **77** (~6%) of the remaining tasks have been assigned an appropriate Project charge code as of the report date.

# NiFiT Charge Code / Time Review

## Objective 1:

### *Results (Cont'd):*

### *Internal Audit Recommendations:*

- NiFiT Project management should review tasks on a recurring basis to ensure that charge codes are properly assigned to Project tasks for proper accounting and time reporting.

# NiFiT Charge Code / Time Review

**Objective 2: Verify that both internal and third-party resources have charged time to NiFiT Project tasks in accordance with established Project guidelines and/or instructions.**

- Review a sample of (25) individuals charging time in the PWA system to ensure their time has been charged to established NiFiT Project tasks in accordance with Project guidelines and/or instructions for Capital and O&M charges.

## ***Results:***

- Internal Audit selected a sample of (25) individuals for a 5 week period (Week 40-44) for both NiSource employees and third-party vendors who have charged time to the Project in PWA and performed the following:
  - Compared the actual hours charged for each individual for the time period under review versus the hours budgeted (in both PWA and Staffing Plan) and verified the allocation of Capital and O&M.
  - Performed analysis on total budgeted time for the entire 5 week period for each individual.

# NiFiT Charge Code / Time Review

## Objective 2:

### *Results (Cont'd):*

- Internal Audit noted the following **PWA budgeted** hour groupings to selected (25) individuals:
  - 0-200 Budgeted Hours – **8** individuals
  - 201-250 Budgeted Hours – **11** individuals
  - 251-300 Budgeted Hours – **2** individuals
  - 301+ Budgeted Hours – **4** individuals
  - Lowest amount of hours budgeted for an individual was 6 hours and the maximum was 393 hours.
- Internal Audit noted the following **Staffing Plan budgeted** hour groupings to selected (25) individuals:
  - 0-150 Budgeted Hours – **9** individuals
  - 151-200 Budgeted Hours – **15** individuals
  - Lowest amount of hours budgeted for an individual was **15 hours** and maximum was **180 hours**.
  - **1** individual was not included as Staffing Plan detail for individual included a group of people.

# NiFiT Charge Code / Time Review

## Objective 2:

### *Results (Cont'd):*

- Internal Audit noted the following Staffing Plan budget to PWA actual hour difference groupings to selected (25) individuals. One individual was not included as Staffing Plan detail for individual included a group of people.
  - 0-10 Hours – 7 individuals
  - 11-30 Hours – 7 individuals
  - 31-50 Hours – 7 individuals
  - > 50 Hours – 3 individuals
  - Lowest difference for an individual was 2 hours and largest was 70 hours.
- Internal Audit noted the following Staffing Plan budget to PWA budget hour difference groupings to selected (25) individuals. One individual was not included as Staffing Plan detail for individual included a group of people.
  - 0-25 Hours – 3 individuals
  - 26-50 Hours – 7 individuals
  - 51-75 – 4 individuals
  - 76-100 – 6 individuals
  - > 100 Hours – 5 individuals
  - Lowest difference for an individual was 9 hours and largest was 238 hours.

# NiFiT Charge Code / Time Review

## Objective 2:

### Results (Cont'd):

- Internal Audit reviewed the title and department of each selection and determined that time charged to each of their tasks appeared appropriate.
- Internal Audit noted the following regarding the review of time charged for the selection of (25) individuals compared to PWA budget:
  - All (25) individuals we reviewed were under budget for the 5 week time period.
  - Internal Audit compared the budgeted Capital and O&M hours to the actual Capital and O&M hours for the 5 week period and noted:
    - (19) individuals had a 0-3% variance of their actual time to budget for Capital and O&M;
    - (6) individuals had a variance of more than 4% of their actual time to budget for Capital and O&M; and
    - (2) individuals charged time to tasks that did not have an established charge code.
- *NiFiT Management noted that Individuals' time that does not have an established charge code were resolved in conjunction with the coding of all unassigned tasks mentioned on slide 11.*

# NiFiT Charge Code / Time Review

## Objective 2:

### *Results (Cont'd):*

- Based upon the results on the previous slide, Internal Audit expanded our selection to review the entire population of Project charged for the 5 week period under review – please see ***the next slide*** for more information.
- Internal Audit also summarized the **TOTAL** hours charged for a 5 week period and reviewed the total hours charged for all time in PWA to the total hours budgeted.
  - This review was completed at the charge code level, illustrating the hours charged to each charge code, as well as the Capital/O&M determination.
  - Our results have been summarized on ***the next slide:***

# NiFiT Charge Code / Time Review

## Objective 2:

### Results (Cont'd):

Internal Audit summarized the total hour and percentage allocation for **Staffing Plan** budget hours and **PWA actual and budget** hours:

Total 5 Week Period (Week 40-44)			
	PWA Actual	PWA Budget	Staffing Plan
Capital	17,146	25,247	16,976
O&M	5,746	7,102	5,872
Unassigned	570	1,121	0
	<b>23,462</b>	<b>33,470</b>	<b>22,848</b>

	PWA Actual	PWA Budget	Staffing Plan
Capital	73.1%	75.4%	74.3%
O&M	24.5%	21.2%	25.7%
Unassigned	2.4%	3.3%	0.0%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- *NiFiT Management noted that the NiFiT Staffing Plan contains the “true” budget hours for the team. The actual budget hours charged per the Staffing Plan, was 22,848. The true variance between budget and actual hours for this duration is an overage of **614** hours.*
- *NiFiT Management also noted that resources in MS Project have not been 'leveled', therefore the budget numbers in PWA are not reflective of the true NiFiT budget in hours - resource leveling will be conducted in subsequent phases of NiFiT.*





# NiFiT Charge Code / Time Review

## Objective 2:

### *Results (Cont'd):*

### *Internal Audit Recommendations:*

- NiFiT Project management should consider a review of budget to actual charges on a recurring basis to ensure time is being properly charged to tasks and allocated to Capital and O&M; significant variances from expected results for both total hours and Capital and O&M charges should be investigated; and
- Budgeted hours for individuals should be consistent between PWA and the Project Staffing Plan; management should consider reconciled to budget hours between PWA and the Staffing Plan on a recurring basis.

### *Management Response:*

- As of the date of the report, NiFiT management is now updating the Staffing Plan forecast on a real-time basis and that a process to reconcile budgeted hours in PWA and the Staffing Plan is underway.

# NiFiT Charge Code / Time Review

## Objective 3: Verify that controls have been established to ensure the accuracy and completeness of NiFiT Project costs.

- Review controls established by Management for the review of NiFiT time/charge codes recorded in the PWA system to ensure the accuracy and completeness of time charged to the Project.

### **Results:**

- Internal Audit reviewed the processes and controls of approving time in the PWA system with Project management. Internal Audit also reviewed documentation provided by Project management that illustrated the process and policy for individuals charging time to the Project.
- Management has an established policy whereby Project participants are required to enter all time on a weekly basis. Time should be entered into the PWA system each Thursday. On Friday of each week, Project Team Leads are responsible for reviewing and approving time sheets for those individuals they managing.
  - *Project Team Leads are expected to have the knowledge and expertise to be able to ensure that individuals charging their time in PWA are charging the right tasks.*
  - *The process for entering and approving time is illustrated on the **next slide**.*

# NiFiT Charge Code / Time Review

	Thursday	Friday		Monday	Tuesday	Wednesday
8AM- Noon		<p>Team Leads receive time entry completion report <i>(Due: 10am)</i></p> <p>Workstream Leads approve Time</p>		<p>Project Specialist downloads approved time, creates management reports and updated Deliverable Status Entry Template <i>(Due: Noon)</i></p>	<p>Project Specialist revise and republish management reports <i>(Due: 10am)</i></p>	
Noon- 5PM	<p>Resources enter actual hours against tasks in PWA <i>(Due EoD)</i></p>	<p>Workstream Leads approve Time <i>(Due: EoD)</i></p> <p>Deadline for providing deliverable completion update <i>(Due: EoD) – can be submitted early</i></p>		<p>Teams conduct status meetings</p> <p>OPTIONAL: Submit workplan updates using DSET <i>(Due: EoD)</i></p>	<p>Project Status meetings are conducted:</p> <ul style="list-style-type: none"> <li>• Bus Sol 1:30-2pm</li> <li>• Tech 2-2:30pm</li> <li>• CM/BU 2:30-3pm</li> <li>• PMO 3-3:30pm</li> </ul>	<p>PMO to publish Project Status Report <i>(Due: EoD)</i></p>

# NiFiT Charge Code / Time Review

## Objective 3:

### *Results (Cont'd):*

### *Internal Audit Recommendations:*

- None.



## Report Distribution

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**TO:** Suzanne Surface, Vice President Regulatory Strategy and Support  
June Konold, NiSource Gas Distribution Segment Controller

**FROM:** Amar Patel, Senior Auditor *A. Patel*  
Shelley Duling, Manager Internal Audit *Shelley Duling*  
Ryan Binkley, Director Internal Audit *R. Binkley*

**DATE:** February 6, 2013

**SUBJECT:** Regulatory Account Balance Sheet Review – NiSource Gas Distribution

In collaboration with NiSource Gas Distribution (NGD) Accounting and Regulatory Strategy and Support (Regulatory), Internal Audit has concluded a detailed review on a sample of Regulatory Balance Sheet accounts at NGD as of June 30, 2012. The focus of the audit was *Other Regulatory Asset and Liability* General Ledger balances, transactions, and related accruals. An emphasis was placed around the processes, procedures, and internal controls in the preparation and reconciliation of the accounts. The audit performance included collaborative (Internal Audit, Accounting, and Regulatory) walkthroughs and reviews of documented processes, underlying support, and internal controls. Internal Audit agreed the selected account balances to supporting detail in and out of the accounting function to determine if appropriate support for the balance exists. Internal Audit also verified the accounting treatment for the selected accounts.

### **Conclusion**

Internal controls and processes associated with the review of the selected Regulatory Balance Sheet accounts are effective in mitigating the risks specific to the achievement of business objectives. The accounts subject to our review appear to be properly supported and accounted for in accordance with Generally Accepted Accounting Principles (GAAP).

Program management should consider the costs, benefits, and personnel requirements associated with the process enhancement recommendations included below:

- Management should retain documentation to evidence the Accounting Manager's comparison of the F.C. Stone brokerage statement to the Price Risk Management Profit Loss spreadsheet utilized to reconcile the hedging program's month end account balance; and
- Management should retain documentation to support the resolution of monthly reconciliation discrepancies for Columbia Gas of Ohio's (COH) Demand Side Management program.

Internal Audit has reviewed the results of the audit with management.

### **Background**

Internal Audit selected *Other Regulatory Assets and Liabilities* to review as part of the audit scope based on the following:

- 1) Discussions with NGD Accounting personnel to identify high risk accounts based on management's perception of risk;



- 2) Known historical financial statement errors; and
- 3) A trend analysis performed by Internal Audit on NGD's internal financial statements for the period December 31, 2009 to June 30, 2012.

NGD *Regulatory Assets and Liabilities* totaled **\$871.6 million** and **\$536.9 million** respectively as of June 30, 2012; with *Other Regulatory Assets and Liabilities* representing **11.6%** and **12.7%**, respectively, of the total balance.

A regulatory asset is created when a regulated utility incurs costs that are probable to recover from its customers through the ratemaking process. The Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 980 - Regulated Operations* requires regulated utilities to defer the recognition of costs if it is probable that, through the rate-making process, these costs will be recovered in the future. These amounts would otherwise be required to appear on the company's income statement and would be charged against current expenses or revenues.

Internal Audit reviewed a detailed listing of the items included in *Other Regulatory Assets and Liabilities* for each NGD company and selected individual accounts to test based on, but not limited to, the following criteria:

- 1) High dollar balance in relation to the total balance for the respective NGD Company/state;
- 2) Discussions with Accounting and Regulatory management; and
- 3) Atypical and/or unique scenarios.

Refer to the table below for the account selections and the basis for selecting the account for review.

**Internal Audit Account Selections**

Company	Account Selected	Reason Account Selected	Page Reference
NGD	Hedging Program	Large \$ Value relative to total balance	<b>3</b>
COH	GCR Base Chip	Asset has existed since 1979	<b>6</b>
COH	DSM Expenses	Large \$ Value relative to total balance	<b>8</b>
CMA	Masspower	Judgmental Selection	<b>10</b>
CMA	Decoupling - Res Heating -- peak	Large \$ Value relative to total balance	<b>12</b>
CMA	DSM implementation	Large \$ Value relative to total balance	<b>13</b>
CPA	USP Program Rider	Large \$ Value relative to total balance	<b>14</b>
CPA	Retirement Income Plan	Large \$ Value relative to total balance	<b>15</b>
CPA	Deferred OPEB recovery	Large \$ Value relative to total balance	<b>17</b>
CGV	Environmental	Large \$ Value relative to total balance	<b>18</b>
CGV	CARE Program	Large \$ Value relative to total balance	<b>19</b>
CKY	IBM Costs Recovery	Judgmental Selection	<b>20</b>
CKY	Demand Side Management	Large \$ Value relative to total balance	<b>22</b>



## Audit Scope

**Business Objective:** Management has implemented appropriate internal controls over the accounting process and related supporting department input detail to ensure accurate accounting and reporting of NGD General Ledger accounts related to *Other Regulatory Assets and Liabilities*. In addition, Management has appropriate detail to support the June 30, 2012 General Ledger balances related to *Other Regulatory Assets and Liabilities* and the account is properly accounted for in accordance with United States Generally Accepted Accounting Principles (US GAAP).

## **Focus Areas**

1. For a sample of *Other Regulatory Asset and Liability* accounts, obtain an understanding of the internal controls and processes within the NGD Accounting department as well as supporting departments related to the build-up of information received by NGD Accounting to record activity in the General Ledger.
2. Agree the selected account balances and activity to supporting accounting systems, account reconciliations, transactions and/or accrual entries. Verify that the account balance is supported by substantive detail in alignment with GAAP accounting.
3. Verify the accuracy of accounting treatment for a sample of NGD *Other Regulatory Asset and Liability* accounts.

**Internal Audit Note:** Each Focus Area listed above will be addressed in the Summary of Audit Results and Recommendations section of the audit report. The Summary of Audit Results and Recommendations will be summarized by State and Accounts.

## Summary of Audit Results and Recommendations

### Hedging Program

**Internal Audit Note:** Internal Audit's conclusions regarding NGD's Hedging Program(s) have been consolidated into one section of the report (below) for CMD, CPA, CGV, and CKY as all four states have similar procedures and internal controls. COH and CMA do not currently have Hedging Programs in place.

### **Focus Area 1 – Results (Account Background/Walkthroughs)**

- The following is the rate case history establishing the initial hedging program for each respective NGD Company/state:

State	Rate Case Reference	Rate Case Filing Date	Commission Approval Date
CMD	8952	November 2, 2002	May 5, 2004
CPA	R-00049234	March 6, 2002	July 28, 2004
CGV	PUE-2005-00087	October 17, 2005	February 1, 2006
CKY	1999-00165	October 8, 2004	March 25, 2005





In each of the rate cases (and applicable subsequent filings to extend the term of the initial hedging program), each state's Commission approved the use of financial instruments to hedge gas costs. The costs and revenues related to the purchase and sale of NYMEX natural gas contracts were permitted to be accounted for as part of the Purchased Gas Cost Adjustment.

- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related to the purchase and sale of NYMEX natural gas contracts.
  - Monthly, a Gas Futures Brokerage Statement is received by Planning and Regulatory Support at NIPSCO from F.C. Stone, who acts as the broker and custodian for the futures transactions. Planning and Regulatory Support input the open and expiring positions from the brokerage statement to a Price Risk Management Profit Loss Statement (Excel based spreadsheet). This information is provided to NGD Accounting, where an accountant will calculate and manually write the monthly short term and long term gain or loss onto a hard copy of the Profit Loss Statement. The calculated gains are booked to *Other Regulatory Liabilities* and losses are booked as *Other Regulatory Assets*. Once a trade expires, the corresponding asset/liability balance is transferred to the *Unrecovered Gas Costs* regulatory account to be included in future gas cost rate filings based on each state's recovery period.
  - The NGD Accountant prepares a monthly balance sheet reconciliation which is agreed to the Profit Loss Statement. The Accounting Manager also verifies that the Profit Loss Statement was accurately populated from the F.C. Stone brokerage statement. While the balance sheet reconciliation is signed off by the Accounting Manager, no documentation exists evidencing the comparison of the F.C. Stone brokerage statement to the Profit Loss Statement.
  - (See **Appendix** for Hedging Process Flow Chart)

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the regulatory assets and liabilities related to each state's hedging program as of June 30, 2012.

**CMD Balance 6/30/2012**

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
182-3499-12920	Hedging Program	693,212		693,212	Annual

**CPA Balance 6/30/2012**

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
182-3499-12920	Hedging Program	6,875,495		6,875,495	Annual
182-3599-12920	Hedging Program	-	795,062	795,062	Annual
254-3434	Hedging Program	(116,552)		(116,552)	Annual
254-3534	Hedging Program		(68,461)	(68,461)	Annual



**CGV Balance 6/30/2012**

Regulatory Assets					Recovery
GL Account	Description	Current	Non-Current	Total	Period
182-3499-12920	Hedging Program	7,167,088		7,167,088	Annual
182-3599-12920	Hedging Program		489,868	489,868	Annual

**CKY Balance 6/30/2012**

Regulatory Assets					Recovery
GL Account	Description	Current	Non-Current	Total	Period
182-3499-12920	Hedging Program	1,925,216	-	1,925,216	Annual
182-3599-12920	Hedging Program	-	1,143,731	1,143,731	Annual

Internal Audit reviewed the F.C. Stone brokerage statement as of June 30, 2012 provided by Planning and Regulatory Support. The information from the brokerage statement agreed to the Price Risk Management Profit Loss Statement and balance sheet reconciliation as of June 30, 2012 noting no variances. Current and long term classification was deemed appropriate based on the expiration dates of the futures transactions; those with expiration dates within one year should be reflected as current.

**MF Global Write Down:**

In October 2011, MF Global (a prior NGD Brokerage/Custodian) was liquidated due to bankruptcy related to unauthorized transfers between customer accounts. As part of the liquidation, the positions held in custody by MF Global were written off and transferred to *Other Regulatory Assets*. As the contracts expire each month, the amount booked to *Other Regulatory Assets* is transferred to the *Unrecovered Purchased Gas Costs* regulatory account (General Ledger 191 account) and included in subsequent gas cost filings based on the recovery periods in the above tables.

*Accounting Standards Codification (ASC) 815.25.40-5 states:*

- o *If a fair value hedge of a firm commitment is discontinued because the hedged item no longer meets the definition of a firm commitment, the entity shall do both of the following:*
  - *Derecognize any asset or liability previously recognized pursuant to paragraph 815-25-35-1(b)*
  - *Recognize a corresponding loss or gain currently in earnings.*
- o Pursuant to the ASC 815-25-40-5, the MF Global contracts no longer met the requirements under a **Firm Commitment** as defined by the FASB. Since the contracts no longer meet the definition of a **Firm Commitment** ("...an agreement with an unrelated party, binding on both parties and usually legally enforceable...") the immediate recognition of the loss as a regulatory asset was appropriate. Per the original Commission Orders for each state, all losses related to the hedging program are recoverable, thus Management asserts collection of the MF Global losses are permitted.
- o The following table is a summary of the amounts that were held in custody with MF Global for each state. In total **\$31.7** million was held with MF Global in gas futures contracts as of October 2011. As of June 30, 2012, **\$25.1** million has been recovered through gas cost filings, with **\$6.6** million planned for future recovery through March 2014 based on each transaction's expiration date.



NGD Company	Recovered as of 6/30/2012	Future Recoveries	Total Held MFGlobal	Final Expiration Date
CMD	\$ 1,326,130.00	\$ 300,600.00	\$ 1,626,730.00	Feb-13
CPA	\$ 11,467,120.00	\$ 2,658,720.00	\$ 14,125,840.00	Mar-14
CGV	\$ 10,612,660.00	\$ 2,746,770.00	\$ 13,359,430.00	Feb-14
CKY	\$ 1,705,100.00	\$ 893,350.00	\$ 2,598,450.00	Mar-13
<b>Totals</b>	<b>\$25,111,010.00</b>	<b>\$6,599,440.00</b>	<b>\$31,710,450.00</b>	

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP.
  - ASC 980 – Regulated Operations
  - ASC 815 - Derivatives and Hedges
- Based on the walkthroughs performed and review of the accounting guidance and codifications, the hedging program appears to be properly accounted for in accordance with US GAAP.

**Recommendation:**

- Accounting management should formally document their review of the F.C. Stone Brokerage statement verifying that the Price Risk Management Profit Loss Statement is accurately populated.

**Gas Cost Recovery Base Rate Program – Columbia Gas of Ohio (COH)**

**Focus Area 1 – Results (Account Background/Walkthrough)**

- In December of 1979, COH completed a conversion from the Purchase Gas Cost Adjustment (PGA) provision to the Gas Cost Recovery Mechanism (GCR). The GCR provided for the recognition of recoveries based on customer sales, while the PGA provided for recognition of recoveries based on suppliers' calendar month meter readings. Due to the conversion, COH included a **\$24,867,888** recovery item in the 1980 rate case (Case No. 80-212-GA-GCR). The amount represented the value of unbilled volumes as of the December 1979 cutover date to the GCR as outlined in the 1980 COH CGR Case Audit Report dated August 1, 1980 and prepared by Arthur Anderson ("auditor"). The auditor report claimed "...that under the GCR mechanism, COH is entitled over time to recover its gas cost incurred subsequent to the cutover date, no more and no less. Because of cycle billing coupled with COH's practice of not recording unbilled revenues, the company will have included **10,716,000 Mcf** of gas sales in the GCR calculations for which no costs could be associated unless a reconciliation adjustment is made". The magnitude of the reconciliation adjustment was amplified due to the conversion taking place during the "heating season". The portion of the adjustment attributed to the heating season was **\$16,668,412**; the remaining **\$8,199,476** (Base Chip) related to the "normal cycle."
  - The Commission approved the recovery of the unbilled seasonal portion (**\$16,668,412**) as it would have been recovered by the end of the billing season if the conversion had not occurred. Without the recovery of these costs, COH would have experienced a "...true economic loss to the transaction from one



form of gas cost recovery to another form" due to the fact that the transition occurred during the heating season.

- o The Commission ruled that "...the base portion of unbilled volumes remained relatively constant under the previous PGA, and the Company would not have been finally made whole for the cyclical base portion of unbilled volumes unit until it ceased operations. The reconciliation adjustment made by Columbia does result in today's ratepayers paying an amount for the base chip portion that they wouldn't have paid under the PGA had it continued; therefore it is not in compliance with the Commission's directive that the transition to the GCR result in no increase in rates to customers. It should be pointed out that the company will not actually be losing any money at the present time by not collecting now for the base portion." However, the Commission did agree that if the company ever stopped functioning in the merchant role in Ohio under the new GCR program, the company would recognize a financial loss. As stated in the rate case "...the Commission recognizes that should the GCR mechanism continue until such time when the company goes out of business, some provision will have to be made to account for recovery of the base chip if the company is to be made whole for its incurred gas costs. However, the appropriate time to address the question of the collection of the base chip is when that event occurs."
- o Regulatory management concluded, based on the opinion of the auditor and the Commission ruling, that the **\$8,199,476** "base chip" portion should be held as an *Other Regulatory Asset* on the balance sheet as the amount is recoverable in the future.
  - Regulatory management plans to include the **\$8,199,476** in a 2013 application or motion for recovery due to the fact that COH has not participated in the GCR mechanism since the implementation of the Standard Service Offer (SSO) in April 2010 followed by annual SCO auctions effective April 1, 2011.

- Internal Audit held a walkthrough with the COH Director of Regulatory Affairs to discuss the account balance. Based on the discussion, the item is a static account which does not have formal documented policies and procedures. Internal Audit noted that the Director of Regulatory Affairs monitors the account and maintains the support for the balance.

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the GCR Base Chip regulatory asset as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
182-3599-12501	GCR Base Chip		8,199,476	8,199,476	N/A

- o Internal Audit reviewed the 1980 COH GCR Case Audit Report prepared by Arthur Anderson, noting the non-seasonal calculation was **\$8,199,476**, which agreed to the regulatory asset balance as of June 30, 2012. In addition, Internal Audit reviewed the Opinion and Order related to Case No. 80-212-GA-GCR from 1981 noting the Commission agreed to the future consideration of the "Base Chip" for recovery upon COH's exit from the GCR mechanism.



- Item is properly classified as non-current as recovery will not occur by June 30, 2013; recovery will be submitted for approval during a 2013 application or motion, which will be filed after April 2013.
  - Filing should allow for the recovery of the amount over a 12 month period and is anticipated to be effective anytime between September through January or 2013.

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 – Regulatory Operations
- Based on the walkthroughs performed and review of the accounting guidance and codifications, the GCR Base Chip appears to be properly accounted for in accordance with US GAAP.

**Recommendations**

- None

**Demand Side Management (DSM) Program - COH**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

- In 2005, the Commission issued Opinion and Order related to Case No. 05-221-GA-CCR, stipulating that COH file a DSM application by July 1, 2008 to *“...implement comprehensive, ratepayer funded, cost effective energy efficiency programs made available to all residential and commercial customers.”*
  - In July 2008, COH filed an application to establish DSM programs for residential and commercial consumers which was approved by the Commission on July 23, 2008. The filing (Case No. 08-0833-GA-UNC) outlined COH's proposal *“...to implement a portfolio of DSM programs that offer a wide range of services to all of its residential customers, and commercial customers who take service under the Small General Services rate schedule.”* COH administers the program; however, program implementation services are bid out to third-party vendors.
- Internal Audit performed a walkthrough with Accounting and COH DSM management to discuss the process flow of information related to the DSM programs for COH.
  - Each month, the *“DSM Workbook 2012-2016 Actual Spending”* (“DSM Workbook”) is compiled by the COH Demand Side Management Evaluations Team Leader to track expenses related to the DSM program. The incurred expenses include, but are not limited to the following: program execution expenses (air sealing, insulations, etc.), management fees; audit expenses; marketing; training; quality assurance. Invoices are sent directly to the DSM group, typically through email. DSM personnel review each invoice prior to uploading to Catalyst for approval and payment. Each month, COH Accounting provides the DSM group the *“Accounting Workbook 182-3499-12477 Activity Through month year”* file (“Accounting Workbook”) which captures the expenses booked to the General Ledger related to the DSM program. Any discrepancies identified by DSM between the DSM Workbook and the Accounting Workbook



are investigated. This reconciliation process is not formally documented; however, Internal Audit noted that the DSM Evaluations Team Leader maintains email correspondence documentation that supported the resolution of identified variances.

- o The COH Demand Side Management Evaluations Team Leader periodically audits a sample of DSM expenses to ensure compliance with program terms and conditions.
- o (See **Appendix** for Process Flow Chart)

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the COH DSM regulatory assets as of June 30, 2012.

**Balance as of 6/30/2012**

Regulatory Assets (Liabilities)						Recovery
GL Account	Description	Current	Non-Current	Total	Period	
182-3499-12477	DSM Expenses	14,266,968		14,266,968	Annual	
182-3599-12477	DSM Expenses		5,341,351	5,341,351	Annual	

- o Internal Audit obtained the June 30, 2012 COH trial balance noting that the balances for the accounts listed above agreed to the June 2012 *DSM Workbook*.
- o DSM rate proposals are filed on an annual basis in February to recover the preceding year's actual DSM expenses.
- o Approved rates are effective May 1<sup>st</sup> through April 30<sup>th</sup>, thus the *current* balance represents the amount yet to be recovered through April 30<sup>th</sup> 2013 for 2011 calendar year expenses.
- o Any over or under collected balance will be reflected in future rate DSM rate filings.
- o The *non-current* balance represents the DSM expenses incurred for the 2012 calendar year to be submitted for recovery in February 2013, effective May 1, 2013. Current and non-current classification appears appropriate based on Internal Audit's review of the *DSM Workbook*.

**Focus Area 3 – Results (US GAAP Considerations):**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - o ASC 980 – Regulated Operations
- Based on the walkthroughs performed and review of the accounting guidance and codifications, COH's DSM regulatory assets appear to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- Regulatory management should maintain formal documentation supporting the resolution of reconciling items between the DSM and Accounting Workbooks.



## Masspower – Columbia Gas of Massachusetts (CMA)

### **Focus Area 1 – Results (Account Background/Walkthroughs)**

- Masspower was a joint venture formed in 1980 to construct a 240 megawatt gas fired facility in Springfield, Massachusetts. In 1991, CMA entered into a 20 year firm transportation service agreement with Masspower, which included construction of a 16-inch diameter, 19 mile pipeline.
- In 2005, CMA and Masspower agreed to the following:
  - The annual demand charge revenues to CMA would decrease from **\$2.5 million to \$500 thousand**.
  - Masspower would pay CMA **\$12,409,900** in exchange for the termination of the firm transportation agreement from 1991. This transaction was not submitted to the Massachusetts Department of Public Utilities (MA DPU) and the **\$12.4 million** was recorded as revenue by CMA.
- During the 2009 rate case, the Attorney General for the state of Massachusetts asserted that the MA DPU should reduce the revenue requirement by **\$12.4 million** or reduce rates by an amount that amortizes the **\$12.4 million, plus interest**, in order to return the buy-out transaction dollars to CMA customers. In the October 30, 2009 DPU Order (*DPU 09-30*), the Commission ruled that the matter required further development and exploration before the full effect of the buy-out transaction on rate payers could be determined. CMA was required to submit a filing by December 31, 2009 with the following information:
  1. The circumstances surrounding the buy-out transaction;
  2. The allocation of proceeds of the \$12.4 million buy-out;
  3. All efforts by CMA to mitigate the annual losses it incurred up to 2002;
  4. All efforts by the company to maximize revenues under the first agreement; and
  5. All efforts by CMA to restructure the first agreement earlier than it did.
- On February 1, 2010 (after a Motion of Extension was filed permitting a response date of February 1, 2010), CMA made the appropriate filing stating that ratepayers were not and will not be harmed by the buyout-transaction and therefore not sharing the buyout amount with ratepayers is appropriate.
- CMA Management held subsequent discussions with the Attorney General's Office and outside legal counsel were conducted. Based on advice from outside legal counsel, and the evaluation of the records in the proceeding, management believes some portion of the **\$12.4 million** will have to be refunded. Management determined that **\$5.7 million** was the appropriate refund amount (includes **\$4.4 million of the original buyout and \$1.3 million in carrying costs**) based on discussions with outside legal counsel and the Attorney General's Office. The **\$5.7 million** was recorded as an expense in June 2010, with a corresponding *Other Regulatory Liability*. All hearings and proceedings related to the matter are closed as of the date of the audit; however, the DPU has not given the final order for payment.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the processes and procedures related to the Masspower regulatory liability.



- Each quarter a *Management Summary - Significant Accounting Issues* update is prepared with the latest developments related to the account. The balance and any related events that might affect the balance are tracked and updated by CMA Regulatory management.

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the CMA Masspower regulatory liability as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
525453	Masspower	(5,700,000)	-	(5,700,000)	N/A

- Internal Audit reviewed the *Management Summary – Significant Accounting Issues* for Q2 2012 which was provided by Regulatory management. The summary outlined management’s assumptions and the background information related to the Masspower liability. Internal Audit reviewed the DPU 09-30 filings made on October 30, 2009 and CMA’s responses to the DPU filed on February 1, 2010. The information reviewed by Internal Audit corroborated the facts outlined in the *Management Summary – Significant Accounting Issues*. Item is conservatively classified as current as management believes an Order from the DPU could be issued at any time requiring the estimated refund to be returned to the customer through a reduction in rates over a specified timeframe.

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 – Regulatory Operation
  - ASC 450 – Contingencies
- Based on the walkthroughs performed and review of the accounting guidance and codifications, the Masspower regulatory liability appears to be properly accounted for in accordance with US GAAP.

**Internal Audit Note:**

Internal Audit did not assess the reasonableness of the **\$5.7 million** Masspower estimate. However, it was noted that management has consulted external counsel and worked with the Attorney General in determining the liability amount. Internal Audit focused on the appropriate accounting treatment and noted that since the \$5.7 million balance is probable and can be estimated by management, the recognition is appropriate in accordance with ASC 450.20.25 – *Contingencies – Loss Contingencies – Recognition*. In addition, since the Attorney General and DPU have ruled that a payment is required, ASC 980.450.24 – *Regulated Operations – Contingencies – Recognition* states that a “...regulator may direct a regulated entity to include an amount for a contingency in allowable costs for rate making purpose even through the amount does not meet those criteria for recording. If the regulator requires the entity to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the resulting increased charges to customers create a liability.” Based on the FASB codification, the accounting treatment appears appropriate.





**Recommendations:**

- None

**Decoupling - CMA**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

- On July 16, 2008, the Massachusetts Department of Public Utilities issued *DPU 07-50-A – Investigation by the Department of Public Utilities on its own Motion into Rate Structures that will Promote Efficient Deployment of Demand Resources*. The Order was issued to "...set forth a plan for establishing a new base rate adjustment mechanism or "decoupling", to be adopted by jurisdictional electric and natural gas distribution companies in the Commonwealth." The Order was issued to help alleviate higher electric and gas costs in the state and allow CMA to adjust its base distribution rates as a result of changes in customer usage to promote efficient deployment of demand resources. In response to the Order by the DPU, CMA filed *DPU 09-30 – In Support of Bay State Gas Company (subsequently CMA) Request for Revenue Decoupling and Base-Revenue Adjustments* on April 16, 2009. The filing proposed a revenue-per-customer decoupling model which was consistent with the Commission's DPU 07-50-A Order. On October 30, 2009, the DPU issued an Order approving CMA's decoupling mechanism.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the processes and controls related to the CMA decoupling mechanism.
  - Each month various reports are prepared by Regulatory and provided to Accounting. The reports are utilized to calculate the variance between the actual revenue per customer to the "benchmark base revenue per customer" (plus interest), which represents the base revenue/rates approved by the Massachusetts Department of Public Utilities to be collected from customers. If actual revenue per customer for the month is less than the "benchmark base revenue per customer", an entry is made to increase the regulatory asset and vice versa. Recovery of the reconciliation adjustment is included in the Revenue Decoupling Adjustment Factor filing for the subsequent Peak Heating Season.
  - (See **Appendix** for Process Flow Chart)

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the CMA Decoupling regulatory asset as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
518201	Decoupling - Res Heating - peak	15,954,888		15,954,888	Annual

- Internal Audit obtained the balance sheet reconciliation for the regulatory asset account listed above for June 30, 2012 and agreed the balance to the General Ledger.
- Internal Audit agreed the General Ledger amount to the "Decoupling Adjustment Reconciliation" report provided by Regulatory management noting an inconsequential variance due to rounding.



- o Classification of the regulatory asset as current appears appropriate as this amount represents the decoupling adjustment from the 2011 – 2012 Peak Heating Season and will be recovered during the 2012-2013 Peak Heating Season (November 1, 2012 – April 30, 2013).

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - o ASC 980 – Regulatory Operations
- Based on the walkthroughs performed and review of the accounting guidance and codifications, the CMA decoupling regulatory asset appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

**Demand Side Management (DSM) Program - CMA**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

On March 30, 2004, CMA filed a five year energy efficiency plan (*DPU 04-39 Petition of Bay State Gas Company for Pre-Approval by the Department of Telecommunications and Energy of Energy Efficiency Programs and Recovery of Energy Efficiency Related Costs for the Period*) which was approved by the MA DPU on September 13, 2004. Subsequent to the initial term, CMA files annually with the DPU on August 1<sup>st</sup> to continue the program effective November 1<sup>st</sup> each year.

- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related to CMA's DSM program.
  - o The DSM program is administered by CMA's DSM department. Each month, a spreadsheet is compiled by the DSM team tracking expenses incurred and forecasted spend for the remaining program year.
  - o Regulatory receives the spreadsheets from the DSM group and prepares a reconciliation based on the spending tracked by the DSM team and the actual expenses recorded to the General Ledger.
  - o The reconciliation is approved by the Regulatory Manager and NGD Assistant Controller
  - o (See **Appendix** for Process Flow Chart)

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the regulatory liability related to CMA's DSM program as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
518241	DSM implementation	(12,530,204)		(12,530,204)	Annual



- Internal Audit obtained the June 30, 2012 balance sheet reconciliation for CMA's DSM regulatory asset account.
- The General Ledger amount was agreed to the DSM spreadsheets prepared by the DSM team used by Regulatory management for the balance sheet reconciliation.
- Internal Audit noted the balance represents over-collection of the DSM program expenses incurred as of June 30, 2012 based on rates effective November 1, 2011.
- Item is properly classified as current as the recovery period is annual; however, the program may be over or under collected upon completion of the program year. This over or under collection will be reflected in the following year's rates.
- **Internal Audit Note:** *The DSM Program is classified as a current regulatory liability as of 6/30/2012. The DSM program is based on an approved three year budget. Even though money is not spent in a given year the money is planned to be spent in a consequent year. It is anticipated that spending will increase for 2013 through the rate filing in May of 2013. For the November 2012-April 2013 period, an attempt was made to "back off" some on the anticipated spend level resulting in a reduction to the over collection by the end of 2012.*

**Focus Area 3 – Results (US GAAP Considerations):**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 - Existence of Regulatory Assets
- Based on the walkthroughs performed and review of the accounting guidance and codifications, CMA's DSM regulatory liability appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

**Universal Services Plan - CPA**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

- On October 28, 2008, the Pennsylvania Public Utility Commission issued Opinion and Order related to Docket No. R-2008-2011621 approving the replacement of the Rider Customer Assistance Program (CAP) with the Rider Universal Service Plan (Rider USP).
  - The Rider USP program allows CPA to recover CAP shortfalls, pre-program arrearages, application costs, and costs associated with the Low Income Usage Reduction Program (LIURP) and Energy Efficiency Program.
    - A quarterly tracker mechanism is utilized to recover all costs.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related CPA's USP program.
  - Each month, Regulatory runs a system query for USP related expenses (classified as 904 accounts in the General Ledger system). A schedule is prepared which tracks the total program collections and incurred expenses to calculate the over/under collected amount each month.



- o The Accounting Manager runs a monthly query from Catalyst of all USP related expenses.
- o The Accounting Manager compares the query with the schedule prepared by Regulatory Accounting to ensure no discrepancies exist.
- o Regulatory prepares a monthly reconciliation, based on the schedules compiled by Accounting, which is approved by Regulatory management.
- o (See **Appendix** for Process Flow Chart)

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the regulatory asset related to CPA's USP program as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
182-3499-1299x	USP Program Rider	3,709,731		3,709,731	Annual

Internal Audit reviewed the monthly USP schedules prepared by Regulatory Accounting. The totals from the USP schedules agreed to the General Ledger balance at June 30, 2012. The balance represents USP expenses incurred as of June 30, 2012 in excess of collections. Current classification of the regulatory asset is appropriate as the amount will be reflected in the subsequent quarterly rate adjustment.

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - o ASC 980 - Existence of Regulatory Assets
- Based on the walkthroughs performed and review of the accounting guidance and codifications, CPA's Universal Services Plan regulatory asset appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

**Retirement Income Plan - CPA**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

- In 1996, an Order was filed by the Pennsylvania Public Utility Commission stating “...the company has calculated and accrued its pension liability incurred for its present employees. Funding of this liability takes place in accordance with specific criteria. The Company indicates that it will record the amount accrued in excess of cash contributions as a regulatory (deferred) asset in accordance with SFAS #71 (now FASB ASC 715) until the cash amount equal or exceeds the accrual. The Company indicates that when the cash contribution exceeds the accrual amount, the Company will correspondingly reduce the regulatory (deferred assets).”
- The order language comes from internal documents as the original Pennsylvania filing could not be provided by management due to the length of time since it was filed. CPA Regulatory has implemented an initiative to track and maintain all Commission related documents (i.e. filings, orders etc.)



- As noted in the Order, the rate filings allow for recovery of contributions into the retirement fund on a cash basis. This causes a difference with the financial statement amounts as the Retirement Income Plan is accounted for using FASB ASC 715 – Compensation-Retirement Benefits. Under the FASB guidance, unfunded amounts are treated as a liability. Under the commission ruling unfunded accounts are not recoverable until cash is actually paid out and therefore not a regulatory liability.
  - The regulatory asset/liability is credited as cash is contributed to the fund. The regulatory asset/liability is debited for the actuarial expense.
  - A credit balance (liability) represents a prefunded position, while assets reflect an underfunded position.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related CPA's Retirement Income Plan.
    - CPA Accounting receives a quarterly Controller Letter, prepared by the Chief Accounting Officer, providing Retirement Income Plan' actuarial estimate prepared by Aon Hewitt.

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the regulatory liability related to CPA's Retirement Income Plan as of June 30, 2012.

Regulatory Assets (Liabilities)						Recovery
GL Account	Description	Current	Non-Current	Total		Period
254-3509	Retirement Income Plan	-	(20,395,298)	(20,395,298)		Annual

The Q2 2012 Controller Letter was reviewed noting the amount on the letter matched the total amount of CPA's Retirement Income Plan balance as of June 30, 2012.

- Internal Audit notes, the fund is currently in a prefunded (overfunded) position based on the regulatory accounting rules.

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 - Existence of Regulatory Assets
  - ACS 715.30 – Defined Benefit Plans-Pensions
- Based on the walkthroughs performed and review of the accounting guidance and codifications, the CPA Retirement Income Plan liability appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None



**Other Post Employee Benefits - CPA**

***Focus Area 1 – Results (Account Background/Walkthroughs)***

- Rate Case No. R-2010-2157040 allows CPA to defer the difference between the annual other post-employment benefits (OPEB) costs calculated pursuant to ASC 715.60 – *Defined Benefit Plans-Other Postretirement* and the annual OPEB allowance included in the rate filings. Only amounts attributable to operation and maintenance expenses will be deferred and recognized as a regulatory asset or liability in accordance with ASC 715.980.05.03 – *Regulated Operations-Retirement Benefits-Other Postretirement Benefit Costs*. Amounts recorded as regulatory assets and liabilities will be collected from or returned to customers in the next rate proceeding.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related CPA's Other Post Retirement Benefits.
  - Each quarter the Accounting Research Group utilizes a checklist to insure that any changes to the NiSource Pension and OPEB Benefit Plans are properly recorded. These items could result in a Corporate Controller's Letter to reflect the change. This checklist, which is approved by the Manager of Accounting Research, includes the following items:
    - Evaluation of any changes in law impacting corporate benefits;
    - Evaluation of any plan changes that are significant enough to warrant a re-measurement;
    - Verification that Aon Hewitt is aware of plan changes; and
    - Confirmation with Aon Hewitt regarding settlements or curtailments during the quarter.
  - The Corporate Controller's Letter is provided to NGD Accounting and utilized to adjust the regulatory account.

***Focus Area 2 – Results (Testing of Balance/Support)***

- Presented below is a summary of CPA's OPEB regulatory liability as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
254-1104	Deferred OPEB recovery	(1,020,754)	-	(1,020,754)	Annual

- Internal Audit reviewed the Q2 2012 Controller Letter provided by Accounting, noting it agreed to the June 30, 2012 General Ledger balance. Internal Audit also reviewed the Controller letter and checklist.

***Focus Area 3 – Results (US GAAP Considerations)***

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 - *Existence of Regulatory Assets*
  - ACS 715.60 – *Defined Benefit Plans-Other Postretirement*
  - ASC 715.980.05.03 - *Regulated Operations-Retirement Benefits-Other Postretirement Benefit Costs*



- Based on the walkthroughs performed and review of the accounting guidance and codifications, CPA's OPEB liability appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

**Environmental – CGV**

***Focus Area 1 – Results (Account Background/Walkthroughs)***

- On December 22, 2011, CGV requested regulatory asset treatment of environmental remediation costs associated with the former Portsmouth manufactured gas plant ("MGP") as well as MGP sites in Staunton, Staunton Beverly Exxon, Lynchburg and Petersburg. CGV proposed recovery (i.e. amortization) over a period of 10 years for the environmental remediation costs beginning in 2011. The Commission responded "...a regulatory asset may be allowable if a cost which would otherwise be recognized currently is deferred to a future period(s) for ratemaking purposes. Generally, a prudent cost may be deferred for future rate recognition when such cost is nonrecurring or unusual in nature, beyond the control of the utility, and would materially and negatively affect financial results if expensed currently. If a regulatory asset is established, only that portion of a cost which drops earnings below an authorized return on equity benchmark may be considered for deferral and future recovery. As such, the initial deferral and subsequent amortization of the cost is typically subject to annual earnings tests to determine the extent to which recovery may have already occurred. Further, the deferral of such costs for financial reporting purposes is subject to the provisions of Accounting Standards Codification No. 980, formerly the Financial Accounting Standards Board's Statement No. 71, "Accounting for the Effects of Certain Types of Regulation." This pronouncement provides the accounting guidance for rate-regulated utilities to capitalize as a regulatory asset costs that would otherwise be charged to expense if future recovery in rates is probable. Should CGV decide to defer and amortize the above-described costs, the Utility Accounting and Finance Division does not object; however, as noted above, the final decision on rate recovery will be made by the Commission in a future proceeding. Finally, the Utility Accounting and Finance Division requests that CGV provide an annual update of its environmental projects in conjunction with its AIF or rate applications. At a minimum, the updates should include information on work done at each site, any changes in projections including the reasons for any changes in projections, and information on any reimbursements or potential reimbursements."
- CGV plans to include the environmental costs in the next rate case. As of the audit date, no date for the next rate case was available.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related to CGV's environmental remediation costs for the sites specified above.
  - The environmental liability amortization is prepared monthly by Environmental & Safety. The amortization is then sent to CGV Accounting who reviews and books any adjustments.



**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the regulatory asset related to CGV's environmental remediation costs as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
182-3500-12900	Environmental		3,510,357	3,510,357	Pending Rate Case

- Internal Audit obtained the amortization schedule prepared by Environmental and Safety reflecting all environmental costs incurred as of June 30, 2012 associated with the Portsmouth, Staunton, Staunton Beverly Exxon, Lynchburg and Petersburg sites.
- The June 30, 2012 General Ledger balance agreed to the amortization schedule. Classification as non-current is appropriate as recovery of the expenses is not expected to occur by June 30, 2013 based on discussions with Regulatory management.

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 – Regulated Operations
  - ASC 410.30 – Environmental Obligations
- Based on the walkthroughs performed and review of the accounting guidance and codifications, CGV's environmental remediation asset appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

**Conservation and Ratemaking Efficiency (CARE) Plan - CGV**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

- On June 8, 2009, CGV filed an application with the Commission seeking approval to implement a natural gas conservation and ratemaking efficiency (CARE) plan which included a decoupling mechanism. The Application advised that the CARE plan "includes a portfolio of programs and incentives designed to promote conservation and energy efficiency among Columbia's residential and small general service customer classes and a decoupling mechanism that adjusts actual non-gas distribution revenue for participating customer classes to the allowed distribution revenue previously approved by the Commission". Final Order (PUE-2009-00051) was issued on October 28, 2009 giving final approval to implement the CARE plan. The plan was approved for three years effective December 31, 2009; CGV filed an application to amend and extend the CARE program April 12, 2012. A final order approving the extension was received August 8, 2012.





- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related to the CARE program for CGV.
  - Each month, a spreadsheet is compiled by Regulatory tracking incurred expenses related to the CARE Program.
  - Each month, CGV Accounting provides Regulatory a workbook which captures the General Ledger expenses processed during the month related to the CARE program.
  - A monthly reconciliation is performed between the General Ledger balance and the spreadsheet prepared by Regulatory tracking incurred expenses related to the CARE program. The reconciliation is reviewed by the Accounting Manager to ensure the balance is appropriate for the month.
  - (See **Appendix** for Process Flow Chart)

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the regulatory asset related to CGV's CARE Program costs as of June 30, 2012.

Regulatory Assets (Liabilities)					Recovery
GL Account	Description	Current	Non-Current	Total	Period
254-1006	CARE Program	(1,498,838)		(1,498,838)	Annual

- Internal Audit obtained the balance sheet reconciliation at June 30, 2012 from CGV Accounting and agreed the balance to the supporting schedules prepared by Regulatory. The balance represents the over-collection of CARE program expenses incurred as of June 30, 2012 based on rates effective January 1, 2012. The liability is properly classified as current as the recovery period is annual with any over/under collections reflected in the subsequent year's rates effective January 1<sup>st</sup>.

**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 – Regulated Operations
- Based on the walkthroughs performed and review of the accounting guidance and codifications, CGV's CARE program regulatory liability appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

**IBM Costs Recovery - CKY**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

- As a result of the outsourcing of certain business function areas in 2005 to IBM, CKY filed a rate case (2007-00008) on January 2, 2007 seeking to recover expenses related to the transition. In the filing, CKY "...requested that it be permitted to defer and amortize certain onetime expenses as part of its application in this case. These



expenses included costs associated with an outsourcing arrangement between NiSource and IBM, costs billed directly to Columbia incurred with the transition of Columbia's Call Center, and certain severances costs. Columbia had proposed a 3-year amortization of these deferred expenses. In addition, Columbia had proposed that the expenses associated with the preparation of this rate case be deferred and amortized over a 3-year period."

- Starting in September of 2007, the Commission authorized CKY to "...recognize a regulatory asset to defer and amortize one-time charges associated with the outsourcing of work under an IBM contract, the transition of Columbia's Call Center, and certain severance costs. The IBM costs and the Call Center charges would be amortized over an 8-year period and the severance costs over 3 years."
- It was noted that the other NGD companies also had costs related to the IBM transition; however, did not seek recovery of these expenses.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related to the IBM Costs Recovery Assets for CKY.
  - Accounting maintains an amortization schedule which is adjusted monthly based on the recovery period for each cost category. The balance per the amortization schedule is reconciled by a CKY Accountant and reviewed by the Accounting Manager.

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of CKY's IBM cost recovery regulatory asset as of June 30, 2012.

Regulatory Assets			Recovery			
GL Account	Description	Current	Non-Current	Total	Period	Case Reference
182-3499-12923	IBM Costs Recovery	390,114		390,114	8 Years	Case No. 2007-00008
182-3599-12923	IBM Costs Recovery	-	845,268	845,268	8 Years	Case No. 2007-00008

- Internal Audit reviewed Rate Case No. 2007-00008 and noted the following amounts allowed for recovery by the Commission:
  - 1) IBM related Costs: \$2,308,090;
    - a) Work Management - \$343,993
    - b) Transition Costs - \$1,160,133
    - c) Consulting Costs - \$56,443
    - d) Restructuring Costs - \$747,521
  - 2) Severance Costs: \$79,348; and
  - 3) Call Center Transition Costs: \$812,778.
- The IBM related costs and call center transition costs are amortized over 8 years, per the rate case, while the severance costs are amortized over 3 years. Internal Audit recalculated current and non-current General Ledger balances at June 30, 2012 without exception. The severance costs were fully amortized and not reflected in the June 30, 2012 balance.



**Focus Area 3 – Results (US GAAP Considerations):**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 – Regulated Operations
- Based on the walkthroughs performed and review of the accounting guidance and codifications, CKY’s regulatory asset related to IBM transition cost appear to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

**Demand Side Management (DSM) Program - CKY**

**Focus Area 1 – Results (Account Background/Walkthroughs)**

- As part of the rate filing made in 2009 (*Rate Case No. 200900141*) and subsequent Commission Order dated October 26, 2009, a DSM program and Energy Efficiency and Conservation Program rider was established.
- Internal Audit performed a walkthrough with Regulatory and Accounting management to discuss the process flow of information related to the DSM programs for CKY.
  - Each month, a spreadsheet is compiled by Regulatory Accounting to track invoices and expenses related to the DSM Program.
  - Each month, CKY Accounting provides Regulatory a workbook which captures the expenses recorded in the General Ledger related to the DSM program.
  - A reconciliation is performed by a CKY Accountant and reviewed by the Accounting Manager to ensure the balance is appropriate for the month.

**Focus Area 2 – Results (Testing of Balance/Support)**

- Presented below is a summary of the regulatory liability related to CKY’s DSM program as of June 30, 2012.

Regulatory Assets				Recovery		
GL Account	Description	Current	Non-Current	Total	Period	Case Reference
254-1005-15760	Demand Side Management	(1,546,880)	-	(1,546,880)	Adjusted Annually	Case No. 2009-00141

- Internal Audit obtained the balance account reconciliation at June 30, 2012 from CKY Accounting and agreed the General Ledger balance to the supporting schedules prepared by Regulatory. The balance represents an over collection of DSM expenses incurred as of June 30, 2012 based on rates effective February 1, 2012. Item is properly classified as current as the recovery period is annual with any over or under collection reflected in the subsequent year’s rates effective February 1<sup>st</sup>.



**Focus Area 3 – Results (US GAAP Considerations)**

- Internal Audit referenced the following accounting guidance and codifications, to ensure the policies and procedures complied with US GAAP:
  - ASC 980 - Existence of Regulatory Assets
- Based on the walkthroughs performed and review of the accounting guidance and codifications, CKY's DSM regulatory liability appears to be properly accounted for in accordance with US GAAP.

**Recommendations:**

- None

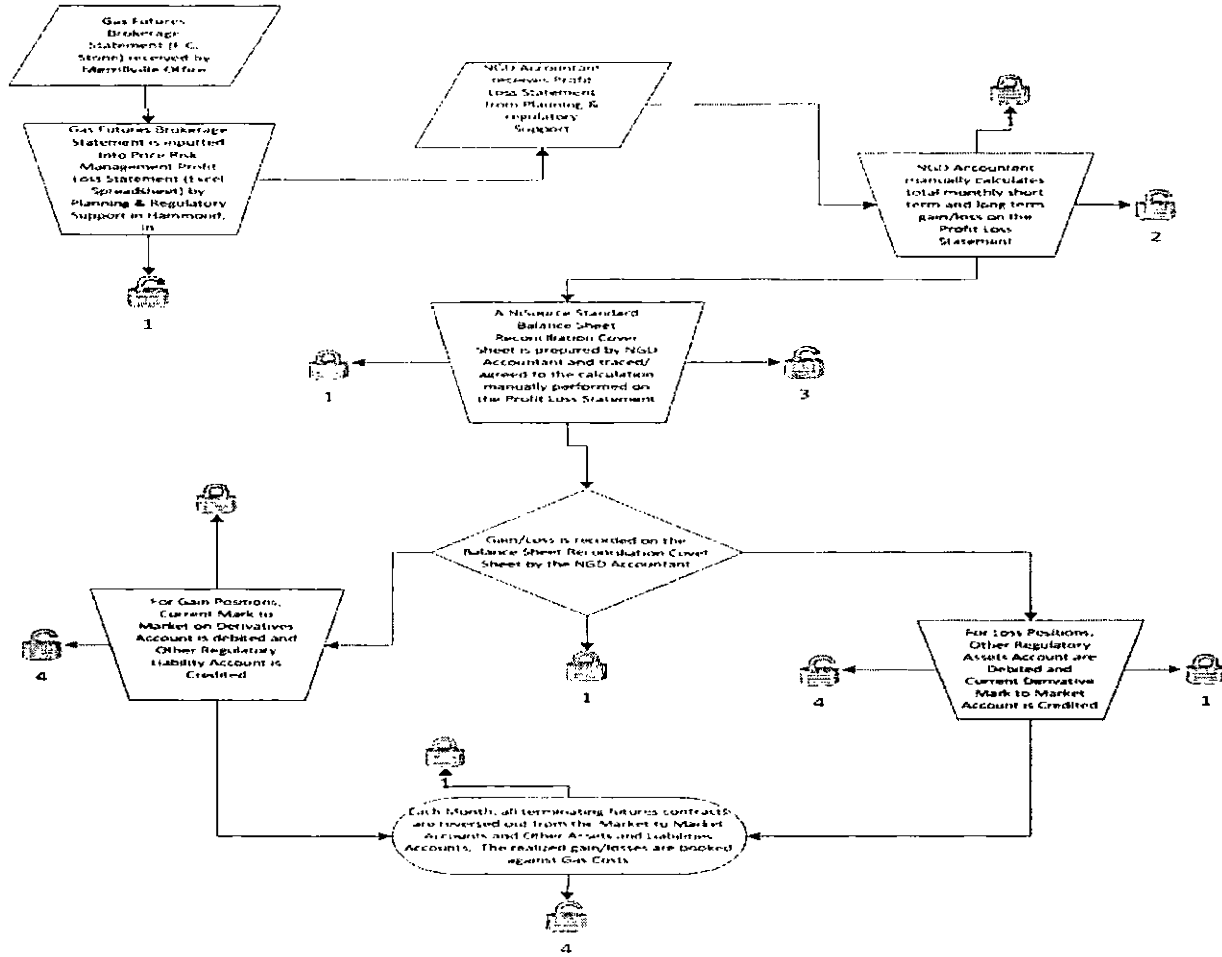
We appreciate the cooperation and assistance that your staff provided to the audit team during this review. Should you have any questions or require additional information, please do not hesitate to contact Ryan Binkley at (614) 460-5985, Shelley Duling at (614) 460-6062 or Amar Patel at (614) 460-6394.

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APPENDIX

All NGD - Hedge Accounting Process Flow Chart



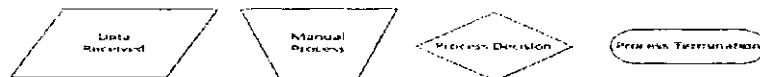
Internal Audit Identified Risk

- 1) Brokerage Statement is inputted to the Profit Loss Statement manually. Risk that information is transferred incorrectly. No control over process was documented or identified.
- 2) Risk that gains/losses are calculated incorrectly due to manual nature of process. Risk Mitigated by Control #1
- 3) Risk that gains/losses from the Profit Loss Statement is not accurately recorded on the Balance Sheet Reconciliation due to manual nature of process. Risk Mitigated by Control #1
- 4) Risk that entries are improperly booked from the Profit Loss Statement/ Balance Sheet Reconciliation to the General Ledger due to manual nature of the process. Risk Mitigated by Control #1

Control

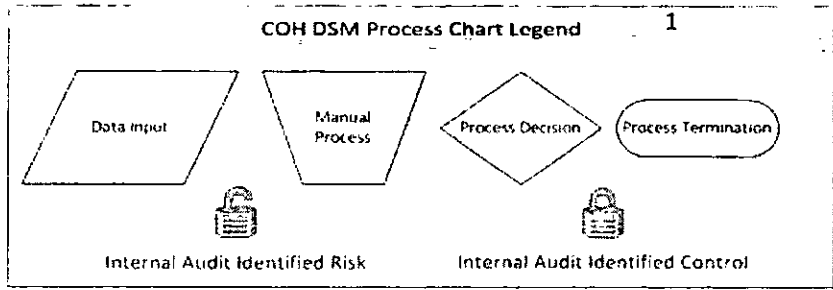
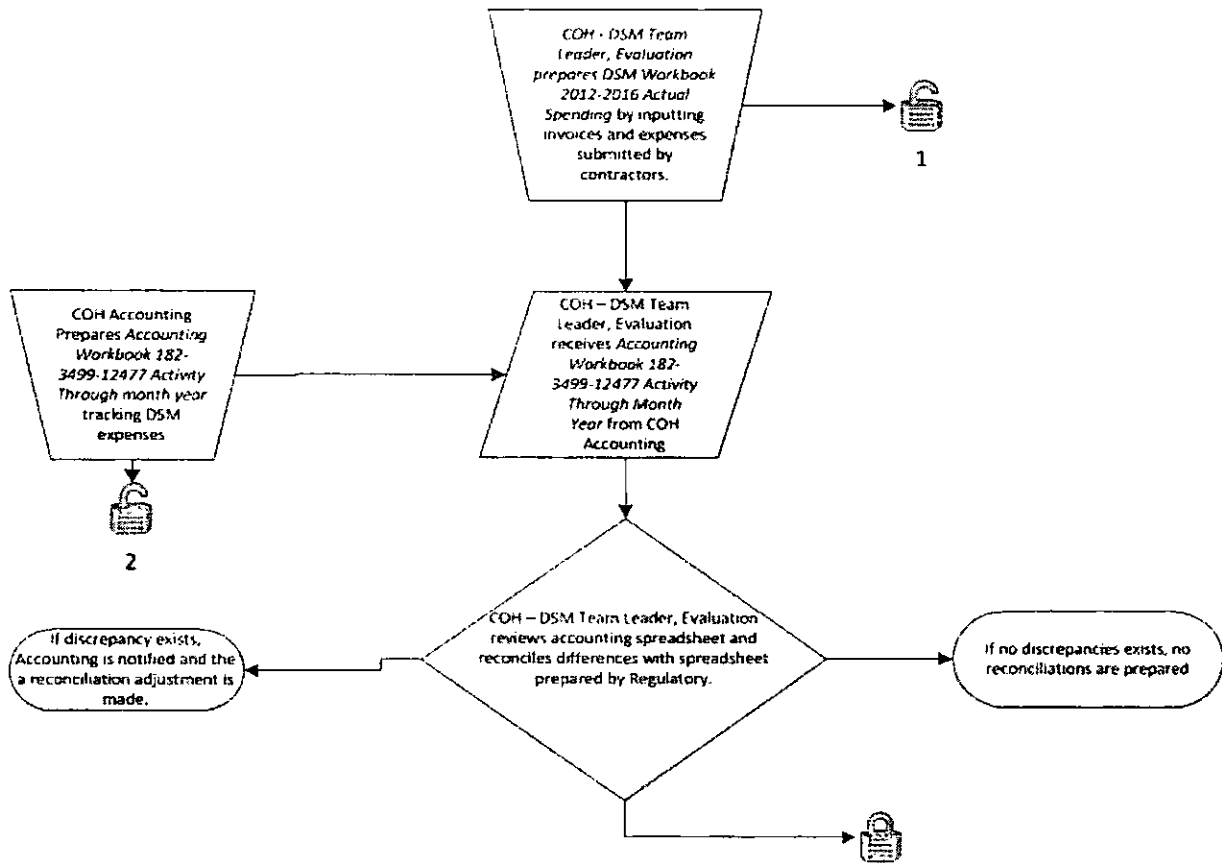
- 1) NGD Accounting Manager reviews the Price Risk Profit Loss Statement, Balance Sheet Reconciliation Cover Sheet, and the FC Stone Monthly Brokerage Statement to ensure all gains and losses agree. An account reconciliation is completed and signed off by the NGD Accountant. The reconciliation is compared to the ending G/L balance by the CMD Accountant. The reconciliation is reviewed and approved (via signoff) by the NGD Accounting Manager.

Hedging Account Process Flow Legend





### COH – Demand Side Management Process Flow Chart



**Internal Audit Identified Risks**

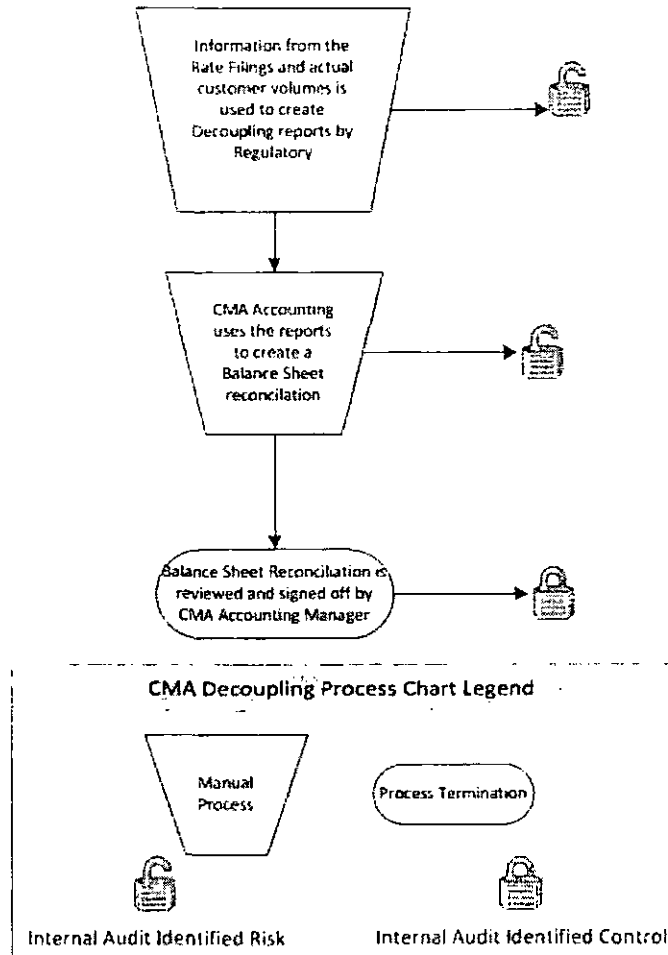
- 1) DSM spreadsheet is prepared manually and based off invoices and expenses which could be entered incorrectly.
- 2) Accounting spreadsheet is captured through DSM expenses which could be input incorrectly

**Internal Audit Identified Control**

- 1) COH – DSM Team leader, Evaluation reviews both Accounting and Regulatory spreadsheets to ensure data that was booked is correctly recorded. COH-DSM Teal Leader, Evaluation maintains correspondences with COH Accounting which prove reconciliation of discrepancies.



### CMA – Decoupling Process Flow Chart



**Internal Audit Identified Risks**

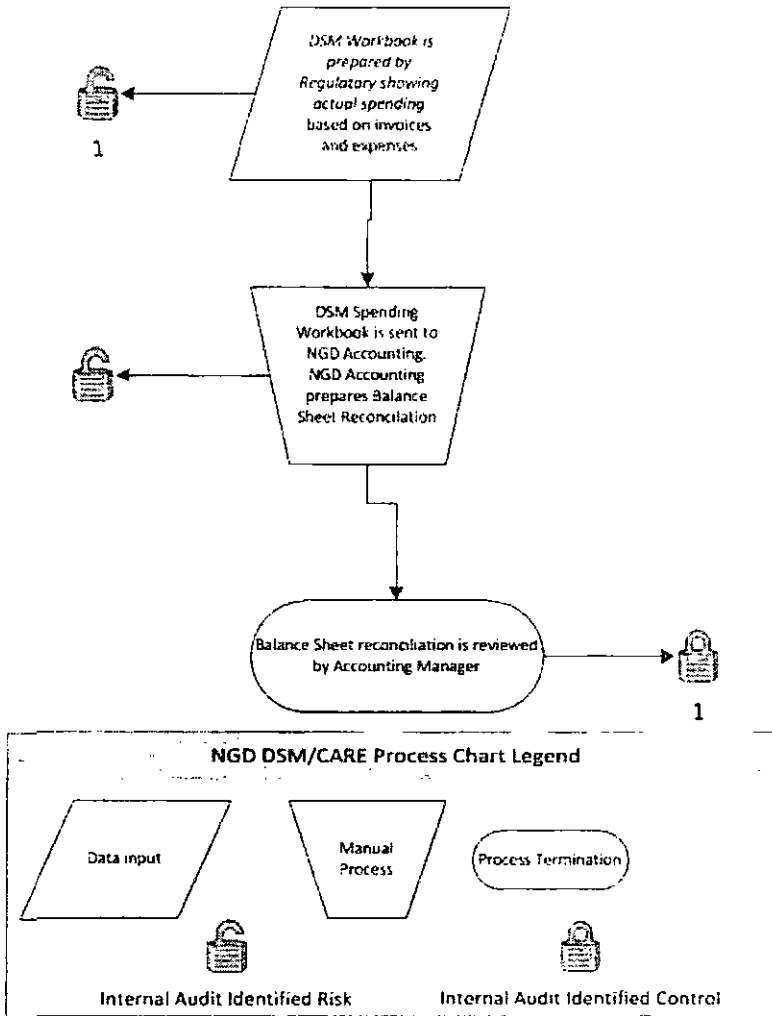
- 1) Risk that information from filing is not correct or accurate
- 2) Risk that information in reconciliation is no correct or accurate

**Internal Audit Identified Control**

- 1) Accounting Manager reviews Decoupling reports and balance sheet reconciliation to ensure the information is accurate and correct.



**NGD - DSM/CARE Process Flow Chart (Excluding COH)**



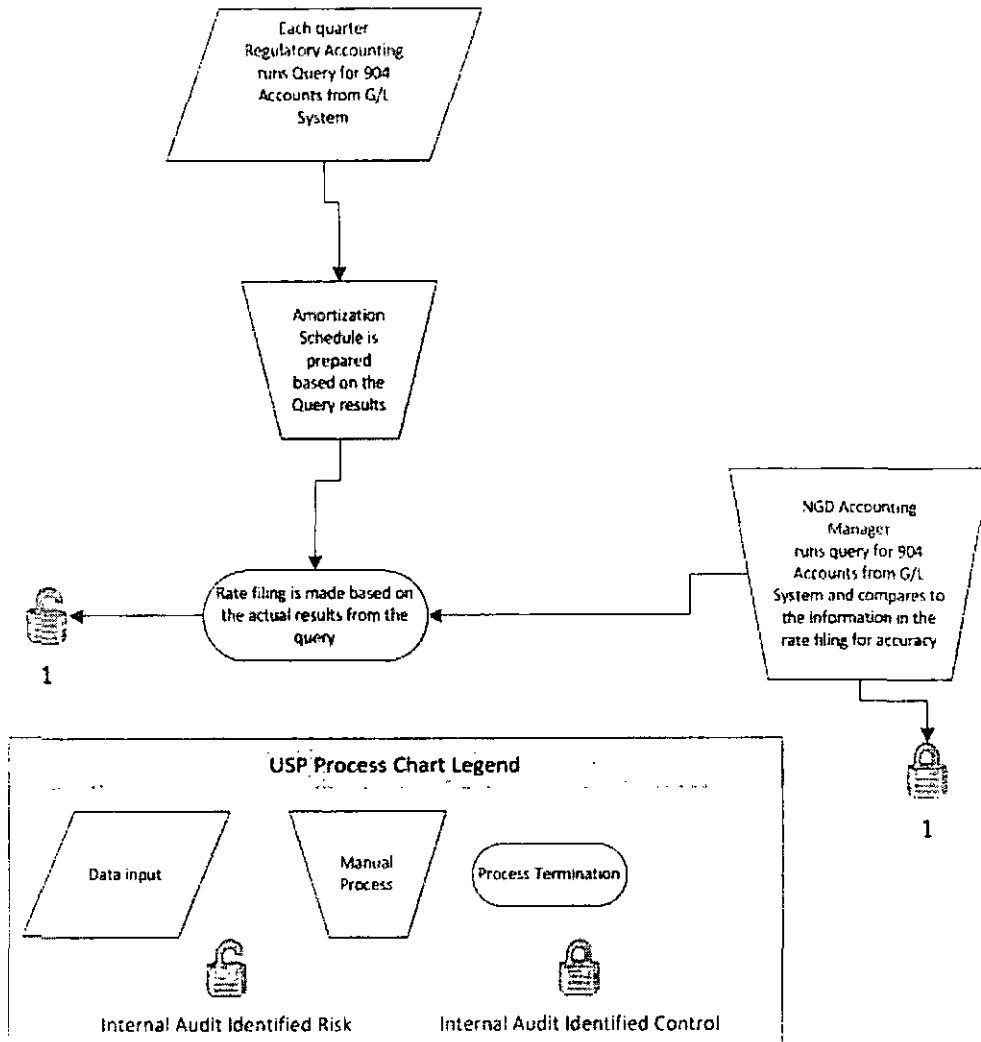
Internal Audit Identified Risks	Internal Audit Identified Control
1) DSM spreadsheet is prepared manually and based off invoices and expenses which could be entered incorrectly. 2) Accounting reconciliation is captured through DSM expenses which could be input incorrectly	1) Accounting Manager reviews the monthly reconciliations to ensure data input is accurate and correct.

Internal Audit Note: The CARE program in CVG operates with the same process flow as the DSM programs in the other NGD companies. COH has a separate process flow which is not captured above.





### CPA – USP Process Flow Chart



**Internal Audit Identified Risks**

1) Risk that information placed in filing is not correct or accurate

**Internal Audit Identified Control**

1) Accounting Manager also runs query for 904 accounts ensuring accuracy and correctness of information pulled by Regulatory Accounting.

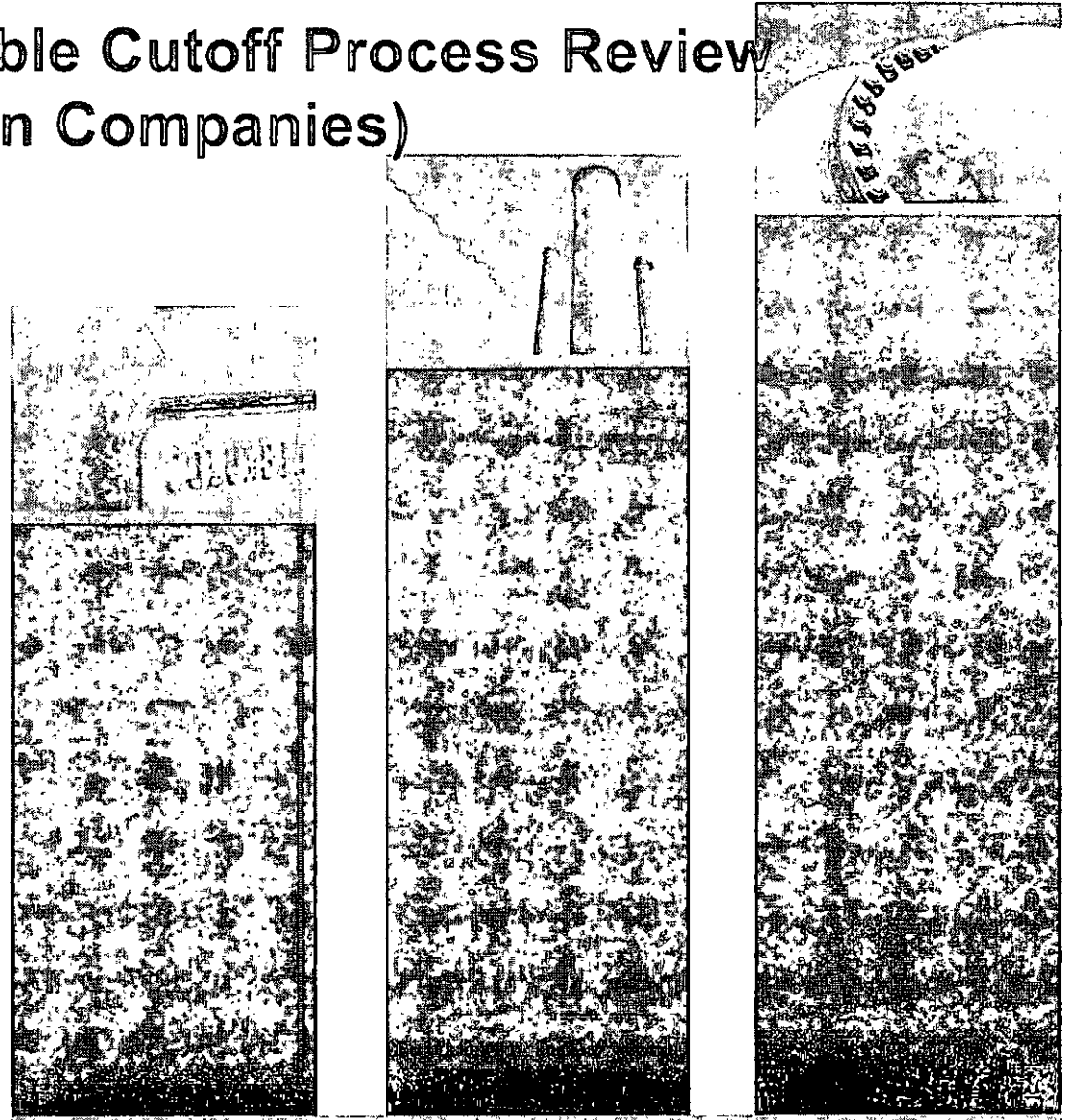
# B U I L D I N G

## Accrual & Accounts Payable Cutoff Process Review (NiSource Gas Distribution Companies)

February 6, 2013

To: June Konold, NGD Segment Controller

From: Jaclyn Callahan, Internal Audit Lead  
Ryan Binkley, Internal Audit Director  
Shelley Duling, Internal Audit Manager



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## Executive Summary

Internal Audit conducted a review of the processes in place to ensure the proper accrual of outstanding payables as of a period end for the NiSource Gas Distribution (NGD) companies

Internal Audit engaged in discussions with appropriate members of the following departments to properly address management's perception of risk and potential process improvement opportunities as a part of our review:

- Accounts Payable
  - NGD Accounting
  - NGD Business Improvement
- The focus of our review included the following:
    - A walkthrough of the current processes and procedures in place as of June 30, 2012 and September 30, 2012 (2<sup>nd</sup> and 3<sup>rd</sup> Quarter) to ensure Accounts Payable (A/P) liabilities are properly accrued; and
    - Performance of A/P cut-off testing as of June 30, 2012 and September 30, 2012 to verify that costs related to services performed/goods delivered were accrued in accordance with established policies and procedures and GAAP requirements.

Internal Audit has reviewed our results with management.

## Executive Summary (Cont'd)

**Audit Objective:** Accounts Payable liabilities are properly accrued as of period end in accordance with Company policy and procedure and GAAP requirements

### ***June 30, 2012 Accrual Cut-off Results***

- **40** invoices paid in July totaling **~\$2.9 million** were reviewed by Internal Audit
  - **7** invoices totaling **~\$454K** were not accrued timely based upon the service dates of the related invoices
  - **~\$445K** of the unrecorded amount was included in the population of known errors (self-report population) identified by NGD management
    - **~\$444K** was processed through NGD's *Work Management System (WMS)*
    - **~\$1K** was processed through *Catalyst*
  - **~\$9K** of the unrecorded amount was related to items not identified by management;
    - **~\$6K** processed through Columbia Gas of Massachusetts' *Work Order Management System (WOMS)*
    - **~\$3K** processed through WMS but was not identified in management's population of known errors
- Internal Audit also identified an isolated error totaling **~\$226K** from a Catalyst system query spreadsheet as of June 30, 2012. *Management addressed the cause of this error and implemented a new reconciliation process as of the date of this report.*

## Executive Summary (Cont'd)

### Audit Objective (Cont'd):

#### ***September 30, 2012 Accrual Cut-off Results***

- **24** invoices paid in October totaling **~\$1.0 million** were reviewed by Internal Audit
  - **5** invoices totaling **~\$572K** were not accrued timely based upon the service dates of the related invoices
    - » **~\$1K** of the unrecorded amount was included in the population of known errors (self-report population) identified by NGD management as unrecorded liabilities; processed through *WMS*
    - » **~\$571K** of the unrecorded amount was related to items not identified by management; processed through *Catalyst*

#### ***Self-Report Population***

- *Management identified the following unrecorded accruals through self-reporting processes (WMS, Catalyst, and Other self-reporting procedures):*
  - *06/30/2012 - ~\$9.5 million; total A/P balance was ~\$144 million (~6.6% of total)*
  - *09/30/2012 - ~\$9.8 million; total A/P balance was ~\$161 million (~6.1% of total)*
  - *12/31/2012 - ~\$4.3 million\*\**

## Executive Summary (Cont'd)

### Internal Audit Recommendations:

Internal Audit noted that management implemented more robust procedures and more direct communications with Company personnel regarding the proper accrual of Accounts Payable liabilities in 2012. Internal Audit recommends that NGD Accounting, AP, NGD Field Operations, and corporate personnel continue to collaborate and ensure that employees are educated on processes to record invoices timely through WMS and Catalyst to ensure accurate financial reporting records.

### 2013 Accounts Payable Field Process Improvement Project

In addition to the review performed as part of this report, Internal Audit will work in collaboration with Field Operations in 2013 to identify process improvement opportunities (Six Sigma) regarding the timely accrual of invoices in WMS. Internal Audit plans to perform data analysis to identify invoice accrual processes that are functioning well and work with management to improve those areas where enhancement opportunities exist.

# Background

## ***Overview of NGD Accounts Payable Accrual Processes:***

### **Accounts Payable (AP) Defined**

- Balances owed to others for goods or services that are purchased on an open account
- Arise due to the lag time between the receipt of services or the acquisition of title for goods received and the payment related to these items

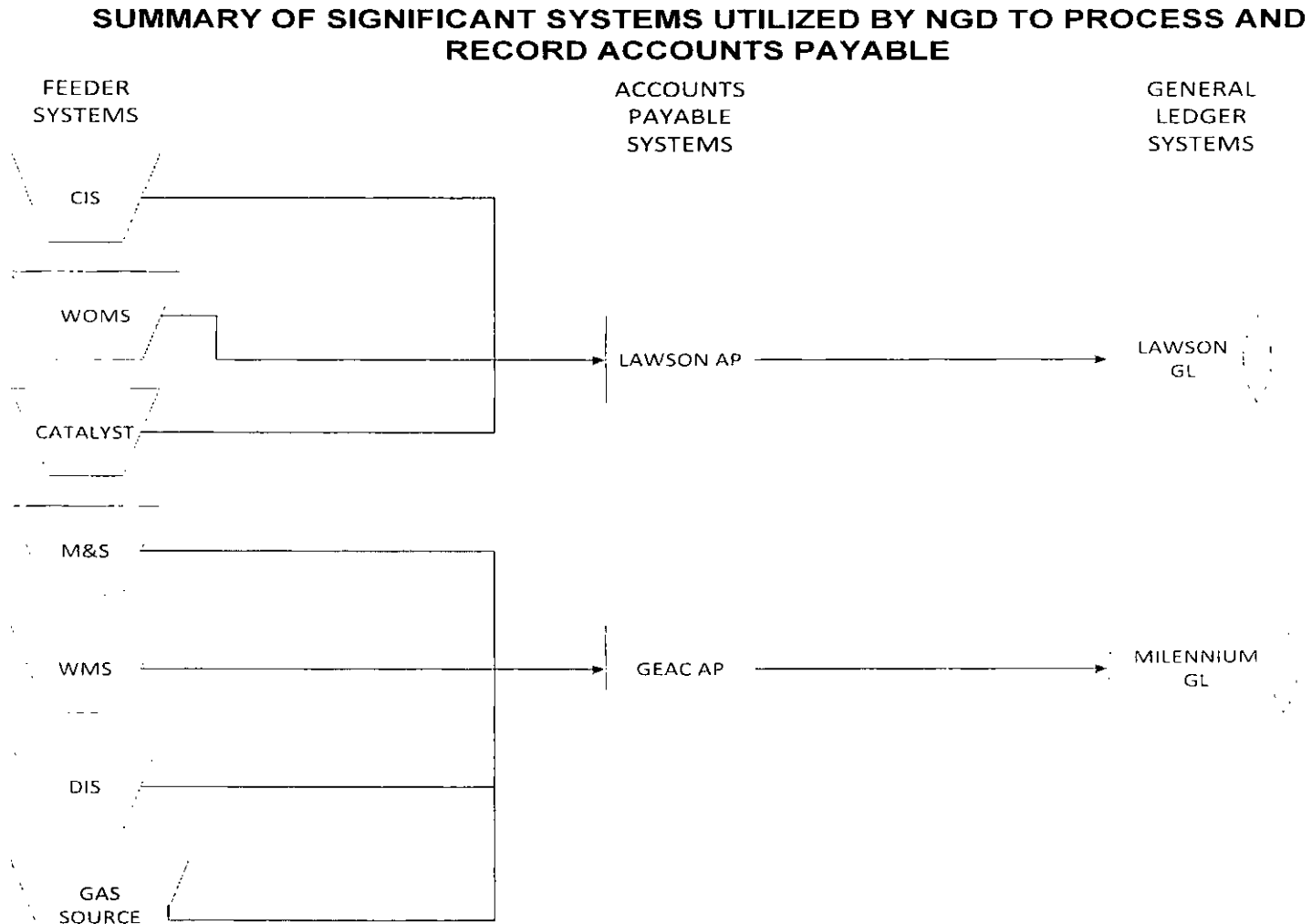
### **Generally Accepted Accounting Principles (GAAP) Requirements**

- In accordance with GAAP, NGD is required to record a liability at the time in which services have been rendered or goods have been received
  - If an invoice has not been received, NGD is required by GAAP to estimate and record the amount of the liability if the following conditions exist:
    - Amount can be reasonably estimated
    - It is probable that the liability has been incurred



# Background (Cont'd)

## Overview of NGD Accounts Payable Accrual Processes (Cont'd):



NOTE: Refer to *Slides 9 through 13* for descriptions of each system referenced above

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

As outlined on *the previous slide*, the NGD companies currently utilize multiple systems to process payables

### **Systems Utilized to Process Accounts Payable**

- Columbia Gas of Massachusetts - *Lawson AP*
- All other Columbia companies (CDC) - *GEAC AP*

### **Interface from “Feeder” Systems to the AP Systems**

The following is a list and description of the “feeder” systems housing significant expenses that interface with *Lawson AP* and *GEAC AP*:

- **Catalyst**
  - **Description:** A workflow tool which processes invoices by capturing images electronically and requires approval prior to payment based on job title
  - **Interfaces:** This system interfaces daily with both *Lawson AP* and *GEAC*
  - **Criteria for Interface:** Expense must have the required approvals to be included in the interface to the AP systems

## Background (Cont'd)

### Overview of NGD Accounts Payable Accrual Processes (Cont'd):

#### Interface from “Feeder” Systems to the AP Systems (cont'd):

- **Work Order Management System (WOMS)**
  - **Description:** A scheduling system for field work orders for CMA which tracks man hours and materials costs for individual work orders
  - **Interfaces:** This system interfaces daily with *Lawson AP*
  - **Criteria for Interface:** An invoice created in *WOMS* must be approved by the appropriate manager

**NOTE:** *WOMS* transitioned to the *Work Management System (WMS)* discussed at ***the next slide*** as of October 2012

- » *CMA Field Operations were instructed to continue to use WOMS through December 31, 2012 to process transactions related to work orders that were in **open status** in WOMS as of the transition date*
  - *Transactions related to work orders processed through WOMS for the month of December 2012 totaled **~\$47K***
  - *The WOMS system was converted to “read-only” status as of December 31, 2012; all work orders still in open status related to the period prior to transition have been transitioned to WMS for final processing*

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Interface from “Feeder” Systems to the AP Systems (cont'd):**

- **Work Management System (WMS)**
  - **Description:** A scheduling system for field work orders for the CDC companies which tracks man hours and materials costs for individual work orders
  - **Interfaces:** This system interfaces daily with *GEAC*
  - **Criteria for Interface:** An invoice created in the *WMS* system must be approved by the appropriate manager via the Approve Contract Invoice (ACI) function within the system
  
- **Distributive Information System (DIS)**
  - **Description:** The customer billing system for the CDC companies
  - **Interfaces:** This system interfaces once a week with *GEAC* regarding refunds to the customer as a result of overpayments, billing adjustments, etc.
  - **Criteria for Interface:** None; all transactions are interfaced

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Interface from “Feeder” Systems to the AP Systems (cont'd):**

- **Customer Information System (CIS)**
  - **Description:** The customer billing system for CMA
  - **Interfaces:** This system interfaces once a week with *Lawson* regarding refunds due to customers as a result of overpayments, billing adjustments, etc.
  - **Criteria for Interface:** None; all transactions are interfaced
  
- **Materials and Supplies (M&S)**
  - **Description:** Inventory system used for plant work that allows users from all NGD companies to order materials through McJunkin Red Man, NGD's parts supplier
    - » *MRC bills the NGD companies when the materials are used (or taken from the warehouse)*
  - **Interfaces:** This system interfaces daily with *GEAC*
  - **Criteria for Interface:** The purchase order must be “Approved” within the system

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Interface from "Feeder" Systems to the AP Systems (cont'd):**

- **Gas Source**
  - **Description:** A system used to process gas purchase and sale transactions and overall gas management activities which automatically calculates costs and margins
  - **Interfaces:** This system interfaces purchases twice a month with GEAC
  - **Criteria for Interface:** None; all transactions are interfaced

#### **Interface from AP Systems to GL**

The outstanding payables in both *Lawson AP* and *GEAC* are summarized daily and are electronically interfaced (referenced herein as the *Open Payables Interface*) with the respective distribution companies' General Ledger (GL) systems

- The interfaces from the respective AP systems record entries to the following liability accounts:
  - *CMA Lawson GL - 523200*
  - *CDC Millennium GL - 232-13990*

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Manual Entries to the GL to Record AP Accruals Related to “Feeder” System Data**

- Due to the timing of the interfaces from the “feeder” systems as well as the criteria required to be included in the interface to the AP system, some outstanding payables will not be captured by the *Open Payables Interface*
  - Accounting identified the following methods to record manual accrual entries to the GL to reflect these expenses as of period end:
    - Day 1 Query (***Refer to Slide 15***)
    - WMS and M&S Open Work Order Queries (***Refer to Slide 16***)
    - Catalyst Open Payables Query (***Refer to Slides 17- 20***)

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Manual Entries to the GL to Record AP Accruals Related to “Feeder” System Data**

##### ***Day 1 Query:***

- Once a “feeder” system interface is run, a one day lag occurs for the transaction to be reflected to the AP system
  - If an item is approved within a feeder system on the last day of a period end, that item would not be reflected in the AP system until Day 1 of accounting close and it would not be included in the *Open Payables Interface* which is run on the last day of the period
  - To address this timing issue, NGD Accounting developed a query to identify all items that posted to the GL on the first day of close which relates to the prior period
    - The total of this query is posted to the GL via a manual journal entry by NGD Accounting



## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Manual Entries to the GL to Record AP Accruals Related to “Feeder” System Data WMS and M&S Open Work Order Queries:**

- In June 2012, NGD Accounting implemented two queries identifying expenses from WMS and M&S which relate to the reportable period, but were not captured in the *Open Payables Interface* due to the status of the item within WMS

*NOTE: Management identified the need for this query as a result the 2011 financial statement audit performed by NiSource’s external auditors, Deloitte & Touche (D&T)*

- On Day 3 of accounting close, the NGD Business Improvement Team extracts all unapproved expenses with a “**Progress Date**” or “**Purchase Order Date**” on or prior to period end
  - *Unapproved expenses are those that do not meet the daily interface criteria for WMS and M&S*
  - *The “**Progress Date**” is the field in WMS which is designed to capture the date the work was performed or goods were delivered (i.e. liability date)*
  - *The “**Purchase Order Date**” is the field in M&S which is determines the date in which the company became obligated to purchase materials (i.e. liability date)*
  - *NGD Accounting records the total of these queries via a manual entry*

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Manual Entries to the GL to Record AP Accruals Related to “Feeder” System Data *Catalyst Open Payables Query:***

- This query provides all invoices input into *Catalyst* that are pending proper approval, thus do not meet the daily interface criteria for this feeder system
- Accounts Payable generates the query from *Catalyst* on Day 1 of accounting close
  - AP filters the results of the query to only include items over **\$10K** and sends the invoice information to NGD Accounting for a manual entry to the GL
    - *NGD Accounting researches items as necessary if coding information is not available to record the liability to the GL*
    - *NGD Accounting Management developed the **\$10K** threshold to ensure that all “significant” items were investigated*
  - Any invoice under **\$10K** will not be accrued
    - Internal Audit filtered the *Catalyst Open Payables Query* and determined that invoices under the threshold totaled **~\$1.3M** as of June 30, 2012 and **~\$1M** as of September 30, 2012 (See **Slide 25**)

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Catalyst Open Payables Query (Cont'd):***

- NGD Accounting Management implemented several process improvements in late 2012 related to the *Catalyst Open Payables Query*
  - **Process Changes for the period ending October 31, 2012**
    - Effective as of October 15, 2012, the *Catalyst* system requires that a service date be entered for a non-purchase-order invoice before it can be approved within the system
      - The service date represents the timeframe when the services were performed or goods received by the company (i.e. liability date)
      - AP utilizes this field when running the *Catalyst Open Payables Query*
        - » Only those items related to the reportable period are now communicated to NGD Accounting for research purposes
        - » **Note:** *AP still communicates those invoices for which a service date has not been entered; NGD Accounting researches these items to determine if an accrual is necessary*

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Catalyst Open Payables Query (Cont'd):***

- **Process Changes for the period ending October 31, 2012 (cont'd):**
  - To help improve the amount of research necessary during the accounting close, Accounts Payable now generates the *Catalyst Open Payables Query* three days prior to period end
    - For any item without the necessary GL coding input into the system, AP contacts the “Approver” listed in the system for the invoice and requests that the information is input prior to period end
  - In addition, AP continues to run the *Catalyst Open Payables Query* through Day 3 of accounting close to capture any items entered into *Catalyst* during the close process which had a service date within the reporting period

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Catalyst Open Payables Query (Cont'd):***

##### **– Process Changes Specific to Year End Accounting Close**

- All invoices listed in the *Catalyst Open Payables Query* ***with the proper coding information*** (including those under the **\$10K** threshold utilized during the other reporting periods) will be recorded to the GL
- AP enlisted temporary employees to research invoices in *Catalyst* that did not contain the proper accounting information prior to year end
  - *This should reduce the number of items requiring research during accounting close*
  - *The temporary employees will continue to research invoices without the necessary GL coding during the accounting close*
- After completion of the accounting close, the temporary employees will continue to monitor any new invoices that are entered into the *Catalyst* system to identify any items which should be included in the **“Self Report”** population for year end (See **Slide 31** for further discussion)

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **Additional Information Provided by Sources Outside Accounting**

- In addition to the journal entries to record accruals related to items posted to the “feeder” systems (See ***Slides 9 – 13***), NGD Accounting will also book manual accruals based on information provided to them from other departments such as Regulatory, Field Operations, Tax, etc.
  - These additional accruals reflect other commitments made, such as:
    - Contract fees
    - Software licenses
    - Charitable contributions
  - Upon receipt of these communications and based on the circumstances of each item, NGD Accounting will manually book the accruals needed
  - **NOTE:** It is the responsibility of the party incurring the liability to inform NGD Accounting of the liability if there is not record of it in one of the systems discussed on the slides noted above

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### **E-Mail Reminders Distributed by AP**

- AP utilizes company e-mail to communicate the importance of inputting and approving invoices in *Catalyst* to meet period end deadlines
- See an example below of the e-mail communication sent in November 2012 to discuss issues relevant to the upcoming year end close:

**NiSource** Catalyst Year-End Communication  
NiSource Accounts Payable to: 11/21/2012 09:36 AM  
Sent by: Lynne M Bolin

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**Please read these important Catalyst updates & reminders. This special year-end edition covers:**

- Month-End Approval deadlines Nov & Dec
  - Delegate your Catalyst Authority (especially around the holidays)
  - Booking of expense occurs when invoice approved
  - Awards & Gifts
  - AP Sharetime Sessions
  - Contacting the Help Desk - reminder
-

## Background (Cont'd)

### **Overview of NGD Accounts Payable Accrual Processes (Cont'd):**

#### **E-Mail Reminders Distributed by AP (Cont'd):**

##### **Month-End Approval Deadlines**

Invoices must be approved in Catalyst by **noon (e.s.t.)** on the last business day of the month to be included in that month's business. For **November** close, the deadline is **noon (e.s.t.) on 11/30** and for **December** close, the deadline is **noon (e.s.t.) on 12/31**.

If you are unable to approve an invoice in Catalyst by the deadline, **please make sure to enter the account distribution information**. The Accountants use that information to book accruals so the expense can still hit the proper month.

Please also receipt timely as the Accountants also use this information for accrual purposes.

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##### **Delegate your Catalyst Authority**

Please remember to Delegate your authority if you are going to be away from the office so that invoices do not get delayed. This is extremely important for year-end as records will not route out of your inbox while you are out unless you delegate.

To get to the proper screen go to Tools / Delegates

- Click on Search button to locate the Delegator name
- Click on the ADD button in the "Users delegated" to section
- Search for the name you want to delegate to and select
- Click on the Pencil



## Background (Cont'd)

### *Overview of NGD Accounts Payable Accrual Processes (Cont'd):*

#### E-Mail Reminders Distributed by AP (Cont'd):

##### **Booking of Expense occurs when Invoice is approved**

The invoice is booked to the accounting system when the invoice is approved, **not** when it is paid. Please do not request payments to be rushed in hopes of getting the expense booked in 2012 as it has no impact.

---

##### **Awards & Gifts**

As a reminder, all cash or cash equivalents (**gift cards, gift certificates, etc.**) regardless of amount are **taxable to the employee**

If the expense is charged to the corporate card or if an employee is to be reimbursed for the purchase – process the reimbursement through ERS. Please select the Award / Gift category.

Reimbursement for awards and gifts are made using the Employee Gift and Award Accounting and Reporting policy located on MySource under Policy Center \ Corporate \ Finance & Accounting \

If a payment for the gift or award is to be made directly to a vendor, the payment request must include the receipt and a copy of the completed Employee Income Reporting Form (available from Payroll). The original is to be sent to Payroll.

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##### **AP Sharetime Sessions**

AP is planning sessions where team members will be available for individualized help to process invoices through Catalyst starting **December 17** in Columbus & Charleston. Please look for upcoming announcements for date, times, and rooms.

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##### **Contacting the help desk – reminder**

###### TELEPHONE communication

- Telephone # is 1-877-357-3911, option 2, option 2



## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Unrecorded Accruals as of June 30, 2012 and September 30, 2012***

- ***Unrecorded Accruals from Catalyst; Management Control Policy***
  - Due to the amount of time and resources required to research the invoices listed on the *Catalyst Open Payables Query* prior to recording the liability in the financials, Management has elected not to research and record any invoice listed on the *Catalyst Open Payables Query* under **\$10K**
  - Internal Audit filtered the *Catalyst Open Payables Query* to identify all invoices under **\$10K** and determined that the total unrecorded liabilities were:
    - **~\$1.3M** for June 30, 2012
      - A total of **~\$2.6M** in accruals were reported from Catalyst at period end; with the open payables population included, the total amount that should have been reported from WMS as of June 30 was **~\$3.9M**
    - **~\$1M** for September 30, 2012
      - A total of **~\$3.9M** in accruals were reported from Catalyst at period end; with the open payables population included, the total amount that should have been reported as of September 30 was **~\$4.9M**

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Unrecorded Accruals as of June 30, 2012 and September 30, 2012 (Cont'd):***

- ***WMS and M&S Timing Issue(s)***
  - Subsequent to recording the June 2012 manual entry using the *WMS* and *M&S Open Work Order Queries* (See **Slide 16**), NGD Accounting Management noted instances of expenses which had progress report dates (i.e. liability dates) prior to June 30, 2012, but which were not input into the *WMS* or *M&S* systems to be captured in the *WMS Open Payables Query* processed during June's accounting close
  - NGD Accounting began tracking the “unrecorded” accruals related each month and plans to monitor the data on an on-going basis
    - *NGD Accounting will investigate any apparent trends or large fluctuations in the total “unrecorded” accrual data with the assistance of NGD Business Improvement and Field Operations*

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Unrecorded Accruals as of June 30, 2012 and September 30, 2012 (Cont'd):***

- ***WMS and M&S Timing Issue(s) (Cont'd):***
  - Internal Audit analyzed the data of “unrecorded” accruals (expense transactions and credit memos) maintained by NGD Accounting for the three months subsequent to period ending June 30, 2012 and for two months subsequent to September 30, 2012
    - ~***\$8.6M*** and ~***\$8.9M*** of expenses and ~***\$389k*** and ~***\$225k*** of credits related to June 30, 2012 and September 30, 2012, respectively were recorded in *WMS* and *M&S* in the months reviewed subsequent to each period end
    - The average number of days from the progress report date to the invoice entry date to *WMS* and *M&S* for expense and credit memo transactions are as follows for each respective period:

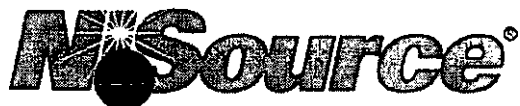
Period	Expense Transactions	Credit Memos
Period ending June 30, 2012	40 Days	96 Days
Period Ending September 30, 2012	42 Days	102 Days

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Unrecorded Accruals as of June 30, 2012 and September 30, 2012 (Cont'd)***

- ***WMS and M&S Timing Issue(s) (Cont'd):***
  - **46%** of the expense transactions related to June 30, 2012 and **49%** for September 30, 2012 were input into the system in excess of 30 days past the progress report date
  - **96%** of the credit transactions related to June 30, 2012 and **99%** for September 30, 2012 were input into the system in excess of 30 days past the progress report date



NOTE: Refer to **Slides 29–30** for a summary of the unrecorded accruals for each respective period.

## Background (Cont'd)

### Overview of NGD Accounts Payable Accrual Processes (Cont'd):

#### Unrecorded Accruals as of June 30, 2012 and September 30, 2012

- WMS and M&S Timing Issue(s) (Cont'd):

Unrecorded Accruals for period ending June 30, 2012			
<i>Days Between the Progress Report Date and Expense Being Input into WMS</i>	<i>Value of Expense Transactions</i>	<i>Days Between the Progress Report Date and Credit Being Input into WMS</i>	<i>Value of Credit Transactions</i>
0 to 30	\$4,672,832	0 to 30	(\$15,059)
31 to 60	\$3,207,111	31 to 60	(\$17,216)
61 to 90	\$309,162	61 to 90	(\$185,323)
Over 90	<u>\$484,950</u>	Over 90	<u>(\$171,853)</u>
	<b>\$8,674,055</b>		<b>(\$389,451)</b>

**NOTE:** The analysis above includes all transactions (expenses incurred and credits from vendors) entered into WMS during July 2012, August 2012, and September 2012 that related to expenses incurred as of or prior to June 30, 2012

- A total of ~\$6.0 M in accruals were reported from WMS for the period end; with the self-report population included, Internal Audit determined that the total amount that should have been reported from WMS as of June 30 was ~\$15.3M

## Background (Cont'd)

### Overview of NGD Accounts Payable Accrual Processes (Cont'd):

#### Unrecorded Accruals as of June 30, 2012 and September 30, 2012

- *WMS and M&S Timing Issue(s) (Cont'd):*

Unrecorded Accruals for period ending September 30, 2012			
<i>Days Between the Progress Report Date and Expense Being Input into WMS</i>	<i>Value of Expense Transactions</i>	<i>Days Between the Progress Report Date and Credit Being Input into WMS</i>	<i>Value of Credit Transactions</i>
0 to 30	\$4,558,654	0 to 30	(\$1,703)
31 to 60	\$2,068,797	31 to 60	(\$32,260)
61 to 90	\$1,329,634	61 to 90	(\$58,267)
Over 90	<u>\$999,070</u>	Over 90	<u>(\$133,041)</u>
	<b>\$8,956,155</b>		<b>(\$225,271)</b>

**NOTE:** The analysis above includes all transactions entered into WMS during October 2012 and November 2012 that related to expenses incurred as of or prior to September 30, 2012. The transactions entered in December 2012 were not available at the time the analysis was performed.

- A total of ~\$4.1 M of accruals were reported from WMS for the period end; with the self-report population included, Internal Audit determined that the total amount that should have been reported from WMS as of September 30 was ~\$12.8 M

## Background (Cont'd)

### ***Overview of NGD Accounts Payable Accrual Processes (Cont'd):***

#### ***Unrecorded Accruals to be "Self Reported" at Year End***

#### **WMS/M&S "Self Reported" Population at Year End**

- NGD Accounting ran the *WMS and M&S Open Work Order Queries* during the year end accounting close, as they would during any other month end close
  - After accounting close, NGD Accounting will then continue to monitor the accruals unrecorded for the period ending December 31, 2012 and will "self report" these known errors as they are determined
  - *As of January 31, 2013, the 12/31/2012 "self report" balance totaled \$2.2 million*

#### ***Catalyst "Self Reported" Population at Year End***

- NGD Accounting ran the *Catalyst Open Payables Query* during the year end accounting close, as they would during any other month end close
  - After accounting close, AP will continue to monitor the Catalyst system for entry of invoices with a service date as of or prior to December 31, 2012
  - NGD Accounting will "self report" these known errors
  - *As of January 31, 2013, the 12/31/2012 "self report" balance totaled \$2.1 million*



## Internal Audit Objectives & Procedures

**Audit Objective:** Accounts Payable liabilities are properly accrued as of period end in accordance with Company policy and procedure and GAAP requirements.

- **Focus Area 1:** Perform cut-off testing as of June 30, 2012 to verify that costs related to services performed and/or goods delivered as of the noted period end are accrued in accordance with established policies and procedures and GAAP requirements
- **Focus Area 2:** Perform cut-off testing as of September 30, 2012 to verify that costs related to services performed and/or goods delivered as of the noted period end are accrued in accordance with established policies and procedures and GAAP requirements

## Audit Objective - Results & Recommendations

**Focus Area 1:** Perform cut-off testing as of June 30, 2012 to verify that costs related to services performed and/or goods delivered as of the noted period end are accrued in accordance with established policies and procedures and GAAP requirements

### ***Audit Results – June 30, 2012:***

- Internal Audit obtained the check register, a listing of all checks paid, from July 1, 2012 through July 31, 2012 for both *Lawson AP* and *GEAC AP*
  - Internal Audit made a total of **30** selections
    - **15** selections from each system's check register
  - Internal Audit also made a judgmental selection of **10** invoices meeting the following criteria to address potential fraud risk
    - Invoices with round dollar amounts
    - Invoices with the largest dollar amounts
    - Invoices with unusual vendor spend
    - Invoices input into the system on a weekend

# Audit Objective - Results & Recommendations (Cont'd)

## *Audit Results – June 30, 2012 (Cont'd):*

- Internal Audit noted a total of 7 invoices totaling ~\$454K which were not appropriately accrued as of June 30, 2012
  - Internal Audit then determined whether or not these invoices were included in the queries established by management to identify “unrecorded” accruals (See **Slides 25 - 26**). See results below:
  - Unrecorded Accruals Identified in Management’s Self Report Processes
    - 1 invoice totaling **\$444,274** (CPA)
      - Internal Audit noted that this invoice was processed through *WMS*
      - This invoice had a progress report of June 30, 2012, but it was not included in the *WMS/M&S Open Work Orders Queries* run during the June accounting close
      - It was not recorded as a liability to the GL, as the expense was not entered into the *WMS* system until July 30, 2012
      - Internal Audit agreed the invoice above to the detail of the “unrecorded” accruals being maintained by NGD Accounting

# Audit Objective - Results & Recommendations (Cont'd)

## ***Audit Results – June 30, 2012 (Cont'd):***

- Unrecorded Accruals Identified in Management's Self Report Processes (Cont'd):
  - 1 invoice totaling **\$750** (CMA)
    - Internal Audit noted that this invoice was processed in *Catalyst*
    - Internal Audit noted that it was not recorded to the GL as it was under the **\$10K** threshold established by management
    - Internal Audit noted that the selection was included in the “Master File” of the Lawson *Catalyst Open Payables Query* (prior to filtering with **\$10K** threshold) to ensure that the query was still properly pulling all open payables at period end (See **Slide 25**)

# Audit Objective - Results & Recommendations (Cont'd)

## *Audit Results – June 30, 2012 (Cont'd):*

- Unrecorded Accruals Not Identified in Management's Self Reported Processes
  - 4 invoices totaling **\$5,998** (CMA)
    - These invoices were related to unapproved invoices within *WOMS*
      - » Since the invoices were not approved in *WOMS*, the related expenses were not included in the interface from *WOMS* to *Lawson AP* at period end
    - Per discussion with NGD Accounting management, a query could not be established to allow for CMA Accounting to identify unapproved work orders in the system with costs incurred prior to or on 6/30/12 due to system constraints
    - The AP accrual for CMA is understated by the amount of these invoices as of 6/30/12

**NOTE:** CMA transitioned from *WOMS* to *WMS* on 10/22/12, and new work order information will now be captured in the *WMS* and *M&S Open Work Order Queries* (**See Slide 16**)

# Audit Objective - Results & Recommendations (Cont'd)

## *Audit Results – June 30, 2012 (Cont'd):*

- Unrecorded Accruals Not Identified in Management's Self Reported Processes
  - 1 invoice totaling **\$2,658** (CGV)
    - Internal Audit noted that this invoice was processed through *WMS*
    - This invoice had a progress report of June 14, 2012, but it was not included in the *WMS/M&S Open Work Orders Queries* run during the June accounting close
    - It was not recorded as a liability to the GL, as the expense was not entered into the *WMS* system until July 30, 2012
    - Internal Audit noted that the invoice was not included in the detail of the “unrecorded” accruals being maintained by NGD Accounting due to the timing of when that report was run after June accounting close
      - » NGD Accounting subsequently corrected the timing when this report is run to correct the issue identified and ensure that all invoices are properly included

# Audit Objective - Results & Recommendations (Cont'd)

## *Audit Results – June 30, 2012 (Cont'd):*

- Additional Item Noted During Testing
  - During the review of the *Catalyst Open Payables Query* “Master File” (See **Slide 35**), Internal Audit noted transactions **over the \$10K** threshold established by NGD management included in the “Master File” which were excluded from the file used by accounting to record an accrual
    - These transactions totaled **\$225,717** (NGD)
    - Per discussion with AP management, these transactions were excluded in error
    - Going forward, AP began to complete a reconciliation from the original file to the file provided to accounting to ensure all lines have been accounted for as a final check prior to distribution

## Audit Objective - Results & Recommendations (Cont'd)

**Focus Area 2:** Perform cut-off testing as of September 30, 2012 to verify that costs related to services performed and/or goods delivered as of the noted period end are accrued in accordance with established policies and procedures and GAAP requirements.

### ***Audit Results – September 30, 2012:***

- Internal Audit obtained the check register, a listing of all checks paid, from October 1, 2012 through October 31, 2012 for both *Lawson AP* and *GEAC AP*
  - Internal Audit made a total of **20** selections
    - **10** selections from each system's check register
  - Internal Audit also made a judgmental selection of **4** invoices meeting the following criteria to address potential fraud risk
    - Invoices with round dollar amounts
    - Invoices with the largest dollar amounts
    - Invoices with unusual vendor spend
    - Invoices input into the system on a weekend



# Audit Objective - Results & Recommendations (Cont'd)

## **Audit Results – September 30, 2012 (Cont'd):**

- Of the invoices selected, Internal Audit noted a total of **5** invoices totaling ~**\$572K** that were not appropriately accrued as of September 30, 2012
  - Internal Audit reviewed these invoices were included in the queries established by management to identify “unrecorded” accruals (otherwise known as the Self Reported Population at year end). See results below:
  - Unrecorded Accruals Identified in Management’s Self-Report Processes
    - **2** invoices totaling **\$583** (CGV) and **\$210** (CPA)
      - These invoices related to work orders processed through *WMS*
      - These invoices had progress report dates prior to September 30, 2012, but were not included in the *WMS/M&S* Open Work Orders Query run during the September accounting close
        - *A related liability was not recorded to the GL at period end, as the expenses were not entered into the WMS system until October 4, 2012 and October 13, 2012, respectively*
      - Internal Audit agreed the invoices above to the detail of the “unrecorded” accruals being maintained by *NGD Accounting* (See **Slide 26**)

# Audit Objective - Results & Recommendations (Cont'd)

## *Audit Results – September 30, 2012 (Cont'd):*

- Unrecorded Accruals Not Identified in Management's Self Reported Processes:
  - 1 invoice totaling **\$570,000** (COH)
    - Internal Audit noted that this invoice was processed through *Catalyst*
    - Internal Audit noted that the invoice was addressed to a company Administrative Assistant instead of being addressed to SourceNet, the third party administrator of *Catalyst*
      - » While it is not a requirement, AP prefers that all invoices are sent directly to SourceNet to ensure timely invoice entry into *Catalyst*
        - Approval by the invoice's assigned owner is still required before any payment is made

# Audit Objective - Results & Recommendations (Cont'd)

## ***Audit Results – September 30, 2012 (Cont'd):***

- **1 COH invoice totaling \$570,000 (Cont'd):**
  - Although the date of service was September 28, 2012, Internal Audit noted that the invoice was not scanned into *Catalyst* for processing until October 22, 2012
    - » Per discussion with management, the invoice was forwarded to a manager in another department for approval before the invoice was uploaded to *Catalyst*, creating a delay from receipt of the invoice to entry into the system
    - » The invoice was approved 1 day later on October 23, 2012
  - As the invoice was not reflected in *Catalyst* during the September 2012 accounting close, NGD Accounting could not properly record an accrual with the information available to them
    - » If an expense has been incurred, and it is not reflected in one of the “feeder systems” (See ***Slides 9-13***) at period end, the employee who incurred the liability is responsible for informing NGD Accounting of the expense (See ***Slide 21***)

# Audit Objective - Results & Recommendations (Cont'd)

## *Audit Results – September 30, 2012 (Cont'd):*

- Unrecorded accruals Not Identified in Management's Self Reported Processes (Cont'd):
  - **1** invoice totaling **\$10** (CMA)
    - Internal Audit noted that this invoice was processed in *Catalyst*
    - Although management has established a policy that excludes all invoices under **\$10K** from the monthly accrual entry, this invoice was not included in the *Catalyst Open Payables Master File*
    - Internal Audit noted that this invoice was not input into the *Catalyst* system until 10/17/12
    - **Note:** Based on the processes outlined on **Slide 31** related to the processes specific to year end, this situation would have been identified in the self-report population

# Audit Objective - Results & Recommendations (Cont'd)

## *Audit Results – September 30, 2012 (Cont'd):*

- Unrecorded accruals Not Identified in Management's Self Reported Processes (Cont'd):
  - 1 invoice totaling **\$1,213** (CMA)
    - This invoice was related to an unapproved invoice within WOMS
      - » Internal Audit noted that the invoice was not approved in the system and the related expenses were not included in the interface from WOMS to Lawson AP at period end
        - Per discussion with management, a query could not be established to allow for CMA Accounting to identify unapproved work orders in the system with costs incurred prior to or on 9/30/12 due to system constraints

**NOTE:** CMA transitioned from WOMS to WMS on 10/22/12, and new work order information will now be captured in the *WMS* and *M&S Open Work Order Queries* (**See Slide 16**)

# Audit Objective - Results & Recommendations (Cont'd)

## *Internal Audit Recommendations – Focus Area 1 and Focus Area 2*

- NGD Accounting, AP, NGD Field Operations, and corporate personnel should continue to collaborate to ensure that all employees are educated on how to process invoices timely using the various systems available to ensure accurate financial reporting records
  - Management should consider the following to enhance current processes:
    - Develop and communicate formal policies related to the processing of invoices and progress report data to ensure timely submission of expenses and related credit memo transactions for accurate month end financial reporting records;
    - Continuation of AP training offerings and Accounting Roadshows throughout the year; and
    - Monitor employees' performance related to timely processing of invoices, and requiring those employees with performance issues to attend training sessions.

*Note: Prior to 2012's year end, the Accounts Payable department offered training sessions to address appropriate processing of invoices in Catalyst to NGD, NCS, & NGT&S personnel. Additionally, NGD Accounting and Financial Reporting completed annual "Accrual Roadshows" to educate NGD employees on proper accrual accounting and reporting of A/P liabilities.*

# Report Distribution

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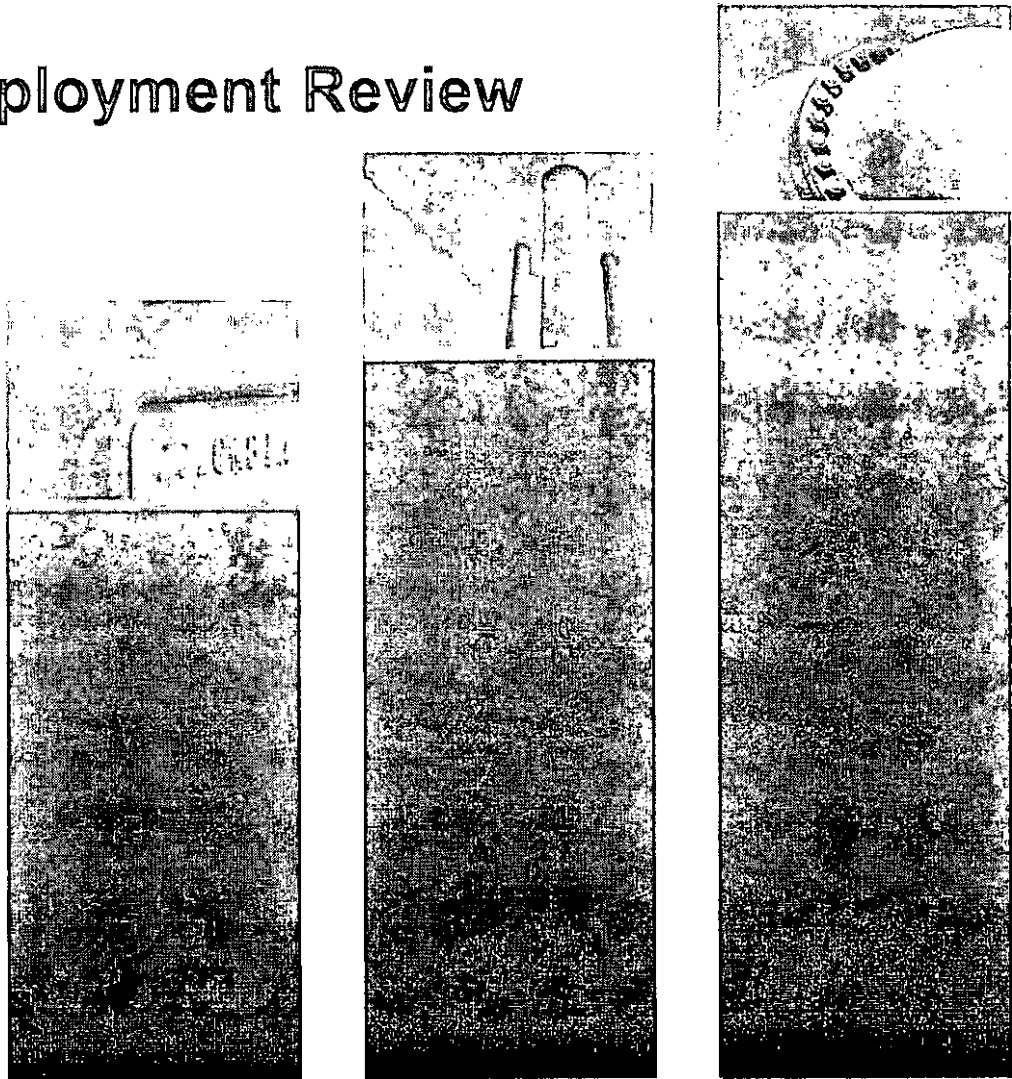
# NiFiT Release 1. Pre-Deployment Review

## NiSource IT Audit

February 26, 2013

To: Rick Fontaine, VP Finance  
Russ Viater, VP IT Transformation  
Jon Veurink, VP Chief Accounting Officer  
Tim Tokish, VP FP&A

From: John Manfreda, Proj. Mgr. IT Audit  
Greg Wancheck, Mgr. IT Audit  
Ray Irvin, Dir. IT Audit







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  - Business Process Controls process review results
  - Business Process Controls assessment results
  - Project Management Controls review results
- Follow-up Items from IT Audit Risk Assessment Review . . . . . Page 43
- Report Distribution . . . . . Page 45





NiFiT Release 1. Pre-Deployment Review

# EXECUTIVE OVERVIEW





# NiFiT Release 1. Pre-Deployment Review

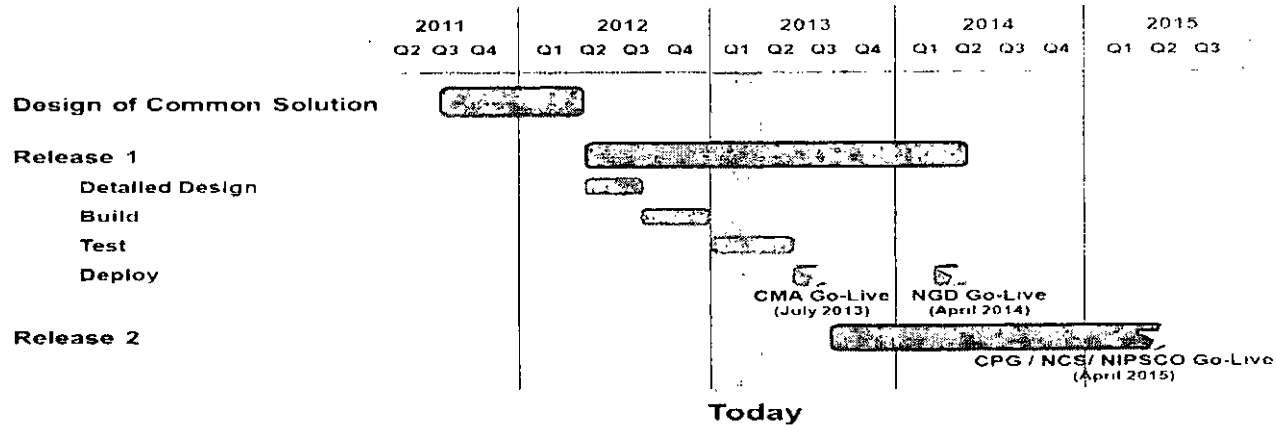
## Executive Overview

NiFiT Scope

The NiFiT project is currently the largest IT project being undertaken by NiSource IT and NiSource Corporate Business Services. NiFiT has an estimated budget of \$115 -125MM over its projected 4 year lifecycle. The project employs over 50 full-time and part-time NiSource personnel who are being assisted by their system integration partner, Accenture, and other partner firms (including IBM, Navigates, Axia). The result is a full-time team of 168 people spanning 9 different partner companies participating from 4 countries around the globe.

The following timeline depicts the phased approach being followed by the NiFiT team. The approach calls for 2 distinct releases with 3 deployments. Release 1 of NiFiT will include all of the NGD (NiSource Gas Distribution) companies, which includes the Columbia gas distribution companies (CMA, COH, CPA, CKY, CVA and CMD). Release 1 Deployment 1 will focus on CMA and is scheduled for July 2013. Deployment 2 will encompass the remaining Columbia companies and is targeted for April of 2014. Release 2 will include Columbia Pipeline Group (CPG), NiSource Corporate Services (NCS), and Northern Indiana Public Service Company (NIPSCO) and is currently planned for April of 2015.

NiFiT Phases





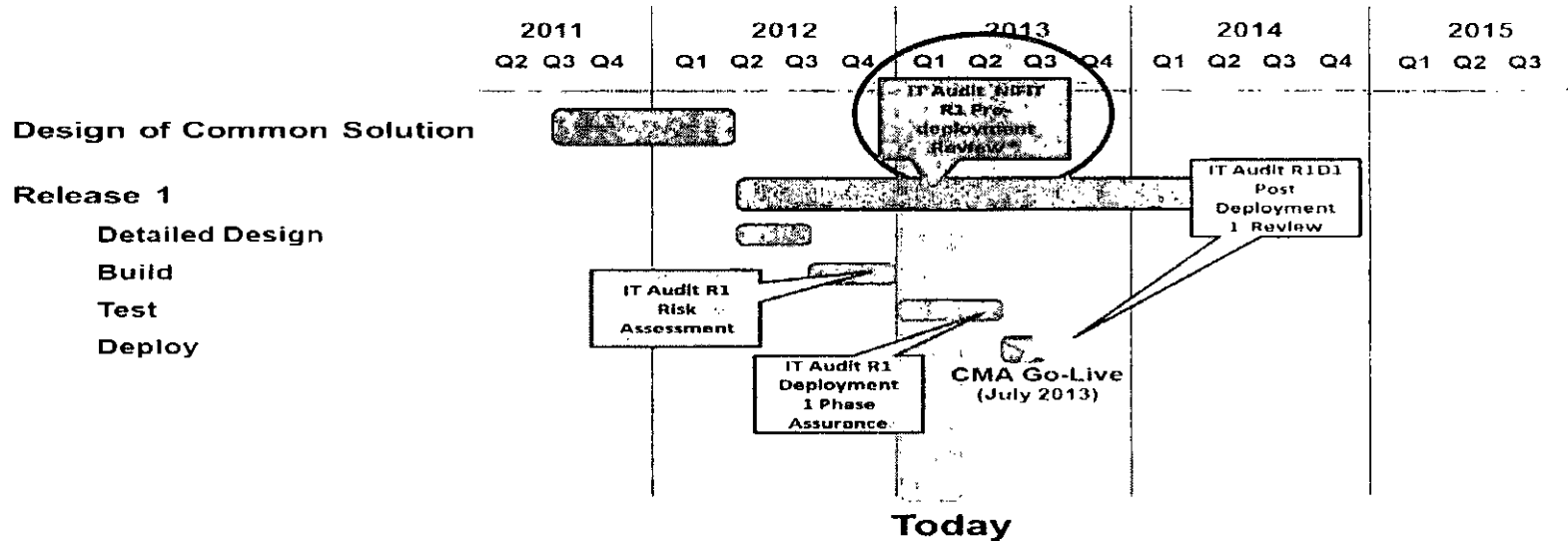
# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

NiFiT Release 1 Audit Plan

IT Audit will issue several reports throughout 2013 which are timed and focused on the Release 1 Deployment 1 (R1 D1) phase for Columbia Gas of Massachusetts (CMA). Our reports will include both a Phase Assurance Review, planned for delivery during the latter part of the R1D1 Testing phase, and a Post Deployment Review timed shortly after CMA go-live that will include hyper-care support. The timing of these reports has been determined to allow for adequate and timely feedback to management.

The following depicts the planned reviews and reports to be delivered by IT Audit in support of the Release 1 Deployment 1 (R1 D1) phase of NiFiT.





# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

NiFiT Audit Approach

IT Audit will continue to provide both advisory and assurance services during the current and future phases of NiFiT. The services will be divided between an overall Pre-Deployment Review, Release specific reviews and finally Post Deployment Reviews. The purpose of each audit review is to capture and report upon key information regarding project delivery execution, as well as effectiveness of the adoption and use of the system by NiSource.

The following terms are used to describe services that IT Audit will provide during the NiFiT project.

**Assurance Service** - Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusion regarding an entity, operation, function, process, system, or other subject matter. (IIPF standards revised October 2010)

**Advisory Service** - Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. (IIPF standards revised October 2010)

# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

NiFiT Pre-Deployment Scope

Scope: Performed Assurance and Advisory services during the Pre-Deployment phases of NiFiT for the period beginning 3rd quarter 2012 through early 2013.

### Assurance Services

#### Business Process Controls

- Review the assessment process of controls design and build activities to provide an opinion regarding adequacy.

#### Project Management Controls

- Provide reasonable assurance that corporate policy and good practices are being adhered to with exceptions documented and approved.

### Advisory Services

Provide management with review and feedback on the Pre-Deployment phases. Findings will include three key areas:

- Program Conduct – review conduct of the team in its achievement of project objectives;
- Deliverable Quality – review quality assurance methods and standards; and
- Business Value Realization – review business value realization methods and standards.



# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

NiFiT Pre-Deployment Background

A benefit of the NiFiT program is improvement to the controls environment across NiSource, with that improvement reflected in efficiencies created through both the automation of manual controls and the elimination/consolidation of legacy controls. A large part of the NiFiT solution is enabled by Oracle's PeopleSoft Financials package, an Enterprise Resource Planning (ERP) system. PeopleSoft Financials has certain delivered control elements that are inherently enabled by deploying and configuring the software. A key element of enabling the controls in an ERP system is accomplished by executing a well-thought out configuration plan and helping to ensure the plan is monitored and updated throughout the deployment process.

During the latter segment of NiFiT Detail Design, management determined a review of controls by a third-party firm would help to provide further assurance automated PeopleSoft controls were being adequately considered, reviewed, optimized and tested throughout NiFiT. As a result, the Chief Accounting Officer and Director of SOX Compliance engaged KPMG to act as a supporting NiFiT Controls Team with work commencing in August 2012.

This section covers the activities conducted by the NiFiT Controls Team, NiFiT Team, and NiSource SOX Compliance Team since IT Audit issuance of the NiFiT Pre-Deployment Interim Report during October 2012.



# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

### NiFiT Pre-Deployment Background

A control merge process was executed by the NiFiT Controls Team during November and December 2012 that involved taking the NiFiT Risk and Control Matrices (RCMs) for the seven (7) processes impacted by the NiFiT solution and comparing them with existing NiSource controls present within the Risk Navigator SOX database. Based on this comparison, and coupled with validation involving both the NiFiT Team and Process Owners, the NiFiT Controls Team developed recommendations for Process Owners to either keep, modify or remove existing NiSource controls, as well as add any new automated PeopleSoft controls if necessary for the following seven (7) processes:

- General Ledger/Accounting (GL/Acctg)
- Accounts Payable (AP)
- Supply Chain Management (SCM)
- Asset Management (AM)
- Time & Labor (T&L)
- Inter-Company/Allocations (IC/Alloc)
- Miscellaneous Billing / Accounts Receivable (Misc Billing A/R)

During the control merge process, IT Audit noted proposed PeopleSoft controls in the AM RCM were already covered by existing automated controls enabled by NiSource's PowerPlant application and proposed PeopleSoft controls in the T&L RCM were being addressed by NiFiT through planned implementation of WorkBrain. IT Audit also found that, as part of the merge process, the seven (7) existing NiFiT RCMs listed above were consolidated down to five (5) RCMs – with IC/Alloc being combined with GL /Acctg and AP being combined with SCM.





# NiFiT Release 1. Pre-Deployment Review

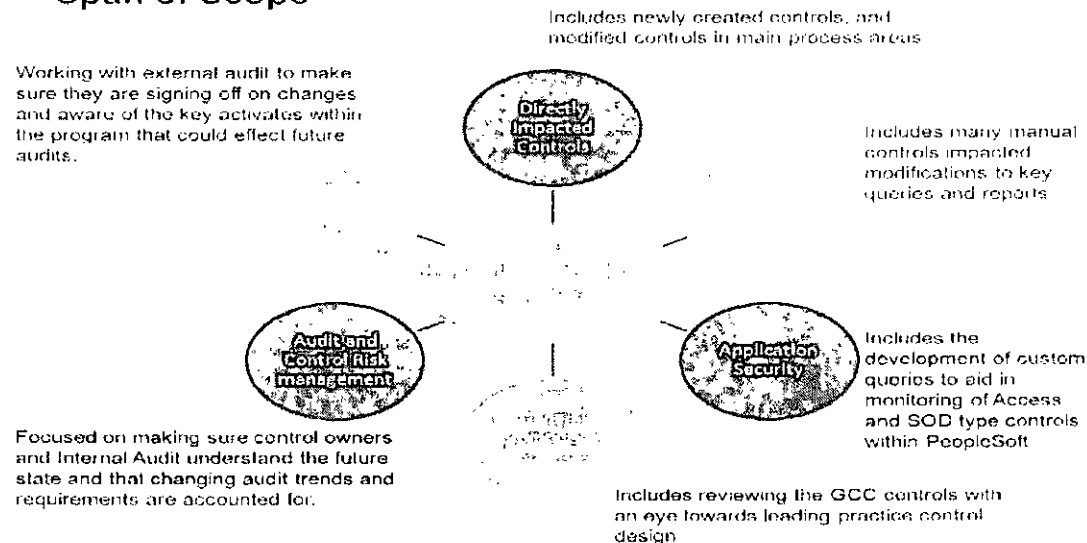
## Executive Overview

NiFiT Pre-Deployment Background

The NiFiT Controls Team completed the initial controls merge evaluation related to NiFiT-impacted business processes during December 2012. Once finished, the post-merge listing of recommended automated and manual controls for the GL/Acctg/IC/Alloc and AP/SCM processes were sent by the SOX Compliance Team to both the NiFiT Team and Process Owners for review. IT Audit noted the Misc A/R Billing post-merge controls listing was not included for NiFiT Team and Process Owner review because this process is part of NiFiT Release 2. Finally, the SOX Compliance Team requested and obtained approval of the NiFiT impacted automated GL/Acctg/IC/Alloc and AP/SCM controls from Process Owners during December 2012.

The following diagram from the NiFiT Controls Team summarizes their scope of work and illustrates the inherent need for good coordination and communication amongst all involved parties.

### Span of Scope





# NiFiT Release 1. Pre-Deployment Review

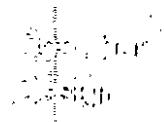
## Executive Overview

### NiFiT Release (Controls Activities)

NiFiT Pre-Deployment Approach

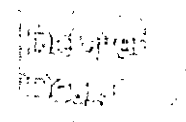
#### NiFiT Controls Team Approach & Outcomes

A high-level presentation of the NiFiT Controls Team activity summaries and key outcomes are presented to the right by project phase. IT Audit used this information in defining our approach and scope for the audits being conducted throughout the NiFiT program. This Pre-Deployment Final Review covers NiFiT Controls Team activities through the NiFiT Build phase.




- Activity Summary**
- Where applicable define existing SOX controls requirements

- Key Outcomes**
- Common design with control considerations.



- Activity Summary**
- Review SOX 404 Controls in detail and map to NiFiT Requirements
  - Review Business Process flows to identify control activities.
  - Assess User access design for Segregation of Duties compliance
  - Review of controls team work (IA, External Audit)

- Key Outcomes**
- Draft Risk and Controls Matrices
  - Major NiFiT design gaps identified



**Activity Summary**

- Assess Testing approach, methodology and plans.
- Evaluate Segregation of duties into user role design.
- Review future state access provisioning and change control procedures.
- Review of controls team work (IA, External Audit)

**Key Outcomes**

- Updated Risk and Controls Matrices



- Activity Summary**
- Review Test Plans prior to execution to ensure control testing is documented.
  - Review plans to help ensure that controls are signed off by process owners.
  - Test of Automated Controls (IA)
  - Review of controls team work (IA, External Audit)

- Key Outcomes**
- Updated Risk and Controls Matrices with testing results
  - Updated testing results/documentation with controls points identified.



- Activity Summary**
- Review User training plan for controls
  - Review temporary workarounds and determine if control risks are considered and adequately mitigated.
  - Reconfirm tests of design for controls and finalize design write-up/
  - Review of Controls Team work (IA, External Audit)

- Key Outcomes**
- Finalized Risk and Controls Matrices
  - Documented Test of Designs for key controls



# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

NiFiT Pre-Deployment Approach

During February and March 2013, the NiFiT Controls Team continues to work in the following areas for impacted controls in NiFiT Release 1 Deployment 1:

- Obtain stakeholder review and sign-off of the impacted manual controls.
- Ensure testing documentation for impacted controls is updated and completed during the NiFiT Test phase.
- Identify and validate that reports needed for manual controls are developed and meet end-user needs.
- Update corresponding business process documentation with merged automated and manual controls.
- Conduct role security (separation of duties) analysis for the impacted business processes.

IT Audit noted the following dates have been scheduled to finalize the RCMs for Release 1 Deployment 1:

- Updated Manual Control Sign-Off (Post Merge) by Process Owners (03-15-13).
- Updated Manual Control Review (Post Merge) by Internal Audit (03-22-13).
- Updated Manual Control Review (Post Merge) by Deloitte – External Audit (03-29-13).

IT Audit will continue to monitor the NiFiT Controls Team's progress in this area and provide feedback to management from an independent perspective.



# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

### NiFiT Pre-Deployment Summary Findings

To gauge the integrity of the process used in controls design, IT Audit completed two reconciliations of RCMs and one SOX Compliance Team metrics comparison. The first reconciliation (Reconciliation 1) was between RCMs provided by the NiFiT Controls Team to IT Audit in September 2012 (9-30-12 RCMS) for the Pre-Deployment Review Interim Report and RCMs supplied by the NiFiT Controls Team to IT Audit in January 2013 (12-31-12 RCMs). The second reconciliation, (Reconciliation 2) compared the 12-31-12 RCMs provided by the NiFiT Controls Team to the automated PeopleSoft control lists sent to corresponding Process Owners for approval in December 2012. The final analysis was a comparison of controls metrics reported by the SOX Compliance Team for purposes of consistent messaging to the following parties:

- NiFiT Executive Team on 01-16-13
- External Audit (Deloitte) on 01-17-13
- Internal Audit on 02-06-13

Based upon these audit activities and coupled with a review of both the 12-31-12 RCMs and IT Audit's embedded Project Management review of the NiFiT Program, the following areas are commented on in this report.

- Business Process Controls Design Process (Process Comments)
- Business Process Controls Design Adequacy (Controls Comments)
- Project Management Controls (Project Management Comments)



# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

### NiFiT Pre-Deployment Summary Findings

**Process Comments:** IT Audit found the controls design continues to follow an appropriate process with the NiFiT Controls Team acting as another business solutions team within NiFiT. There are positive signs the integration points between the Controls Team and NiFiT Teams are working, however, IT Audit noted two issues concerning lack of change control procedures and reconciliation process documentation for NiFiT Controls Team deliverables.

- **IT Audit Issue 1:** Lack of change control procedures for NiFiT Controls Team deliverables. An on-going process of documenting changes to both the content and format of the NiFiT RCMs would help ensure the integrity of controls appearing within the RCMs and also help maintain alignment on changes between the Controls Team, SOX Compliance group, NiFiT Teams, Process Owners, External Audit (Deloitte) and IT Audit.
- **IT Audit Recommendation 1:** IT Audit recommends that the NiFiT Controls Team adopt a change control procedure for the team's deliverables that include process ownership assignment, a related process flow diagram, and instructions for operation of the change control process.
- **IT Audit Issue 2:** Lack of documentation of a repeatable reconciliation procedure between controls present within the Risk Navigator SOX database and controls listed within the NiFiT Risk and Control Matrices (RCMs). IT Audit understands the SOX team did execute a reconciliation for NiFiT R1 D1 impacted controls between Risk Navigator and the NiFiT RCMs as part of the controls merge, however, documentation explaining the reconciliation, both for re-performance purposes and future control alignment between Risk Navigator and the RCMs, has not been developed.
- **IT Audit Recommendation 2:** IT Audit recommends the reconciliation process to keep the Risk Navigator SOX database consistently aligned with the NiFiT Risk and Controls Matrices (RCMs) be documented by the NiFiT Controls Team.



# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

### NiFiT Pre-Deployment Summary Findings

**Process Improvement Opportunities:** As previously noted during the NiFiT Pre-Deployment Interim Report, management continues to be receptive to IT Audit suggestions for improvement. Suggestions were in the areas of documentation improvement and NiFiT Controls Team project management integration. All suggestions presented from the NiFiT Pre-Deployment Interim Review have been considered and are being implemented by the NiFiT Controls Team. For the Process Comments recommendations from this report, IT Audit will work with management to ensure the identified issues will be considered and rectified prior to NiFiT Release 1 Deployment 1 go-live.

**Controls Comments:** As part of the 12-31-12 pre-merge RCM review, IT Audit noted all inherent risks appearing within each of the applicable NiFiT RCMs had mitigating NiSource legacy controls identified by the Controls Team for risk coverage. This risk-to-control coverage assessment allowed IT Audit to conclude no gaps appeared in the controls design process that would have required new controls to be evaluated and constructed specifically for NiFiT. With NiFiT business process risks covered by existing NiSource controls, IT Audit observed the following statistics on the pre-merge controls state of NiFiT:

- GL/Acctg/Alloc/IC - 98% manual controls
- AM - 94% manual controls
- AP/SCM - 86% manual controls
- T&L - 25% manual controls





# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

NiFiT Pre-Deployment Summary Findings

Although controls changes occurred since the NiFiT Pre-Deployment Interim Report, IT Audit believes the controls design is still aligned to meet management's needs. IT Audit feels implementing the recommendations presented in the Process Comments section of this report will help to ensure the controls design remains adequate for the duration of NiFiT. As of this report date, the manual controls for business processes impacted by NiFiT are in review with respective Process Owners and are scheduled for approval in mid-March of 2013. IT Audit will continue to monitor the RCMs and NiFiT Controls Team work in this area to provide an independent perspective as the NiFiT Project goes into the Deployment phase.

**Controls Improvement Opportunities:** None.





# NiFiT Release 1. Pre-Deployment Review

## Executive Overview

NiFiT Pre-Deployment Summary Findings

**Project Management Comments:** IT Audit believes there is reasonable assurance the NiFiT project has practiced adequate project management controls, as the project has a well-defined charter, budget and schedule in place that are being actively referenced and updated as management tools.

IT Audit also found the NiFiT project continues to comply with the NiFiT PMM (Project Management Methodology). The Design & Build phase gates concluded with documented exceptions on 31 project deliverables against a total project deliverable inventory of 984. A detailed exception list was created and maintained to document and track exception items through the Design & Build phase gates with appropriate sign-offs obtained and documented by NiFiT and the IT PMO.

**Project Management Improvement Opportunities:** The lone improvement item identified by IT Audit was in the variance review over estimated project hours to complete versus actual project hours incurred. Management has been receptive to this item and will be implementing the improvement opportunity during the current phase.





NiFiT Release 1. Pre-Deployment Review  
Assurance Objectives

# REVIEW RESULTS

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1:

**Review business process controls design and build activities to provide an opinion on the adequacy of the business process controls design process.**

#### **Background:**

Starting in August 2012, NiSource partnered with KPMG to provide controls expertise targeted to the NiFiT solution. The KPMG team became the primary resources on a newly created NiFiT Controls Team that has responsibility for ensuring controls impacted by NiFiT are appropriately documented, tested, approved and ready for operation when NiFiT goes live.

This section covers the activities conducted by the NiFiT Controls Team, NiSource SOX Compliance Team, and NiFiT Team since IT Audit issuance of the NiFiT Pre-Deployment Interim Report during October 2012.

The NiFiT Controls Team obtained approved NiFiT Business Process Design Documents (BPDs) for identified NiFiT business processes. The NiFiT Controls Team then used KPMG's standard PeopleSoft risk and controls catalog, referred to as a Risk and Control Matrix (RCM), to perform one-to-one mapping of NiSource SOX 404 controls listed within the various NiFiT BPD's to automated controls appearing within the KPMG PeopleSoft RCM. Control matches between the KPMG PeopleSoft RCM and NiFiT BDP's were identified as "fits" with non-matches being identified as "gaps."

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

For controls appearing as "fits", the NiFiT Controls Team confirmed corresponding NiSource SOX 404 control designations with NiFiT Business Process Owners for assurance purposes. The NiFiT Controls Team then evaluated controls identified within the NiFiT BPD's not appearing within the KPMG PeopleSoft RCM and found no "gaps" were present. Controls not listed in the NiFiT BPD's were either located in other NiSource documentation or the control activity was deemed not applicable to NiSource with underlying rationale provided. This activity was completed during October 2012.

Post completion of the NiFiT BPD "fit and gap" analysis in October 2012, the NiFiT Controls Team executed a controls merge process during the months of November and December 2012. The controls merge involved taking the NiFiT Risk and Controls Matrices (RCMs) of six (6) business processes impacted by the NiFiT solution for Release 1 [General Ledger/Accounting (GL/Acctg), Accounts Payable (AP), Supply Chain Management (SCM), Asset Management (AM), Inter-Company and Allocations (IC/Alloc) and Time & Labor (T&L)] and compared them with the existing manual controls present within NiSource's Risk Navigator SOX database. Based on this comparison and validation from the NiFiT Team and Process Owners, the NiFiT Controls Team developed recommendations for Process Owners to either keep, modify or remove existing NiSource controls, as well as add any new automated PeopleSoft controls.

## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

#### Objective 1 (cont'd):

During the merge process, IT Audit noted the proposed PeopleSoft automated controls for the Asset Management (AM) RCM were covered by existing automated controls enabled by NiSource's PowerPlant application and proposed PeopleSoft automated controls for the Time & Labor (T&L) RCM were already being addressed by NiFiT through the planned implementation of WorkBrain.

IT Audit also found that, as part of the merge process, the NiFiT Controls Team consolidated the existing seven (7) Risk and Control Matrixes down to five (5) as the IC/Alloc RCM was combined with GL /Acctg and the AP RCM incorporated within SCM. Finally, IT Audit noted The Misc Billing A/R RCM will be finalized during Release 2 of the NiFiT program.

The NiFiT Controls Team completed the initial controls merge evaluation related to NiFiT impacted business processes during December 2012. Once finished, the post-merge listing of recommended automated and manual controls for the GL/Acctg/IC/Alloc and AP/SCM processes were sent by the SOX Compliance Team to both the NiFiT Team and Process Owners for review. IT Audit noted the SOX Compliance Team obtained subsequent approvals from Process Owners for automated controls within the GL/Acctg/IC/Alloc and AP/SCM areas.



# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

#### Approach

To gauge the integrity of the process used to design controls, IT Audit completed two reconciliations of RCMs and one metric comparison. The first reconciliation (Reconciliation 1) was between the RCMs provided by the NiFiT Controls Team to IT Audit in September 2012 (9-30-12 RCMs) for the Pre-Deployment Review Interim Report and the RCMs supplied by the NiFiT Controls Team to IT Audit in January 2013 (12-31-12 RCMs). The second reconciliation (Reconciliation 2) compared the 12-31-12 RCMs provided by the NiFiT Controls Team to the automated control lists sent to corresponding Process Owners for approval in December 2012. The final analysis was a comparison of controls metrics reported by the SOX Compliance Team to the following parties:

- NiFiT Executive team on 01-16-13
- External Audit (Deloitte) on 01-17-13
- Internal Audit on 02-06-13

The controls metrics compared were NiFiT impacted SOX controls, controls recommended for removal by the NiFiT Controls Team and total automated control points. IT Audit worked with the SOX Compliance Team and the NiFiT Controls Teams to obtain information required to complete this analysis.

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

#### Controls Design Review Results

#### Reconciliation 1. (Reconcile automated controls in the 9-30-12 RCMs to automated controls in the 12-31-12 RCMs)

IT Audit performed the following steps to accomplish the automated control reconciliations:

1. Obtained the 12-31-12 RCMs for the GL/Acctg/Alloc/IC and AP/SCM processes\*.
2. Reconciled automated controls present within the 12-31-12 RCMs with automated controls in the RCMs supplied by the SOX Compliance Team on 9-30-12.
3. Identified variances based on matching the wording of automated controls between the 9-30-12 and 12-31-12 RCMs.
4. Supplied identified automated control variances to the NiFiT Controls Team.
5. Obtained NiFiT Controls Team's comments and explanation of automated control variances.
6. Documented the automated control variances and any subsequent actions performed by the NiFiT Controls Team to either explain and/or rectify.
7. Reported automated control variance reconciliation results in the following table.

\* Automated controls for Time and Labor (T&L) and Asset Management (AM) are not changing as a result of NiFiT and required no 9-30-12 to 12-31-12 RCM reconciliation by IT Audit.



# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

**Reconciliation 1.** (Reconcile automated controls in the 9-30-12 RCMs to automated controls in the 12-31-12 RCMs.)

NiFiT Process Area	Column 1: RCM/Automated Controls (as of 9-30-12)	Column 2: RCM/Automated Controls (Removed between 9-30-12 and 12-31-12)	Column 3: RCM/Automated Controls (Added between 9-30- 12 and 12-31-12)	Column 4: RCM/Automated Controls (as of 12-31-12)	Column 5: RCM/Automated Controls (Variance count between 9-30-12 and 12-31-12)
GL/Acctg/Alloc/IC	25	16	10	19	6
AP/SCM	48	38	12	22	26
<b>Total</b>	<b>73</b>	<b>54</b>	<b>22</b>	<b>41</b>	<b>32</b>

IT Audit Table 1.

## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

#### Objective 1 (cont'd):

In performing the RCM reconciliations, IT Audit noted variances in the count of automated controls appearing between 9-30-12 and 12-31-12.

**Variances:** Columns 2. and 3. on IT Audit Table 1.

IT Audit found a total variance count of thirty-two (32) automated controls supported by the removal and addition control counts reported in Columns 2. and 3.

- Column 2. Fifty-four (54) automated controls removed on the RCMs between 9-30-12 and 12-31-12. These items were removed by the Controls Team as being "not applicable" for NiSource.
- Column 3. Twenty-two (22) automated controls were added to the RCMs between 9-30-12 and 12-31-12. These items consisted of control additions from Deloitte's PeopleSoft catalog and incorporation of existing NiSource automated controls from feeder applications that were discovered as part of the NiFiT review process.

**Internal Audit Comments:** IT Audit noted the independent reconciliation between the 9-30-12 and the 12-31-12 RCMs was challenging as the RCMs required multiple sorting parameters in order to produce a valid list of automated controls. During this process it became apparent that a change control procedure for future RCM reconciliation needs to be evaluated and documented by the Controls Team.



## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

#### Objective 1 (cont'd):

**IT Audit Issue 1.** Lack of a change control process for NiFiT Controls Team deliverables. An on-going process that documents changes to both the content and format of the NiFiT RCMs would help ensure the integrity of controls appearing within the RCMs and also maintain alignment on changes between the Controls Team, SOX Compliance Team, NiFiT Team, Process Owners, IT Audit and External Audit (Deloitte).

**IT Audit Recommendation 1.** IT Audit recommends the NiFiT Controls Team adopt a change control process for deliverables that include process ownership assignment, a related process flow diagram, and instructions for operation of the change control process.

**Management Response:** The NiFiT and SOX controls teams are currently drafting change control process documentation for deliverables. This will be shared with IT Audit for additional input, revised appropriately, completed and implemented by March 15, 2013.

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

**Reconciliation 2.** (Reconcile automated controls in the 12-31-12 RCMs to automated control approval material provided to Process Owners.)

IT Audit performed the following steps to accomplish the reconciliation:

1. Obtained the 12-31-12 RCMs for the GL/Acctg/Alloc/IC and AP/SCM processes\*.
2. Obtained copies of the automated control approval material sent to Process Owners.
3. Reconciled automated controls in the 12-31-12 RCMs with automated controls approval material provided to Process Owners.
4. Identified variances in the automated control count based on matching control identifiers between the 12-31-12 RCMs and approval material.
5. Supplied automated control count variances to the NiFiT Controls Team.
6. Obtained NiFiT Controls Team explanation of observed automated control count variances.
7. Documented the variances and any subsequent actions by the NiFiT Controls Team to explain and/or rectify.
8. Reported automated control variance results in the following table.

\* Automated controls for Time and Labor (T&L) and Asset Management (AM) are not changing as a result of NiFiT and required no 12-31-12 RCM to automated control approval material reconciliation by IT Audit.



# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

**Reconciliation 2.** (Reconcile automated controls in the 12-31-12 RCMs to the automated controls in the Approval Material provided to Process Owners during December of 2012.)

<u>NiFiT Process/Area</u>	<u>Column 1: RCM/Automated Controls (as of 12-31-12)</u>	<u>Column 2: Automated Controls On Approval Material Sent 12/2012</u>	<u>Column 3: Automated Controls - Not Ready for Approval (as of 12-31-12)</u>	<u>Column 4: Automated Controls - Approval Not Required</u>	<u>Column 5: Automated Controls - Risk Covered by an Existing Automated Control</u>	<u>Column 6: Automated Controls - Existing Control Not Changing</u>	<u>Column 7: Variance between 12- 31-12 RCMs and Automated Controls on Approval Material Sent 12/2012</u>
GL/Acctg/Alloc/IC	19	12	4	1	1	1	7
AP/SCM	22	21	0	0	0	1	1
<b>Total</b>	<b>41</b>	<b>33</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>8</b>

IT Audit Table 2.

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

IT Audit was able to confirm all thirty-three (33) Release 1 Deployment 1 automated controls sent to Process Owners for approval were also included on the 12-31-12 RCMs. During this reconciliation process, IT Audit noted the SOX Compliance Team uses the Risk Navigator database as the primary repository of SOX controls. IT Audit also noted the RCMs are key supporting documents to the controls design process and to the information stored in the Risk Navigator database. It was noted by the SOX Compliance Team that a reconciliation process had been conducted between the RCMs and the Risk Navigator database. Although a reconciliation had been completed, no process documentation was available for this process.

**Variations:** Columns 3.- 6. on IT Audit Table 2.

IT Audit found eight (8) automated controls on the 12-31-12 RCMs which were not located on the automated control approval material sent to Process Owners.

- Column 3. Four (4) automated controls were not ready for Process Owner approval by 12-31-12. These automated controls have since been finalized by the Controls Team and approved by corresponding Process Owners.
- Column 4. One (1) automated control was considered an inherent function of PeopleSoft not requiring approval.
- Column 5. One (1) automated control related to PeopleSoft change control was found to be covered by NiSource's IT General Control framework.
- Column 6. Two (2) automated controls were deemed to be previously existing controls not changing with NiFiT.

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

**IT Audit Issue 2.** Lack of a documented and repeatable reconciliation procedure between controls present within the Risk Navigator SOX database and controls listed within the NiFiT Risk and Control Matrices (RCMs). IT Audit understands the SOX team did execute a reconciliation for NiFiT R1 D1 impacted controls between Risk Navigator and the NiFiT RCMs as part of the controls merge, however documentation explaining the reconciliation, both for re-performance purposes and future control alignment between Risk Navigator and the RCMs, has not been developed. The risk in not having documentation of the on-going reconciliation process is that changes to either the controls environment or the NiFiT RCMs may not be captured, communicated and agreed upon by the appropriate parties.

**IT Audit Recommendation 2.** IT Audit recommends the reconciliation process between the SOX database (Risk Navigator) and the NiFiT Risk and Controls matrices be documented by the NiFiT Controls Team. On-going process documentation should include process ownership assignment for the reconciliation, related process flow diagram(s), instructions for operation of the reconciliation process and results of all reconciliations performed.

**Management Response:** The SOX and NiFiT controls team will formalize and document the reconciliation process between the SOX Risk Navigator database and the NiFiT Risk & Controls matrices. These will be completed on a monthly basis beginning in March 2013.

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

Compare controls metrics as reported by the SOX Compliance Team to both the NiFiT Executive team on 01-16-13 and External Audit (Deloitte) on 01-17-13 with SOX control metrics provided to NiSource IT Audit on 02-06-13.

IT Audit performed the following steps to accomplish the control metrics comparison:

1. Obtained metrics from the SOX Compliance Team as reported on 01-16-13 to NiFiT Executive Advisors.
2. Obtained metrics from the SOX Compliance Team as reported on 01-17-13 to External Audit (Deloitte) Team.
3. Obtained metrics from the SOX Compliance Team supplied to NiSource IT Audit on 02-06-13.
4. Compared the metrics reported or provided in each instance for consistency.
5. Documented any variances discovered.

The following table represents the SOX Compliance Team's corresponding controls metrics by date and party.



# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 1 (cont'd):

Compare controls metrics as reported by the SOX Compliance Team to both the NiFiT Executive team on 01-16-13 and External Audit (Deloitte) on 01-17-13 with SOX control metrics provided to NiSource IT Audit on 02-06-13.

Reported Item	Column 1: Reported to NiFiT Executives (1-16-2013)	Column 2: Reported to External Audit (1-17-2013)	Column 3: Provided to IT Audit (2-6-13)
Release 1 SOX Controls (Impacted by NiFiT)	115	119	120
SOX Controls Recommended for Removal	29	29	28
Automated Control Points.	34	34	Not Requested

IT Audit Table 3.

## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

#### Objective 1 (cont'd):

IT Audit noted the metrics reported by the SOX Compliance Team had changed based upon the date when the information was provided. This result is consistent with reporting from information that is changing over time, although it was not clearly documented why the metrics were changing.

**IT Audit Comments:** A formalized change control process, as recommended by IT Audit in the previous test results section, would help track SOX Compliance Team reporting modifications as they occur and allow for point-in-time reconciliation of reporting differences by independent parties.





## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

#### Objective 2:

**Independently review and report on the effectiveness of the design of the controls and their adequacy, as it related to the overall internal control environment and management's ability to meet the SOX 404 requirements.**

#### **Approach**

IT Audit obtained the Risk & Control Matrices (RCMs) completed by the NiFiT Controls Team on 12-31-12 to review and determine the adequacy and effectiveness of the controls designed into the NiFiT program.

Our review included an analysis of the controls related to NiFiT by risk item, along with a general review of automated and manual control numbering as documented on the 12-31-12 RCMs. Our review was focused on any significant changes in control design caused by the merge process or other modifications to controls that would warrant a change to IT Audit findings presented within the NiFiT Pre-Deployment Interim Report.

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 2 (cont'd):

#### Controls Design Assessment Results:

**Overall Results:** Although control changes occurred post issue of the NiFiT Pre-Deployment Interim Report, IT Audit still believes the controls design is adequate to meet management's needs. IT Audit feels implementing the recommendations presented in the previous objective will help ensure controls design remains adequate for NiSource throughout the duration of NiFiT. Since the manual controls sign-off is in process as of this report date, IT Audit will continue to monitor changes in the controls in order to provide an independent perspective.

**Individual Process Review Results:** The following Business Processes were reviewed by the NiFiT Controls Team for Risk and Control Matrix (RCM) development:

- General Ledger/Accounting (GL/Acctg) and Inter-Company/Allocations (IC/Alloc)\*
- Asset Management (AM)
- Accounts Payable (AP) and Supply Chain Management (SCM)\*
- Time and Labor (T&L)

The following pages summarize the results of IT Audits design review of NiFiT RCMs.

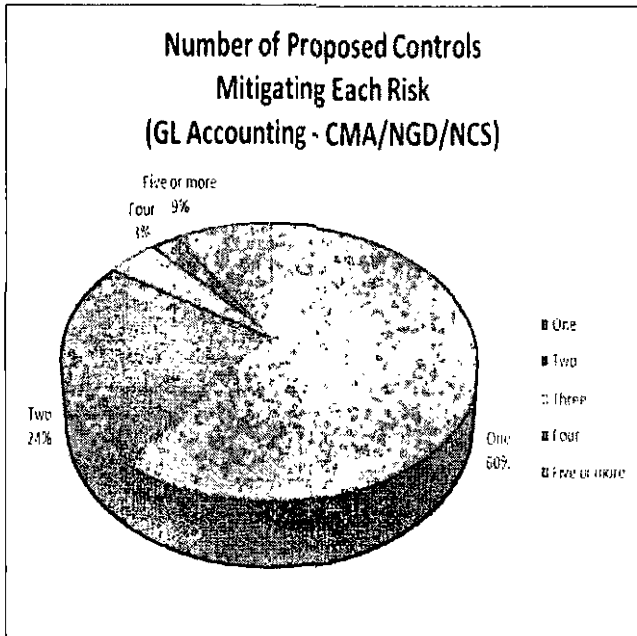
\* RCMs combined during the controls merge process.

# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 2 (cont'd):

**General Ledger/Accounting/Inter-Company/Allocations:** IT Audit's review of the GL/Acctg/IC/Alloc Risk and Control Matrix (RCM) noted that each known risk had at least one mitigating control identified. Based on the pre-control merge RCM, 98% of legacy NiSource GL/Acctg/IC/Alloc controls are manual in nature.\*\*



Business Process Areas	Automated	Manual	Grand Total
04.F Report and account for revenue			3
04.G Process collections and payments		2	25
09.F Reconcile cash accounts			4
10.A Perform monthly accounting close			26
10.B Review estimates			10
10.C Consolidate financial results		1	10
10.D Perform analysis of financial results			3
10.H Manage the tax function			25
10.J Other Reserves and Contingencies			2
10.K Prepare Financial Statements			14
10.M Prepare notes to financial statements, Management Discussion & Analysis and 10K/Q			17
<b>Grand Total</b>	<b>3</b>	<b>139</b>	<b>142</b>
Percentage of Total Control Automated or Manual	2.11%	97.89%	

\*\* Review metrics based on 12-31-12 RCMs and do not include post-merge manual and automated control counts.

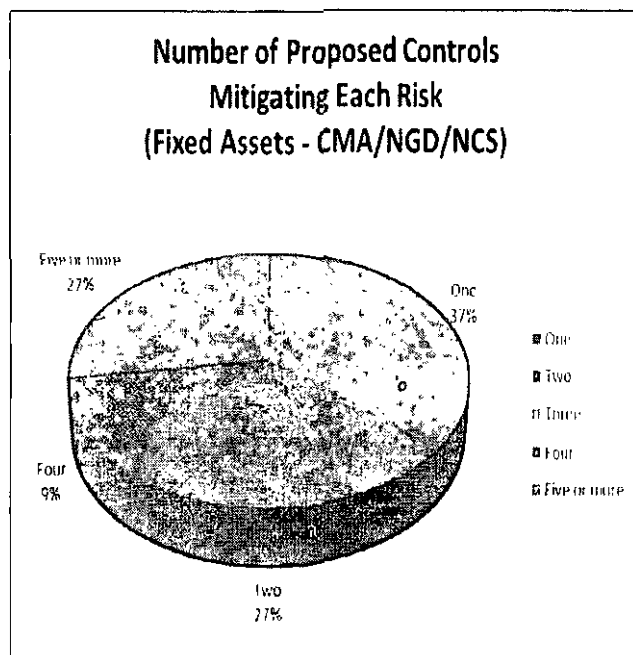


# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 2 (cont'd):

**Asset Management:** IT Audit's review of the Asset Management Risk and Control Matrix (RCM) noted that each known risk had at least one mitigating control identified. Based on the pre-control merge RCM, 94% of legacy NiSource Asset Management controls are manual in nature.\*\*



Business Process Areas	Automated	Manual	Grand Total
07.B Manage construction projects		17	17
07.D Bill for reimbursable projects		2	2
07.E Maintain continuing property records		4	4
07.F Account for depreciation and depletion		5	5
07.G Manage leasing activities		1	1
10.I Valuation of Assets	2	4	6
<b>Grand Total</b>		<b>33</b>	<b>35</b>
<b>Percentage Manual or Automated Controls</b>	<b>5.71%</b>	<b>94.29%</b>	

\*\* Review metrics based on 12-31-12 RCMs and do not include post-merge manual and automated control counts.



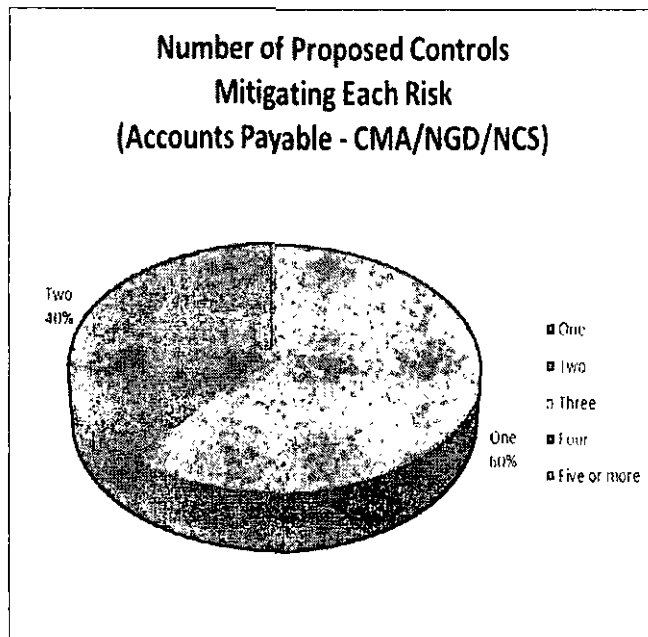


# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 2 (cont'd):

**Accounts Payable/Supply Chain Management:** IT Audit's review of the Accounts Payable/Supply Chain Management Risk and Control Matrix (RCM) noted that each known risk had at least one mitigating control identified. Based on the pre-control merge RCM, 86% of legacy NiSource AP/SCM controls are manual in nature. \*\*



Business Process Area	Automated	Manual	Grand Total
05.A Plan for and acquire necessary materials		9	9
05.D Process accounts payable	3	11	14
05.E Manage IBM Invoice Verification and Payment	1	4	5
<b>Grand Total</b>	<b>4</b>	<b>24</b>	<b>28</b>
Percentage Automated or Manual	14.29%	85.71%	

\*\* Review metrics based on 12-31-12 RCMs and do not include post-merge manual and automated control counts.

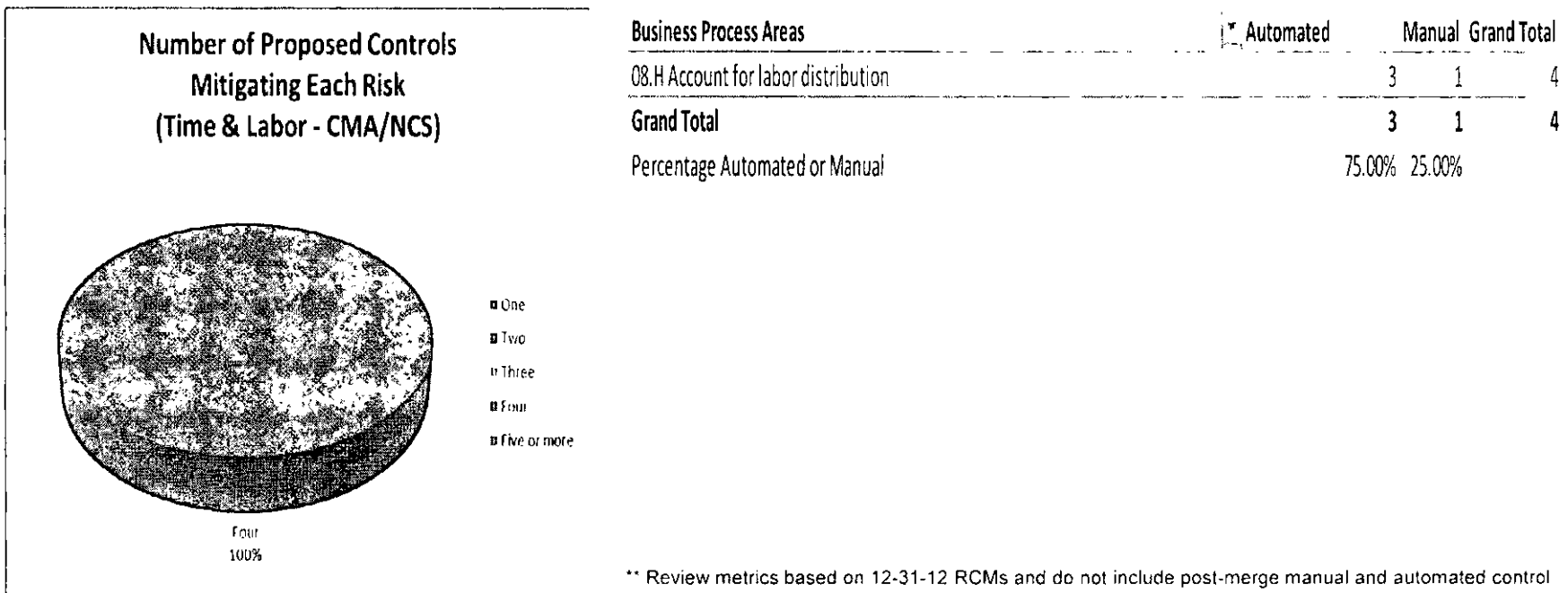


# NiFiT Release 1. Pre-Deployment Review

## REVIEW / RESULTS

### Objective 2 (cont'd):

**Time and Labor:** IT Audit's review of the Time and Labor Risk and Control Matrix (RCM) noted the single, known risk had at four mitigating controls identified. Based on the pre-control merge RCM, 25% of legacy NiSource Time and Labor controls are manual in nature.\*\*



\*\* Review metrics based on 12-31-12 RCMs and do not include post-merge manual and automated control counts.

## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

#### Objective 3:

**Project Management Controls: Provide reasonable assurance that corporate policy or good practice is being adhered to and that exceptions are documented and approved appropriately.**

**Background:** IT Audit has been engaged in the NiFiT initiative since its inception. Part of IT Audit's continuing evaluation of NiFiT is its use of Project Management practices and its adherence to the NiSource Project Management Methodology (PMM).

**Approach:** These current results are supported by direct observation of evidence and attendance at meetings, interviews with key personnel and review of various project documentation.

#### **Project Management Controls Assurance (Corporate Policy Adherence):**

**Overall Results:** IT Audit believes there is reasonable assurance the NiFiT project has practiced adequate project management controls. NiFiT has a well defined charter, budget and schedule in place with all three actively referenced, updated and used as management tools for the project. IT Audit has identified one improvement opportunity in the variance review over estimated project hours to complete versus actual project hours incurred.

## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

#### Objective 3(cont'd):

**Improvement Opportunity:** Currently, the NiFiT PMO reviews the project staffing plan in MS Excel for comparison of estimated project hours to complete versus actual project hours incurred. There currently is no similar review for actual project hours incurred to estimated hours to complete in the project scheduling system (PWA). The risk of not doing this type of review is that incurred hours may exceed hours estimated, go undetected for a period of time, and result in the project not completing on schedule. IT Audit recommends a regular comparison review of estimated project hours to complete versus actual project hours incurred be done by the NiFiT PMO in both the staffing plan and the project scheduling tool (PWA).

**Management Response:** Currently, the estimated project hours are managed in the staffing plan in MS Excel whereas, the project actuals are maintained in Project Server. Due to the two separate technical environments, the reconciliation is a manual process. In the Release 1 Deployment 2 work plans, the estimates and actuals will be available within Project Server, which will allow for automated reconciliation. The NiFiT PMO has scheduled a monthly review of estimated hours versus incurred hours from both the project scheduling system and the project staffing plan. Results of this monthly review will be supplied to IT Audit upon request.





## NiFiT Release 1. Pre-Deployment Review

### REVIEW / RESULTS

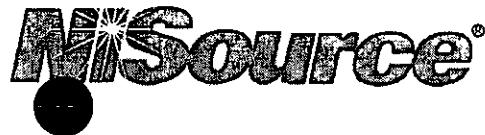
#### Objective 3(cont'd):

**Project Management Controls:** Review identified exceptions to corporate policy and whether the exception process/steps were communicated and reviewed with the IT PMO and NiFiT Project Team Management.

**Project Management Controls Assurance Results (Corporate Policy Exceptions):**

**Overall Results:** The NiFiT project continues to comply with the NiSource PMM (Project Management Methodology). The Design & Build Phase gates concluded with documented exceptions of 31 deliverables on a total inventory of 984. A detailed exception list was created and maintained to document and track the exception items through the process. Appropriate sign-offs were obtained and documented by NiFiT and the IT PMO for these phase gates. The NiFiT team is currently working to complete the deliverables on the exception list and does not expect the exception items to negatively impact the testing phase schedule.

**Improvement Opportunity:** None.





NiFiT Release 1. IT Audit Pre-Deployment Review  
Follow-up Items from IT Audit Risk Assessment Review

# REVIEW RESULTS

# NiFiT Release 1. Pre-Deployment Review

## Follow-up Items from the Risk Assessment Review

The following items were documented as improvement items at the conclusion of IT Audit's Risk Assessment Review of NiFiT. The following is an update on the status of these items from the NiFiT PMO. IT Audit continues to appreciate the access and cooperation of the NiFiT Team in this area. All items noted in the following section are being addressed by the NiFiT team.

### Risk Assessment Review IT Audit Improvement Items with Management Updates:

#### IT Audit Improvement Item:

Enhance project risk management documentation by creating a swim-lane process diagram.

#### Management Update:

The swim lane process for Team Level risk management will be documented during the Test Phase. Target completion date (5/31/13).

#### IT Audit Improvement Item:

Enhance project risk management documentation by including the executive risk types as risk types in the project risk log.

#### Management Update:

A mapping between Risks/Issues log and ERM risk categories will be completed prior to completion of NiFiT Release 1 Deployment 2.



# NiFiT Release 1. Pre-Deployment Review

## REPORT DISTRIBUTION

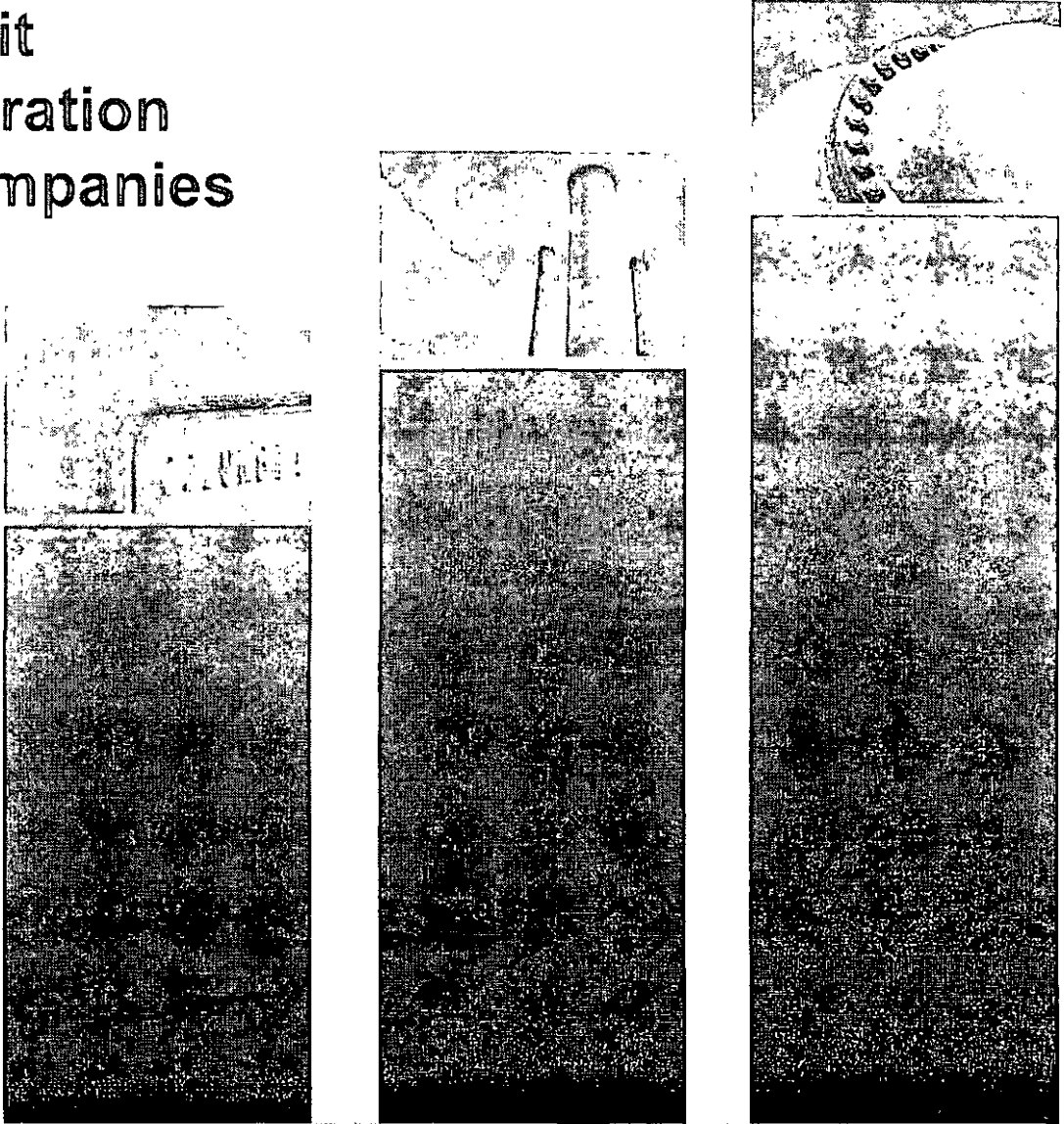
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Deloitte & Touche LLP

# Contract Compliance Audit McJunkin Red Man Corporation Columbia Distribution Companies

May 29, 2013

To: Martin Zain, Director Procurement  
Operations

From: Chris Marlatt, Senior Internal Audit  
Ryan Binkley, Director Internal Audit  
Shelley Duling, Manager Internal Audit



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## Executive Summary

Internal Audit has completed a review of the General Services Agreement (GSA) and Service Authorization (SA) with McJunkin Red Man Corporation (MRC), the provider of pipe, valves, fittings, plus Maintenance, Repair and Operating (MRO) supplies for the period January 1, 2012 through December 31, 2012.

- The total spend reviewed, as part of this contract compliance audit, was approximately **\$48.6 million (See slide 35)**.

**Audit Purpose:** To ensure compliance with the major provisions of the contract between MRC and the Columbia Distribution Companies (CDCs).

- Columbia Gas of Massachusetts has transitioned its purchasing to MRC in 2013 and a new agreement was executed by Supply Chain on April 1, 2013.

## Executive Summary (Cont'd)

Based on the results of our audit work, Internal Audit has determined that the following internal controls and processes are in accordance with the terms of the contract:

- Certificates of insurance held by MRC meet contractual obligations for the period under audit;
- Supply Chain is properly monitoring and obtaining refunds (if necessary) for outstanding credits listed on MRC's accounts receivable aging report, as of December 31, 2012;
- The branch replacement cost for the period appears reasonable;
- Key performance indicators (KPI) calculated by MRC accurately reflect MRC's performance;
- Customer satisfaction survey was performed with no significant items identified;
- Annual freight factor appears to be properly reviewed and approved by Supply Chain management;
- Processes appear to be established to assess quality and assurance procedures for new vendors and periodically assess vendor quality administered by the CDCs or MRC; and
- Material "buy backs" incurred as part of the materials management process are properly priced and credited.



## Executive Summary (Cont'd)

Internal Audit has made the following observations and recommendations relating to the CDC MRC Contract:

- Joint savings are tracked by MRC and properly reviewed and approved by Supply Chain. MRC did not meet the cost savings threshold for 2012, resulting in MRC incurring a penalty of **~\$19K** to be negotiated for payment from MRC to the CDCs during execution of the 2012 Settlement Agreement;
- There was no quarterly meeting held during the 2<sup>nd</sup> or 3<sup>rd</sup> quarter. Due to scheduling conflicts the 2<sup>nd</sup> and 3<sup>rd</sup> quarter meetings were held as one meeting during November 2012; and
- Gross margin percentages (dollars) for the different material types were recalculated and a ***net under billing*** (by MRC to CDC) of approximately **\$55K** was noted.

## Executive Summary (Cont'd)

In conjunction with the contract testing outlined on the previous slides, Internal Audit has made the following observations that could enhance current processes and procedures:

- Supply Chain management should request that MRC provide a periodic report categorizing the one-sided transactions by adjustment type, as these impact the BRC, which is the basis for the gross margin analysis. Supply Chain management should assess the appropriateness of these transactions through review of the analysis and investigation of transactions as deemed necessary.

Internal Audit has reviewed the results of our audit with Supply Chain management.

# Background

## McJunkin RedMan Corporation (MRC)

- Corporate office located in Charleston, West Virginia.
- Distributer serving major industries throughout the United States and Canada.
- Procurement and warehouse provider to the CDCs since 2004; Columbia Pipeline Group since 1997; and all other NiSource companies since 2006.
  - Columbia Gas of Massachusetts has transitioned its purchasing to MRC in 2013.

NiSource Supply Chain personnel manage the day-to-day activities to administer the MRC agreements.

# Summary of Audit Objective and Procedures

**Audit Objective:** Determine contractor's compliance with policies, plans and procedures to ensure they are in accordance with the terms and conditions of the contract.

**Audit Procedures:** Internal Audit reviewed the contract language, terms and conditions and performed the following audit work / procedures:

1. Review the original contract and subsequent amendments to gain an understanding of the contract language, terms, and conditions;
2. Determine if quarterly meetings were held as required by the contract;
3. Ensure pricing and markups utilized by the contractor were in accordance with the contract;
4. Verify that the contractor requested bids for certain purchases for the benefit of NiSource as required by the contract;
5. Determine if the "Joint Savings Program" savings were properly supported and reported to NiSource Management;
6. Verify that McJunkin met or exceeded key contractual metrics (i.e. shipping accuracy and on time delivery);

# Summary of Audit Objective and Procedures (Cont'd)

## Audit Procedures (Cont'd):

7. Ensure that the Certificates of Insurance maintained by McJunkin provides the coverage required as specified in the contract;
8. Review the Accounts Receivable Report for the year ending December 31, 2012 to determine if unapplied cash and outstanding credits were properly investigated and resolved;
9. Determine if the Branch Replacement cost was properly calculated, as defined by the contract;
10. Test freight charges to ensure that such charges are in accordance with the contract;
11. As part of the materials management process implemented for the CDCs, ensure that material "buybacks" are properly priced and credited;
12. Review the established processes to ensure vendors listed on the CDC's AML are subjected to quality and assurance procedures performed either by the respective CDC or MRC; and
13. Review the customer satisfaction survey and analysis performed by Supply Chain to assess the results.

# Audit Results and Recommendations

**Audit Procedure 1:** Review the original contract and subsequent amendments to gain an understanding of the contract language, terms, and conditions.

## ***Audit Results:***

Internal Audit obtained and reviewed copies of the McJunkin Redman General Service Agreement and Service Authorizations (SAs) effective during 2012 for the CDCs identifying key contract terms to include in the audit scope.

***Internal Audit Recommendation:*** None.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 2:** Determine if quarterly meetings were held as required by the contract.

### ***Audit Results:***

The SA requires that quarterly meetings be held between MRC and Supply Chain management to discuss administrative and contractual items.

- Quarterly presentations were reviewed for the two meetings held in 2012 (1<sup>st</sup> and 4<sup>th</sup> Quarters).
  - The meeting held during the 4<sup>th</sup> Quarter was to review the 2<sup>nd</sup> and 3<sup>rd</sup> Quarter.
  - There was no meeting held during the 2<sup>nd</sup> or 3<sup>rd</sup> Quarter due to scheduling conflicts.

# Audit Results and Recommendations (Cont'd)

## ***Audit Procedure 2 - Audit Results (Cont'd):***

### ***Internal Audit Recommendation:***

- Management should ensure that meetings are held quarterly.

### ***Management Response:***

- Management will ensure that meetings are held on a quarterly basis going forward. Management will revise the required attendance list to help reduce the number of potential scheduling conflicts.



# Audit Results and Recommendations (Cont'd)

**Audit Procedure 3:** Ensure pricing and markups utilized by the contractor were in accordance with the contract.

## ***Audit Results:***

The major contractual pricing parameters are as follows:

- **Regular Stock**

- Mark up – 19.00% / COGS \$20M to \$25M
- Mark up – 18.25% / COGS \$25M to \$35M
- Mark up – 17.75% / COGS \$35M to \$40M
- Mark up – 17.00% / COGS \$40M to \$45M
- Mark up – 16.50% / COGS above \$45M

*Note: Pricing for regular stock starts at \$20M and will only be changed as mutually agreed upon by both parties.*

- **Vendor Directs**

- 8%

- **Line Pipe**

- Mark up – 5.25% / Orders \$100K to \$1M
- Mark up – 4.50% / Orders \$1M to \$3M
- Mark up – 4.00% / Orders above \$3M

- **Performance Pipe (PE Pipe)**

- Pricing follows that of **Regular Stock**

## Audit Results and Recommendations (Cont'd)

### ***Audit Procedure 3 - Audit Results (Cont'd):***

Using Audit Command Language (ACL), a data analysis tool, Internal Audit summarized the purchase history data file by material type and applied the appropriate contractual mark-up percentages to the branch replacement cost (BRC) and recalculated the correct pricing and gross margins with inconsequential variances, noting the following:

- Under billings from MRC were approximately **\$55K**, or approximately **0.11%** of total annual spend (**See slide 35**).

# Audit Results and Recommendations (Cont'd)

## *Audit Procedure 3 - Audit Results (Cont'd):*

### *One-Sided Transactions*

As with prior year procedures Internal Audit noted **10,010** “one-sided” transactions out of a total **295K** transactions where the **price field = zero** and the **cost field <> zero** (population totaled **\$106K**) or the **price field <> zero** and the **cost field = zero** (population totaled **\$607K**).

- Internal Audit reviewed a sample of these one-sided transactions. Selected transactions had a valid business purposes as one-sided transactions are required to correct instances where the cost field is initially recorded in a unit of measurement different that of the price field.
- The current purchase history data file alone does not provide detailed information to validate these transactions; additional support/review is necessary to ensure one-sided transactions are appropriate.

# Audit Results and Recommendations (Cont'd)

## *Audit Procedure 3 - Audit Results (Cont'd):*

### *Internal Audit Recommendations:*

- Supply Chain management should request that MRC provide a periodic report categorizing the one-sided transactions by adjustment type as these impact the BRC, which is the basis for the gross margin analysis. Supply Chain management should assess the appropriateness of these transactions through review of the analysis and investigation of transactions, as deemed necessary.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 4:** Verify that MRC requested bids for specific purchases, as required by the contract.

### ***Audit Results:***

Purchases estimated to cost **over \$100,000** require a formal competitive bid process with the following allowable exceptions:

- Specific supplier with the natural gas industry;
- Requirements for the goods of a proprietary nature;
- Priority situations including emergencies; and
- Goods sourced from MRC's stock.

***Note:*** *Exceptions should be supported by objective business reasons and documented and approved on a Competitive Bid Waiver form. Goods sourced from MRC's stock do not require completion of the Competitive Bid Waiver form.*

# Audit Results and Recommendations (Cont'd)

## ***Audit Procedure 4 - Audit Results (Cont'd):***

There were ***five*** orders that had a total cost of ***over \$100,000***.

- All orders were sourced from stock, thus did not require a formal bid process or Competitive Bid Waiver form.

***Internal Audit Recommendation:*** None.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 5:** Determine if the “Joint Savings Program” savings were properly supported and reported to NiSource Management.

### ***Audit Results:***

- Under the “Joint Savings Program”, the contract specifies the following:
  - If MRC does not deliver a minimum savings of 2% of cost of goods sold (COGS), MRC will pay CDC an amount equal to \$100,000 multiplied by the savings shortfall percentage;
  - Actual cost savings in excess of 2% of COGS are shared on a percentage basis of 75% (CDC), 25% (MRC);
  - If actual savings delivered by MRC is greater than 2% of projected annual COGS, CDC agrees to pay a bonus equal to 25% of the total savings achieved, using a prorated scale; and
  - Savings above 6% of actual annual COGS will not be shared with MRC unless otherwise determined by Supply Chain management.

## Audit Results and Recommendations (Cont'd)

### ***Audit Procedure 5 - Audit Results (Cont'd):***

- The 2012 MRC Joint Savings Calculation was obtained listing all approved and rejected cost savings items.
  - Internal Audit noted that Supply Chain had approved **~\$651K** of the **~\$693K** proposed savings included in the 2012 MRC Joint Savings Calculation through review of appropriate supporting detail.
  - Total 2012 cost savings were under the **2% COGS** target by **~\$157K**, resulting in **~\$19.5K** due to the CDCs; payment of shortfall amount is subject to negotiations between Supply Chain and MRC.
- Consistent with the prior year report issued on July 19, 2012 Joint Savings included “buy back” transactions and comprised the entire **~\$651K** approved savings for 2012 and **~\$1.8 million** for 2011.
  - The Joint Savings Calculation language will be modified in the new service authorization.



# Audit Results and Recommendations (Cont'd)

## *Audit Procedure 5 - Audit Results (Cont'd):*

### *Internal Audit Recommendations:*

- Supply Chain Management should consider the shortfall payment due to the CDCs related to the Joint Savings Program as part of their final 2012 Settlement Agreement.

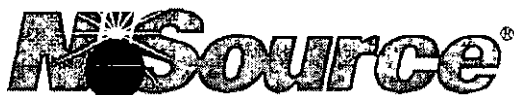
# Audit Results and Recommendations (Cont'd)

**Audit Procedure 6:** Verify that McJunkin met or exceeded key contractual metrics (i.e. shipping accuracy and on-time delivery).

**Audit Results:**

The contract outlines key performance metrics related to on-time delivery (OTD) and shipping accuracy. During 2012, the key performance metrics were met by MRC as outlined below:

Key Performance Metric	Contract Target Percentage	2012 Performance Percentage
OTD – Enhanced Committed Items (Construction Season)	98%	98.12%
OTD – Enhanced Committed Items (Non-Construction Season), Committed and Dedicated Items	95%	96.75%
OTD – Non-Committed Items, Direct Shipped and MRO Items	90%	95.14%
Shipping Accuracy	98%	99.96%



# Audit Results and Recommendations (Cont'd)

## ***Audit Procedure 6 - Audit Results (Cont'd):***

To verify the accuracy of the OTD and shipping accuracy metrics, Internal Audit performed the following:

- Obtained the 2012 metric calculation by location, which in total agreed to the “2012 Performance Percentages” (***See the previous slide***).
  - A system generated report does not exist to calculate performance metrics, as such, MRC provided Excel spreadsheets calculating the OTD and shipping accuracy metrics by location for the period under audit.
- Internal Audit recalculated the OTD and shipping accuracy performance metrics for a selection of locations using the purchase history data file.
  - Internal Audit concluded that reported key performance metrics were reasonable.

# Audit Results and Recommendations (Cont'd)

*Audit Procedure 6 – Audit Results (Cont'd):*

*Internal Audit Recommendation:* None.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 7:** Ensure that the Certificates of Insurance maintained by McJunkin provides the coverage required as specified in the contract.

### ***Audit Results:***

Internal Audit reviewed the certificate of insurance held by MRC for NiSource from January 1, 2012 through December 31, 2012 noting that the provided coverage was in accordance with the established GSA.

***Internal Audit Recommendation:*** None.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 8:** Review the Accounts Receivable Report, for the year ending December 31, 2012, to determine if unapplied cash and outstanding credits were properly investigated and resolved.

### ***Audit Results:***

Internal Audit reviewed MRC's Accounts Receivable (AR) report as of December 31, 2012, noting the following:

- Credits totaled **\$838,545**.
- There were no credits outstanding in excess of **90** days.

Given that there are no credits in excess of **90** days, it appears management is monitoring the AR report and resolving outstanding credits in a timely manner.

***Internal Audit Recommendation:*** None.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 9:** Determine if the Branch Replacement cost was properly calculated as defined by the contract.

### ***Branch Replacement Cost (BRC) Defined***

- Weighted moving average calculated from the replacement cost of like items previously on hand with newly received items, on a last in first out basis.
- Based on actual purchase order cost net of any NiSource specific rebates, freight allowances and manufacturer discounts applied to the published manufacturer list prices, excluding discounts for early or cash payments.

## Audit Results and Recommendations (Cont'd)

### *Audit Procedure 9 – Audit Results (Cont'd):*

Internal Audit selected a sample of purchase orders not subject to special pricing.

- For selected transactions within each purchase order, Internal Audit compared the cost of the item to the most recent vendor invoice as of the date of the purchase order, noting that the BRC appeared reasonable.
- Due to the nature of the BRC calculation, variances are expected for each selection, as such, this analysis is a reasonableness test only.
- An overall **net 0.168%** variance was identified when comparing the unit BRC per the vendor invoice to the purchase history data file for the sample selections.

*Internal Audit Recommendation:* None.



## Audit Results and Recommendations (Cont'd)

**Audit Procedure 10:** Test freight charges to ensure that such charges are in accordance with the contract.

### ***Audit Results:***

- The Freight Factor related to in-bound freight for stock items was initially established at a **.65%** mark-up to be applied to the stock BRC (in addition to the contractual mark-ups noted at **slide 13**).
  - The freight factor is assessed annually based on actual freight charges for the prior year.
    - » The freight factor for 2012 of **.63%** was approved by Supply Chain management.
  - Freight applied to stock items using the 2012 Freight Factor (**.63%**) totaled **~\$212K**.
    - » Given the total difference between the freight factor applied and the original contract freight percentage (**.65%**) was **\$3K**, Internal Audit did not perform further testing procedures.

***Internal Audit Recommendation:*** None.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 11:** As part of the materials management process implemented for the CDCs, ensure that material “buybacks” are properly priced and credited.

### ***Audit Results:***

- As part of the materials management process, items that are determined to be held in excess of established, optimal inventory levels, and are reusable by MRC, are purchased back (“buy back”) by MRC at cost plus original margin charged by MRC.
  
- Internal Audit obtained a listing of 2012 buyback transactions noting a total of approximately **\$651K**.
  - The impact of these transactions are eliminated from the gross margin analysis (**See slide 35**) as they relate to a period prior to 2012.

# Audit Results and Recommendations (Cont'd)

## *Audit Procedure 11 - Audit Results (Cont'd):*

- A sample selection of 2012 buyback transactions were reviewed, noting the transaction was properly priced at cost plus margin and materials were properly tracked and compared to the credit invoice obtained from MRC.

*Internal Audit Recommendation:* None.

## Audit Results and Recommendations (Cont'd)

**Audit Procedure 12:** Review the established processes to ensure vendors listed on the CDC's AML are subjected to Q&A procedures performed either by the respective CDC or MRC.

### ***Audit Results:***

- Approved vendors are listed for each material type in the CDC material catalog maintained online; however, a listing organized by vendor does not currently exist.
- Internal Audit performed a walkthrough with Supply Chain and Gas Standards and Integrity Management Support noting a process is in place to approve proposed vendors for a type of material which includes collaboration of various departments, including but not limited to, Supply Chain, Gas Standards and Integrity Management Support, and Engineering Services.

# Audit Results and Recommendations (Cont'd)

## ***Audit Results – Audit Procedure 12 (Cont'd):***

- MRC's Q&A procedures are relied upon for the ongoing monitoring of vendor quality and assurance processes.
  - Supply Chain Management communicates daily with MRC representatives and any quality control issues noted by the CDCs through avenues such as visual inspection of the material and discussions with peer groups in the industry would be discussed.
- Through discussions with MRC Q&A Management regarding their Q&A policy MRC appears to have an established process to track vendor quality control issues and to periodically assess the vendor's Q&A processes based on a defined timeline that is subject to adjustments based on vendor performance.

Note: The Q&A procedures performed on parts purchased on large construction projects are not within the scope of this audit as they are subject to different policies and procedures.

***Internal Audit Recommendation:*** None.

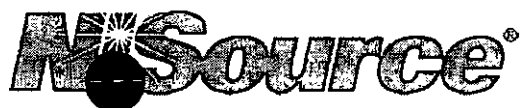
## Audit Results and Recommendations (Cont'd)

**Audit Procedure 13:** Review the customer satisfaction survey and analysis performed by Supply Chain to assess the results.

### ***Audit Results:***

- The contract specifies that a customer satisfaction survey is to be administered by MRC and reviewed on an annual basis.
- The 2012 survey included **16** questions asking whether participants agree or disagree with the questions (scale from **1 – 5** with **1** representing lowest negative response).
- Internal Audit obtained the results of the survey from Supply Chain Management noting the following results:
  - **54** out of **193** Participants Responded: **28%** participant rate.
  - The average score fluctuation compared to the 2011 average score increased for all questions except one that decreased **0.53%**.
- It appears that the customer satisfaction survey was performed and reviewed in accordance with the contract.

***Internal Audit Recommendation:*** None.



# Gross Margin Analysis

Order Type	Ext Price	Ext BRC	MRC Margin	Calc. GM%	Contract GM% (3)	Calc. at Contract GM%	Difference/ Charge
	A	B	C = A-B	C/B	D	E = B x D	A - E
<b>STOCK AND BUYOUTS</b>							
Stock - Orders entered prior to 1/1/2012 (between 1/1/11-7/21/11)	\$101,460	\$81,850	\$19,610	23.96%	1.1903	\$97,426	\$4,034
Stock - Orders entered prior to 1/1/2012 (between 7/22/11-11/14/11)	\$1,108,006	\$926,666	\$181,340	19.57%	1.2057	\$1,117,281	(\$9,275)
Buybacks	(\$82,812)	(\$67,354)					
Stock - Orders entered prior to 1/1/2012 (between 11/15/11-12/31/11)	\$354,823	\$293,751	\$61,072	20.79%	1.1910	\$349,857	\$4,966
Stock - Orders entered 1/1/2012 to 4/3/2012	\$10,458,884	\$8,741,630	\$1,717,253	19.64%	1.1910	\$10,411,282	\$47,602
Buybacks	(\$45,591)	(\$38,687)					
Stock - Orders entered 4/4/2012 to 12/2/2012	\$24,744,505	\$20,608,399	\$4,136,107	20.07%	1.2042	\$24,816,634	(\$72,128)
Buybacks	(\$112,369)	(\$94,149)					
Stock - Orders entered 12/3/12 to 12/31/2012	\$1,848,465	\$1,575,747	\$272,718	17.31%	1.1992	\$1,889,636	(\$41,171)
Buybacks	(\$379,032)	(\$317,796)					
<b>TOTAL</b>	<b>\$37,996,340</b>	<b>\$31,710,056</b>					<b>(\$65,972)</b>
<b>DIRECTS</b>							
Directs - 1/1/12 to 12/31/12	\$133,150	\$108,160	\$24,990	23.10%	1.08	\$116,813	\$16,337
<b>TRAILER FEES</b>							
Trailer Fee Charges	\$1,190	\$1,000	\$190	19.00%	1.33	\$1,333	(\$143)
<b>PE PIPE (1)</b>							
PE Pipe - prior to 1/1/2012 (between 7/22/11- 11/14/2011)	\$1,209	\$993	\$215	21.69%	1.2057	\$1,197	\$11
PE Pipe - prior to 1/1/2012 (between 11/15/11-12/31/11)	\$177,948	\$149,411	\$28,537	19.10%	1.1910	\$177,948	(\$0)
PE Pipe - 1/1/2012 to 4/3/2012	\$3,423,109	\$2,889,409	\$533,700	18.47%	1.1910	\$3,441,286	(\$18,177)
PE Pipe - 4/4/2012 to 12/2/2012	\$5,294,856	\$4,378,896	\$915,960	20.92%	1.2042	\$5,273,066	\$21,789
PE Pipe - 12/3/12 to 12/31/2012	\$219,282	\$190,416	\$28,866	15.16%	1.1992	\$228,347	(\$9,065)
Buybacks	(\$31,004)	(\$27,328)					
<b>TOTAL</b>	<b>\$9,085,400</b>	<b>\$7,581,797</b>					<b>(\$5,441)</b>
<b>DG PURCHASE ORDERS (2)</b>							
DG Purchase Orders	\$1,423,737	\$1,182,069	\$241,667	20.44%			Exclude
<b>Total</b>	<b>\$48,639,817</b>	<b>\$40,583,083</b>				<b>Total Over/(Under) Charge</b>	<b>(\$55,219)</b>

- (1) MRC has a separate contract with Performance Pipe to sell pipe to NiSource at a market indexed price escalator/de-escalator using T-PSI's resin pricing. The branch replacement cost (BRC) was adjusted to reflect actual PE pipe purchases by MRC.
- (2) Special Orders (DG) are priced using margins outside of those specified in the contract.
- (3) Contract GM% includes the markup percentages per the contract times the freight factor.

# Distribution List

cc: R. C. Skaggs M.S. Chepke  
S. P. Smith J.M. Konold  
C. J. Hightman D.A. Monte  
V. G. Sistovaris R.M. Kitchell  
L. J. Francisco M.A. Huwar  
J. Hamrock S.W. Sylvester  
J. D. Veurink T. L. Tucker  
S.J. Sagun C.E. Shafer  
D.G. Cote Deloitte and Touche, LLP  
D.A. Eckstein



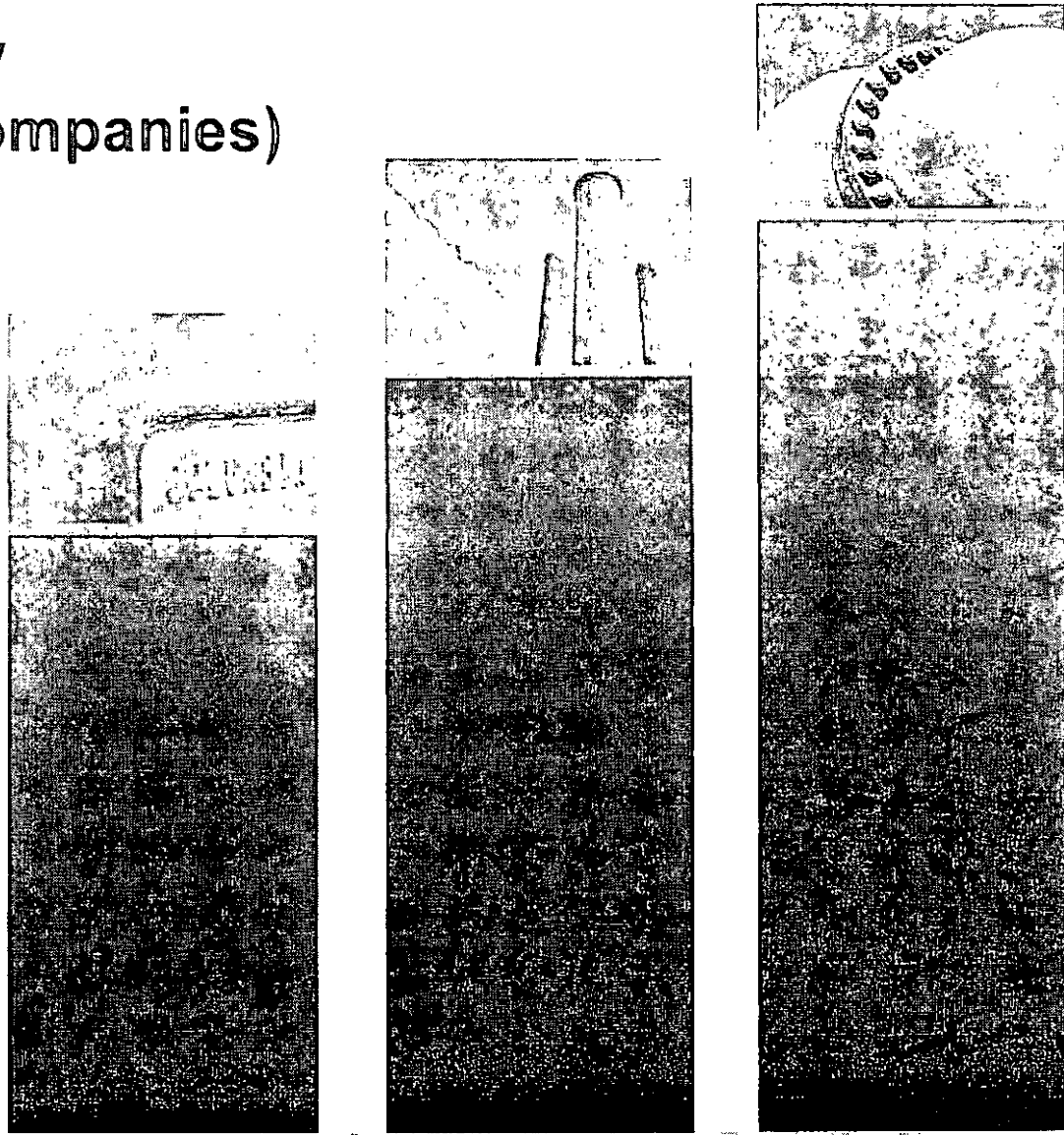


# Billing Exceptions Review (Columbia Distribution Companies)

May 30, 2013

To: Linda Siddons, Vice President  
Customer Operations

From: Jaclyn Callahan, Internal Audit Lead  
Ryan Binkley, Internal Audit Director  
Shelley Duling, Internal Audit Manager



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## Executive Summary

Internal Audit conducted a review to evaluate Meter to Cash (MTC) processes and risks associated with resolving billing exceptions generated on customer accounts within the Columbia Distribution Companies (CDC) through the use of macros, referred to herein as Automations, as well as the performance of IBM contractors, referred to herein as offshore personnel.

Internal Audit engaged in discussions with appropriate members of the following departments to properly address management's perception of risk as a part of our review:

- Billing Exceptions
  - Revenue Recovery
  - NGD Business Improvement
- The focus of our review included the following:
    - Review a sample of accounts to ensure that data displayed within the Automations is properly populated from the source system or report and that any data input by the Automation user is appropriate and reflected timely in the source system; and
    - Review a sample of accounts addressed by offshore personnel to verify that the processes followed were in accordance with MTC policies and procedures.

Internal Audit has reviewed our results with management.

## Executive Summary (Cont'd)

**Audit Objective:** Automations implemented by CDC MTC are functioning properly, allowing users to address billing exception memos.

### ***Automation Testing Results***

- Automations are accurately populating account information from the Distributive Information System (DIS), thus the Automation user appears to be utilizing accurate data in assessing the billing exception.
- The actions taken by the Automation user to close the billing exception within the Automation were appropriate and accurately reflected within DIS.

**Note:** Actions cannot be taken within the E-bill Bounce Back Automation; Internal Audit verified within the appropriate system that the action taken was appropriate.

- The Automation process is extracting all applicable memos or accounts (included in the most recent monitoring report) to be addressed by the user.

## Executive Summary (Cont'd)

### *Offshore Performance Testing Results*

- IBM provides monthly performance metrics summarizing the results of their self assessments performed using the same scoring criteria as the NGD Business Improvement team to evaluate onshore performance.
  - Reports provide insufficient detail to allow the reviewer to recalculate or assess the reasonableness of the scores assigned, thus Internal Audit was unable to conclude on the accuracy of these metrics.

**NOTE:** There are no target percentages or other metrics specified within the contract related to the results of the self assessments.

- Internal Audit selected **25** billing exception memos closed by offshore and assigned a score based on established criteria utilized by NGD Business Improvement to evaluate onshore performance related to closing billing exception memos.
  - **24** of the memos addressed by offshore received a score of **100%** .
  - **1** memo received a score of **80%**.

## Executive Summary (Cont'd)

Internal Audit has identified the following opportunities for enhancements to the overall billing exceptions process:

- Management should consider DIS programming changes related to the “Cherry Picker” Automations to allow DIS to automatically resolve the billing exception without the generation of the billing exception memo. This would eliminate any risks and time associated with running the Automation outside the system of record.
  - “Cherry Picker” Automations are those that automatically close a memo meeting defined criteria when a user enables the Automation.

**Management Response:** “Cherry picker” automations were created outside of DIS due to limited IT resources to assist with the necessary DIS programming changes to the memo process. Higher priority regulatory and compliance requests have taken and continue to take priority over this type of IT request.

- Management should consider working with IBM to create detailed reporting, including the permanent customer identification number (PCID) and the permanent site identification number (PSID) related to the accounts of the memos sampled, which provides the results of the quality assurance procedures performed on offshore personnel to allow management to assess the reported metrics for reasonableness.

# Background

## *Overview of Billing Exceptions Automation Processes:*

### **CDC MTC Department Structure**

- The CDC MTC Billing Exceptions team consists of IBM contractors who are located in Bangalore, India (offshore) and NiSource employees in the Columbus office (onshore).
- These two groups are responsible for addressing the following:
  - Billing exception memos generated daily to identify possible billing errors.
    - There are a total of **282** memo types classified as either actionable (billing is deferred until the memo is addressed) or investigative (account will continue to bill, but investigation is required).
  - Accounts captured on monthly monitoring reports established to track specific issues that can occur related to customer billing.

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **How Billing Exceptions Memos Are Generated**

- Billing Exceptions can be generated as a result of the following scenarios:
  - Programmed parameters within DIS subsequent to the meter being read (i.e. negative usage, zero usage);
  - Customer calls to a call center; and
  - Internal investigations (i.e. on-site service technician requests an investigation).
- The CDC Billing Exceptions team reviews memos for all CDC customer accounts, with the exception of Gas Measurement Billing (GMB) large volume customers.
  - GMB billing exceptions are addressed by the Gas Measurement Billing Team.
- Within the DIS system, memos can either be closed (no action taken on the account and bill is released to the customer) or resolved (customer bill is held until action is taken on account).



## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **How Billing Exceptions Memos Are Generated (Cont'd)**

- Memos are assigned to onshore or offshore personnel based on the memo type.
  - Per discussion with Management, the memos addressed by onshore require more in-depth analysis, require customer contact, or require an order take to be closed or resolved.
    - If offshore cannot address a memo originally assigned to them, they assign (or “flip back”) the memo to onshore personnel.
- See the table below for a comparison of actionable memos addressed during 2012:

Onshore	Offshore	Total
130,559	323,363	453,922

**Note:** These numbers do not include memos identified as Billing Exceptions Optimization (BEO) memos, which are programmed to automatically resolve if they are generated in conjunction with another memo number requiring the same effort for resolution to prevent duplication of efforts.

# Background (Cont'd)

## ***Overview of Billing Exceptions Automation Processes (Cont'd):***

### **How Monitoring Reports Are Generated**

- In addition to Billing Exception Memos, the CDC MTC Billing Exceptions department has also established monthly reports to identify certain recurring issues on customer accounts.

### **How Automations Work**

- Prior to the use of Automations, Billing Exceptions personnel were required to review information found on multiple screens in DIS to be able to take the appropriate action on a memo or customer account; Automations were developed to create efficiencies in this process.
- Automations are accessed through excel templates, which store a series of commands and functions (unique to each Automation) that are run every time the Automation is initiated.

## Background (Cont'd)

### *Overview of Billing Exceptions Automation Processes (Cont'd):*

#### **How Automations Work (Cont'd)**

- NGD Business Improvement worked with MTC to identify all the fields within DIS that a user would need to review to close a specific memo type or address an issue on a customer account.
- Each Automation is programmed to pull only those necessary fields into one tab of the excel template, resulting in an accurate, consistent, and efficient review of pertinent information for the related customer accounts.
- To utilize the Automation the user must perform the following:
  - Successfully logon to DIS.
  - Open the Automation template and select the session of DIS currently open.
  - Click the “Execute Data Collection” button within the template for the selected DIS information to populate inside the Automation template.
  - If any action is taken within the Automation, the Automation user must click on the “Update DIS” button for any changes to be uploaded to DIS.

**NOTE:** Automations are only utilized by onshore personnel.

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Summary of Automations**

- From April 2011 through March 2013, the onshore team established the following related to billing exception memos:
  - **7 Automations** which address **13** of the **282** actionable or investigative memo types in DIS.
    - **3** function as “Cherry Picker” Automations, requiring no input from the user.
      - Once the Automation user has enabled the Automation, it functions by auto-closing the memo meeting defined criteria; if the defined criteria are not met, the memo will follow the manual process utilized to address billing exceptions.
    - The remaining **4** Automations follow the processes outlined at the previous slide.

**NOTE:** Automations can contain parameters that will auto-select the memo status or required action based on whether the account meets specified criteria; however, the user is still required to review the information and make changes to the pre-populated memo status as deemed necessary.

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Summary of Automations (Cont'd)**

- From April 2011 through March 2013, the onshore team established the following related to Monitoring Reports:
  - **2 Automations to address 3 Monitoring Reports:**
    - These Automations pull customer account information from established reports (generated from various sources).
    - Similar to the Automations established for memos, these Automations pull the necessary fields from DIS for the accounts included in the reports to help the Automation user resolve the issue identified on a customer's account.

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Memo Automations**

- *Credit on Final Automations*
  - 2 Automations address memo **23319**, which is generated when a final account has a credit balance and DIS cannot determine how to apply the credit.
  - Implemented on the following dates:
    - July 26, 2012 - "Cherry Picker" Automation addressed **23319** memos generated on Columbia Gas of Pennsylvania (CPA) Customer Assistance Program (CAP) customers. See criteria to automatically close the memo below:
      - On the General Account screen in DIS, if there is a Reconnect (RC) in the pending order field, then close the memo.
      - On the General Account screen in DIS, if the payment plan field indicates the account was removed from CAP, then close the memo.
    - January 31, 2013 - The Automation's capabilities were updated to address **23319** memos generated on all other customer accounts.
      - Non-CPA accounts require the input of the Automation user to address the memo.

# Background (Cont'd)

## Overview of Billing Exceptions Automation Processes (Cont'd):

### Memo Automations (Cont'd)

- *Credit on Final Automation (Cont'd)*
  - The Automation implemented in January 2013 provides the following information from DIS to allow the user to address the memo:

<b>Account Information</b>	<b>Memo Account Information</b>	<b>DIIS Account Information</b>
Total Balance	PCID and SEQ/PSID	Current Balance
Account Status	Meter Read	Transaction Balance
Pending Orders	Additional Memos	Transaction Date
Revenue Class	Associated Accounts	
Customer Name		
Payment Plan	<b>Other Information</b>	<b>Most Recent History</b>
Disconnect Date	Bankruptcy Code	Payments
Last Payment	Bill Code	Billings
	Pending Order	Remarks

## Background (Cont'd)

### *Overview of Billing Exceptions Automation Processes (Cont'd):*

#### **Memo Automations (Cont'd)**

- *Zero Usage Automation*
  - Addresses the following memos:
    - **22346** – Generated when DIS reviews the prior year's consumption, the last billing, and the season of the year and determines that the consumption has decreased by 90%.
    - **23303** – Generated when there is zero usage on an active account during the non-heating season.
    - **24275** – Generated when there is zero usage on an active account during the heating season.
    - **23320** – Generated when there is zero usage on an active account for 2 or more months.
    - **22329** – Generated when an active account has zero usage for 12 months.
  - Implemented on September 27, 2012.



## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Memo Automations (Cont'd)**

- *Zero Usage Automation (Cont'd)*
  - The Automation provides the following information to allow the user to address the memo:

<b>Memo Account Information</b>	<b>Recent History</b>
PCID and SEQ/PSID	Consumption
Customer Name/Address	Itemized Statement
Additional Memos	Remarks
Property Owner	Contact Statistics
	Degree Days
<b>Premise Information</b>	<b>Order Information</b>
Heating Types/Appliances	Executed Orders
Revenue Class	Tech Remarks
Account Status	Pending Orders
Meter Location	

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Memo Automations (Cont'd)**

- *Further Action Remarks Automation*
  - Addresses the following memos:
    - **25056** – Generated as the result of an executed Consumption History order (with a reading that does not meet the criteria for the **25058** memo type defined below).
    - **25058** – Generated as the result of any executed order showing that the reading entered is less than the previous read.
    - **25081** – Generated as the result of a service order which resulted in necessary actions from Billing Exceptions.
  - Implemented on November 1, 2012.

## Background (Cont'd)

### *Overview of Billing Exceptions Automation Processes (Cont'd):*

#### **Memo Automations (Cont'd)**

- *Further Action Remarks Automation (Cont'd)*
  - The Automation provides the following info to allow the user to address the memo:

<b>Account Information</b>	<b>Account Information</b>	<b>Executed Orders</b>
PCID and SEQ	Account Status	Type
PSID	Pending Orders	Execute Date
Meter Read	Revenue Class	Meter Read
Additional Memos		Service Remarks
	<b>Meter Information</b>	
<b>Consumption History</b>	Meter Kind	<b>Premise Information</b>
	Meter Size	Heating Types/Appliances
<b>Service Line Information</b>	AMR Type	Revenue Class
Premise Status	AMR #	
Shut-Off Info	AMR Date	
	Bill Code	

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Memo Automations (Cont'd)**

- *Service Order(SO)/Service Investigation (SI) Executed on Inactive/Idle Account*
  - Addresses memo **22313** which is generated when an SI, SO, or Leak Inspection order has been executed on an account with a PSID Premise Status of Inactive, Idle, or Off for Leak.
  - Implemented on April 27, 2011.
  - The Automation provides the following info to allow the user to address the memo:

<b>Account Information</b>	<b>Order Information</b>
PCID and SEQ	Executed Orders
PSID	Order Status
Meter Read	Order Read
Code	Tech Remarks
Additional Memos	Shut-off Information
Account Status	Pending Orders

## Background (Cont'd)

### *Overview of Billing Exceptions Automation Processes (Cont'd):*

#### **Memo Automations (Cont'd)**

- *Revenue Recovery Ohio Winter Reconnect Option (WRO) Payment Automation*
  - Addresses memo **22079**, which is generated when a customer makes an Ohio WRO payment.
  - “Cherry Picker” Automation
    - Criteria to Auto-Close: On the Payment Plan screen in DIS, if the number of payments billed = 0 AND the payment plan start date is after the current date AND the current payment plan field is not blank, then close the memo.
  - Implemented on November 29, 2012.

## Background (Cont'd)

### *Overview of Billing Exceptions Automation Processes (Cont'd):*

#### **Memo Automations (Cont'd)**

- *Curb Box Automation*
  - Addresses the following memos:
    - **24240** – Generated if the meter or curb box is inaccessible (i.e. bushes covering meter or dog loose in yard).
    - **24243** – Generated if access to the meter or curb box is inaccessible (i.e. car parked on curb box).
  - “Cherry Picker” Automation
    - Criteria to Auto-Close:
      - If the current balance (pulled from the total balance field on the General Account screen) is less than \$1,000, then close the memo.
      - If the current balance is greater than \$1,000 AND the collection balance (pulled from the order instructions of the last Active Collection order on the Execute Order screen) is less than \$1,000, then close the memo.
  - Implemented on November 29, 2012.

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Monitoring Report Automations**

- *Credit on Finals Monthly Report*
  - Implemented on September 27, 2012 (same date as the *Credit on Final Memo Automation*).
  - Addresses accounts listed on the Credits on Finals Monthly Report.
    - This report tracks all accounts with “non-actionable” credit on finals memos.
  - Automation utilizes the same fields as the *Credit on Final Memo Automation* (**See Slide 15**).

## Background (Cont'd)

### ***Overview of Billing Exceptions Automation Processes (Cont'd):***

#### **Monitoring Report Automations (Cont'd)**

- *E-bill "Bounce Back"*
  - Implemented on October 16, 2012.
  - Addresses customer accounts (CPA only) for which e-bills were returned ("bounced back") due to an invalid e-mail address.
    - 2 separate web-based reports monitor those customers in Pennsylvania enrolled with Check Free Corporation and customers enrolled by signing up directly on the CPA's website.

**NOTE:** This is the only Automation which does not push any information back to the source system. It only compiles information for the user to review, and all actions must be completed by the user within the source systems.



# Internal Audit Objective & Procedures

**Audit Objective:** Automations implemented by CDC MTC are functioning as properly, allowing users to address billing exception memos.

- **Focus Area 1:** Test a sample of accounts to ensure that data displayed within Automations is properly populated from the source system or report and that any data input by the Automation user is appropriate and reflected timely in the source system; and
- **Focus Area 2:** Review samples of memos addressed by IBM contractors to verify that the processes followed were in accordance with MTC policies and procedures.

# Audit Objective - Results & Recommendations

**Focus Area 1:** Test a sample of accounts to ensure that data displayed within Automations is properly populated from the source system or report and that any data input by the Automation user is appropriate and reflected timely in the source system.

## ***Audit Results:***

### **Memo Automation Testing**

- To test the accuracy of the information populated from DIS within the Automations and to ensure the action taken to address the memo was appropriate, Internal Audit made a selection of **25** memos closed within each of the **7** types of Automations (**See Slides 14 – 22**).
  - For each selection, Internal Audit reviewed the Automation’s “Completion file” and agreed all of the fields displayed in the Automation back to DIS, noting no exceptions.
    - » Each time an Automation user selects “Update DIS” within the Automation, a “Completion file” is generated which keeps record of the fields displayed in the Automation at the time the completion file was generated as well as actions taken on the accounts.

# Audit Objective - Results & Recommendations (Cont'd)

## Focus Area 1 - Audit Results – (Cont'd):

- » Due to space considerations, the completion files for the *Zero Usage Automation* do not contain record of all the fields displayed in the Automation.
  - Internal Audit was unable to verify that the information properly populated for the **25** selections.
  - Internal Audit did perform a walkthrough with a billing exceptions processor regarding the Automation process for a zero usage memo and agreed the information from one account displayed in the Automation back to the DIS system, noting no exceptions.

# Audit Objective - Results & Recommendations (Cont'd)

## *Focus Area 1 - Audit Results – (Cont'd):*

- Internal Audit reviewed the action taken to close or resolve the 25 memos selected for each Automation to determine if the action taken was appropriate and in accordance with CDC MTC policies, noting no exceptions.

- » Due to a programming error, the memo action field in the Revenue Recovery Ohio WRO Payment Automation was not populated in the “Listing files.”

**Note:** As of the date of this report, NGD Business Improvement was working to take the necessary actions to correct the issue with the memo action field not populating correctly.

- » Since Internal Audit was unable to review the action taken on those selected memo types using the “Listing files”, Internal Audit traced each selection to DIS and reviewed the actions taken on the selected memos, noting no exceptions.

# Audit Objective - Results & Recommendations (Cont'd)

## *Focus Area 1 - Audit Results – (Cont'd):*

- In addition to testing the account selections, Internal Audit reviewed the change management processes in place to identify how programming changes made in DIS would affect the Automations' ability to pull accurate data.
  - » NGD Business Improvement compiled and maintains a listing of all the DIS screens and related fields utilized for each Automation.
    - NGD Business Improvement attends a monthly meeting with representatives from Information Technology (IT) to discuss upcoming programming changes to the DIS system and whether those changes would have the potential to affect the Automations.
  - » IT Internal Audit performed a DIS Application Review with audit report, issued on May 15, 2012, where it was concluded that DIS application changes are appropriately authorized, documented and approved.

# Audit Objective - Results & Recommendations (Cont'd)

## *Focus Area 1 - Audit Results – (Cont'd):*

- To ensure that all applicable memos are being addressed through the Automations process, Internal Audit obtained a listing of all OPEN memos in DIS affected by the Automations with a Create Date **30** days or more prior to the testing date.
  - There were no memos that met this criteria, thus it appears that the Automations are pulling all eligible memos to be assessed by the user of the Automation.

# Audit Objective - Results & Recommendations (Cont'd)

## *Focus Area 1 - Audit Results – (Cont'd):*

### *Monitoring Report Automation Testing*

- *Credit on Finals Monthly Monitoring Report*
  - To test the accuracy of the information populated from DIS within the Automation, and to ensure the action taken on the account was appropriate, Internal Audit made a selection of **5** accounts closed within the Automation.
    - For each selection, Internal Audit reviewed the Automation’s “Completion file” and agreed all of the fields displayed in the Automation back to DIS, noting no exceptions.
    - Internal Audit verified that the action taken to close or resolve the **5** accounts was appropriate and in accordance with CDC MTC policies, noting no exceptions.

# Audit Objective - Results & Recommendations (Cont'd)

## **Focus Area 1 - Audit Results – (Cont'd):**

- *Credit on Finals Monthly Monitoring Report – (Cont'd):*
  - To test the completeness of the information provided in the Automation (i.e. to ensure that all accounts included in the Credit on Finals Monthly report are shown to the Automation user), Internal Audit obtained the electronic version of the April Credit on Finals Monthly report.
    - » Internal Audit compared the accounts in the report to the Automation's Listing file, noting no difference between the report and the Listing file.
      - The Automation generates the "Listing file" when the Automation user opens the Automation and clicks "Execute Data Collection." As this file is prior to any action being taken, the accounts listed in the Compilation tab should agree to the complete data set pulled into the Automation.



# Audit Objective - Results & Recommendations (Cont'd)

## *Focus Area 1 - Audit Results – (Cont'd):*

- *E-bill Bounce Back Report*
  - To test the accuracy of the information populated from DIS within the Automation and to ensure the action taken on the account was appropriate, Internal Audit made a selection of **5** accounts closed within the Automation.
    - » As a “Completion file” is not generated for this Automation since no action is completed within the Automation, Internal Audit observed the Automation in use.
      - With the assistance of the billings exception processor, Internal Audit reviewed 5 accounts and compared the fields displayed within the Automation to DIS, noting no exceptions.

# Audit Objective - Results & Recommendations (Cont'd)

## **Focus Area 1 - Audit Results – (Cont'd):**

- *E-bill Bounce Back Report (Cont'd)*
  - To test the completeness of the information provided in the Automation (i.e. to ensure that all accounts included in the Check Free Corporation E-bill Bounce Back report and the CPA E-bill Bounce Back report are shown to the Automation user), Internal Audit selected 3 dates in the months of April and May 2013.
    - For each date selected, Internal Audit obtained electronic versions of the Check Free Corporation E-bill Bounce Back report and the CPA E-bill Bounce Back report.
    - Internal Audit agreed the accounts included in both of the reports to the “Compilation tab” within the Listings file for the dates selected, noting no exceptions.

## Audit Objective - Results & Recommendations (Cont'd)

**Focus Area 2:** Review samples of memos addressed by offshore to verify that the processes followed were in accordance with MTC policies and procedures.

### *Audit Results:*

- IBM is responsible for performing quality assurance procedures on the work performed by their offshore contractors.
  - Internal Audit reviewed performance metrics reports provided by IBM to MTC Management, noting that the reports provided insufficient detail to allow the reader to recalculate the scores provided.
- As recalculation of the performance reports was not possible, Internal Audit obtained a listing of all memos closed by offshore for the month of February 2013 and made a total of **25** selections.
  - Using the same scoring methodology utilized by NGD Business Improvement to evaluate the performance of onshore Billing Exceptions personnel, Internal Audit reviewed each offshore selection.
    - » Of the memos reviewed, **24** received a score of **100%**, while Internal Audit noted **1** which received a deduction of **20** points (out of 100) for using the incorrect code to close the memo, for a total score of **80%**.

# Audit Objective - Results & Recommendations (Cont'd)

## ***Internal Audit Recommendations – Focus Area 1 and Focus Area 2***

- Management should consider DIS programming changes related to the “Cherry Picker” Automations to allow DIS to automatically resolve the billing exception without the generation of the billing exception memo. This would eliminate any risks and time associated with running the Automation outside the system of record.

**Management Response:** “Cherry picker” automations were created outside of DIS due to limited IT resources to assist with the necessary DIS programming changes to the memo process. Higher priority regulatory and compliance requests have taken and continue to take priority over this type of IT request.

- Management should consider working with IBM to create detailed reporting, including the PCID and PSID related to the accounts of the memos sampled, which provides the results of the quality assurance procedures performed on offshore personnel to allow management to assess the reported metrics for reasonableness.

# Report Distribution

R. C. Skaggs  
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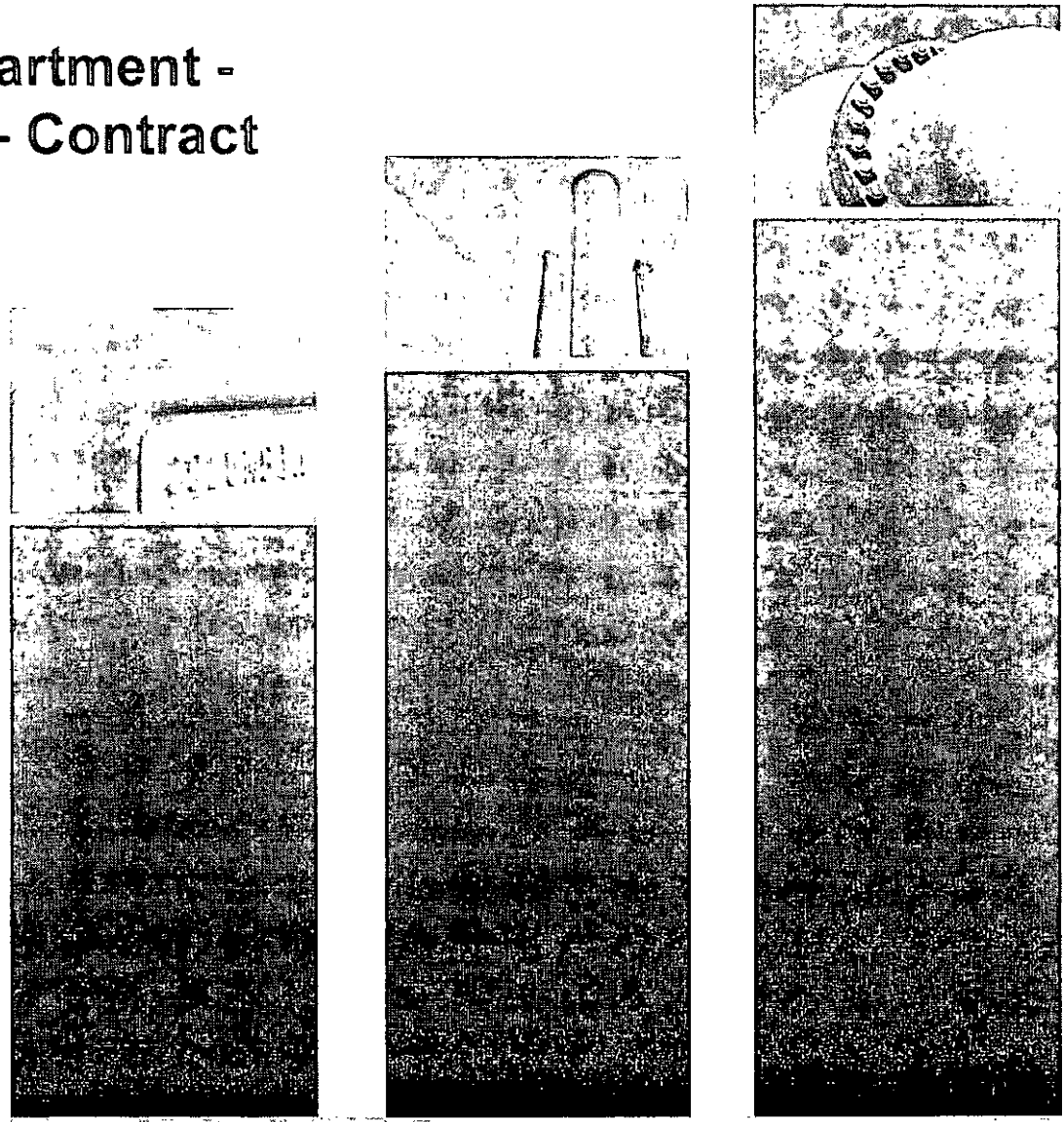
B U I L D I N G

# NiSource Internal Audit Department - Miller Pipeline Corporation – Contract Compliance Audit

June 26, 2013

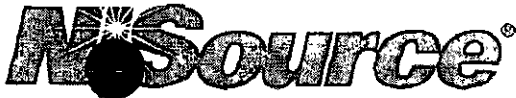
To: C. E. Shafer, VP of Eng. & Const.

From: T. M. Mason, Senior Auditor  
S. A. Titus, Audit Manager  
J. M. Siget, Director Audit



# Miller Pipeline – Contract Compliance Audit - Index

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  - Contract Compliance.....
  - Processes.....
  - Accounts Receivable.....
  - Manual Invoices.....
- Distribution List..... Page 22



# Miller Pipeline – Contract Compliance Audit

## Executive Summary

Internal Audit has completed a review of the contractual relationship between Miller Pipeline Corporation (MPL) and the NiSource Gas Distribution (NGD) companies. Our audit examined both the business processes and financial terms of NGD's relationship with MPL. Invoicing and operational processes, compliance with written contractual terms and conditions, as well as verification of invoicing and payment accuracy were reviewed. Our audit period included billed costs from January 1, 2011 to December 31, 2012.

The following audit observations are discussed in further detail in the Observations and Recommendations section of the report, which begins on page 10:

- Contract required retention is not withheld on payments made to MPL (page 13);
- Contractually required Lien Waivers are not submitted with payments from MPL (page 14);
- Reimbursable construction costs were accurately priced and properly supported (pages 11 and 21);
- There is no daily control identifier that will track daily progress reports submitted by MPL to the daily progress reports processed in NGD's Work Management System (page 17);
- Daily progress reports are processed within two (2) business days and disputed progress reports are properly monitored by NGD and MPL (page 19); and
- Outstanding credits (i.e., unapplied cash, outstanding credit memos, etc.) of \$1,019,535 were identified on MPL's accounting records (accounts receivable aging report) (page 20).



# Miller Pipeline – Contract Compliance Audit

## Executive Summary - Continued

We have reviewed the results of our audit with NGD Operations management, as well as Supply Chain management. A management action plan has been developed to address the significant audit issues identified during our review.

As always, we appreciate the cooperation and assistance that your staff provided to the Audit Team during this review. Should you have any questions or require additional information, please do not hesitate to contact Joseph Siget at (614) 460-4847, Steve Titus at (202) 510-7425, or Terry Mason at (614) 460-4663.

# Miller Pipeline – Contract Compliance Audit

## Background

# Miller Pipeline – Contract Compliance Audit

## Background - Continued

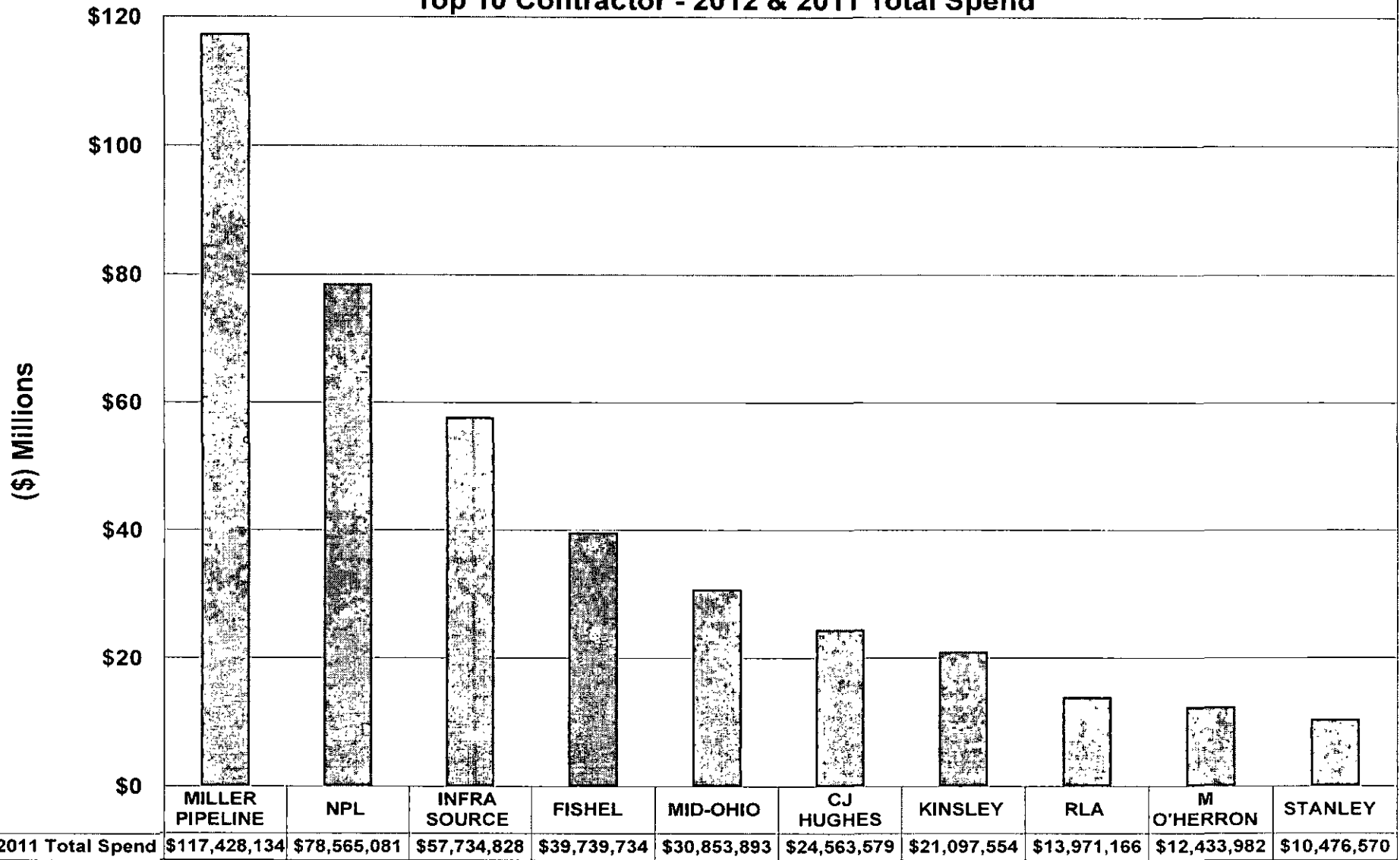
Summary Miller Pipeline Spend By NiSource Companies 2011 & 2012

Type of Contracts	Maryland	Ohio	Pennsylvania	Virginia	Total NGD
Mains/Services	\$ 404,645	\$ 80,219,518	\$ 19,056,056	\$ 17,737,620	\$ 117,417,839
Customer Service Lines	\$ -	\$ 10,295	\$ -	\$ -	\$ 10,295
Total Spend	\$ 404,645	\$ 80,229,813	\$ 19,056,056	\$ 17,737,620	\$ 117,428,134

# Miller Pipeline – Contract Compliance Audit

## Background - Continued

Top 10 Contractor - 2012 & 2011 Total Spend

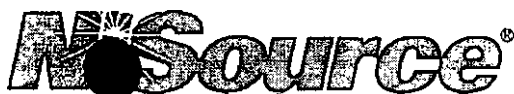


# Miller Pipeline – Contract Compliance Audit

## Background - Continued

MPL contracts are unit-based contracts. However, the sample of contracts reviewed showed that Units were created to account for Time and Material (T&E ) contracts and each contract is priced separately. All active contracts within this test period were based on the terms and conditions set forth in the NGD Corporate Services Company General Service Agreement for Construction, Maintenance, Services and Materials Agreements CW1887419 and R4NNI-23. The following chart illustrates a comparison of major contract item classes (top 20) unit prices for MPL as compared to all other contractors utilized by NGD during 2011 and 2012:

Top 20 Major Contract Item Classes Paid to Contractors	Miller Pipeline 2012 & 2011 Contract Units	Miller Pipeline 2012 & 2011 Amount Paid	Miller Pipeline 2012 & 2011 Unit Costs	All Other Contractors 2012 & 2011 Contract Units	All Other Contractors 2012 & 2011 Amount Paid	All other Contractors 2012 & 2011 Unit Costs	Miller Pipeline vs Other Contractors Unit prices	Miller Pipeline % of Total Units Invoiced 2012 & 2011	Miller Pipeline % of Total Amount Paid 2012 & 2011
01 - NEW MAIN-PLASTIC	210,953	\$1,361,852	\$6.46	161,441	\$1,246,984	\$7.72	(\$1.27)	56.65%	52.20%
02 - NEW MAIN ESTABLISHED AREA PLASTIC	88,005	\$1,048,993	\$11.92	136,610	\$1,455,060	\$10.65	\$1.27	39.18%	41.89%
03 - REPLACE MAIN-PLASTIC	266,836	\$5,377,646	\$20.15	1,355,627	\$20,582,233	\$15.18	\$4.97	16.45%	20.72%
09 - REPLACE MAIN-STEEL	17,026	\$649,111	\$38.12	89,225	\$5,939,180	\$66.56	(\$28.44)	16.02%	9.85%
10 - BORING W/O CASING GAS MAIN-PLASTIC/STEEL	33,047	\$546,928	\$16.55	81,649	\$1,849,387	\$22.65	(\$6.10)	28.81%	22.82%
11 - DIRECTIONAL BORE W/O CASING-MAIN-PL/STEEL	1,071,980	\$15,080,140	\$14.07	1,730,309	\$33,864,560	\$19.57	(\$5.50)	38.25%	30.81%
13 - ROCK&DIRECTIONAL BORE-	25,821	\$1,846,509	\$71.51	158,511	\$13,546,538	\$85.46	(\$13.95)	14.01%	12.00%
20 - NEW SERVICE-PLASTIC/STEEL	116,333	\$9,617,394	\$83.39	116,044	\$5,838,271	\$50.31	\$33.08	49.85%	62.23%
21 - REPLACE SERVICE-PLASTIC/STEEL	70,583	\$22,336,913	\$316.46	143,989	\$38,502,334	\$267.40	\$49.07	32.89%	36.71%
25 - SERVICE TIE OVERS-PLASTIC/STEEL	1,029	\$617,229	\$599.83	3,003	\$1,221,666	\$406.82	\$193.02	25.52%	33.57%
27 - RETIRE SERVICE LINE (ABANDONMENT)	3,080	\$1,437,607	\$466.83	3,357	\$1,847,232	\$550.26	(\$83.43)	47.84%	43.76%
30 - ISOLATED BELL HOLE	4,865	\$1,216,038	\$249.96	15,269	\$3,643,292	\$238.61	\$11.35	24.16%	25.02%
32 - ASPHALT/CONCRETE REMOVAL-SPOIL ONLY	174,096	\$882,686	\$5.07	759,625	\$2,866,308	\$3.77	\$1.30	18.65%	23.54%
36 - SPECIAL BACKFILL(MATL SUPPLIED BY CONT/COMP)	209,447	\$7,912,320	\$37.78	748,942	\$23,285,191	\$31.09	\$6.69	21.85%	25.36%
37 - ROCK EXCAVATION-TRENCH AND BELL HOLE	53,533	\$959,068	\$17.92	305,454	\$4,363,925	\$14.29	\$3.63	14.91%	18.02%
51 - "PLASTIC TO PLASTIC TIE IN	1,512	\$914,182	\$604.62	3,593	\$1,662,866	\$462.81	\$141.81	29.62%	35.47%
76 - MOVING METER INSIDE TO OUTSIDE	158,471	\$6,554,882	\$41.36	343,299	\$12,794,736	\$37.27	\$4.09	31.58%	33.88%
77 - RELIGHT CUSTOMER GAS EQUIPMENT	14,180	\$1,187,162	\$83.72	66,871	\$3,617,126	\$54.09	\$29.63	17.50%	24.71%
98 - LABOR & EQUIPMENT	190,831	\$23,133,242	\$121.22	1,363,538	\$86,235,188	\$63.24	\$57.98	12.28%	21.15%
99 - MISCELLANEOUS	2,159,735	\$3,300,723	\$1.53	35,068,491	\$39,810,826	\$1.14	\$0.39	5.80%	7.66%
<b>All Items</b>	<b>4,870,362</b>	<b>\$105,980,625</b>		<b>42,654,846</b>	<b>\$304,172,904</b>			<b>10.25%</b>	<b>25.84%</b>



# Miller Pipeline – Contract Compliance Audit

Exhibit No. [redacted]  
Schedule No. 4 [redacted]  
Page 9 of 22  
Witness N. M. Paloney

## Audit Scope Summary

# Miller Pipeline – Contract Compliance Audit

## OBSERVATIONS, RECOMMENDATIONS & MANAGEMENT RESPONSES

# Miller Pipeline – Contract Compliance Audit

## Observation:

- Reviewed invoice pricing to ensure the billed rates agreed with the commercial documentation (i.e. contract unit price rates) on file. Calculated the contract item prices (total contract item spend/total number of contract items) and reconciled the unit price paid to the contract documentation. We noted minor exceptions.
- Reviewed the invoicing for spend totaling \$28,064,259 (23.9% of total spend under audit) and found that the work completed and billed was properly supported and priced.
- Once a contract has been approved, NGD supply chain loads the current unit prices extended by each contract into the Work Management System (WMS). This process limits the exposure to incorrect pricing as all contract units are already loaded into WMS for the employee that is adding progress reports into the system. (The only current risk is if a NGD employee enters the incorrect item or quantity information into WMS.) When a contract is approved, unit prices are manually input into WMS's contract price list. This is now an automated process, which has proven to be an effective control for eliminating pricing entry mistakes.
- The chart on page 12 is a detailed comparison of the top 17 actual contract unit items spend for MPL as compared to nine peer contractors that are also performing IRP work for NGD companies.
- Although NGD paid MPL more than any other contractor in 2011 and 2012, it appears that NGD did not always get the lowest unit price for the most used contract items relating to IRP projects from MPL (**Note:** Internal Audit did not identify the root causes of the differences in the unit pricing as part of this audit).

## Recommendation:

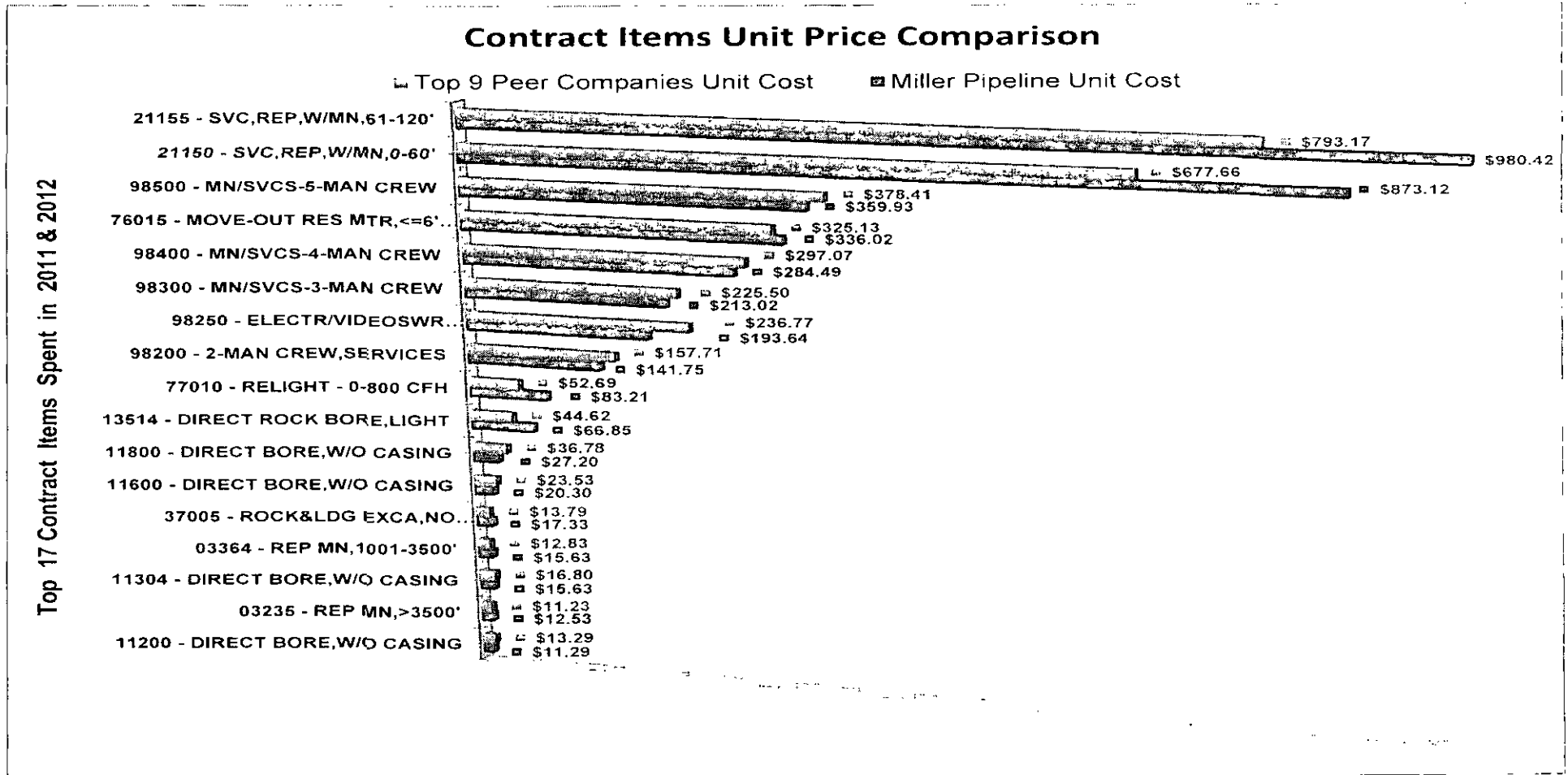
- Supply chain management should identify the root causes of the higher unit prices paid by NGD and determine whether any corrective actions are necessary.



# Miller Pipeline – Contract Compliance Audit - Continued

## Observation:

The following is a detailed comparison of the top 17 actual Contract Unit items (spend) for MPL as compared to nine peer contractors also performing IRP work for the NGD companies:



**Recommendations:** None.



# Miller Pipeline – Contract Compliance Audit – Continued

## **Observation:**

- Internal Audit observed that retention amounts were not being withheld from any MPL invoices reviewed in our audit period. Per the General Services Agreement, the owner may retain either (i) ten percent (10%) of each invoice, or (ii) the amount of the final invoice until closeout documentation is received and deemed by the owner to be complete.
- Retention is a best practice that allows the owner to withhold a portion of the amounts billed (generally 10%) from the contractor or supplier invoices until operational completion or other obligations are met. Retention is held for all prime contractors and is frequently held by the prime contractor for each of its subcontractors. For the owner, retention ensures that the project is completed, which protects against default by the contractor.

## **Recommendation:**

- NGD management should work with supply chain to determine the applicability and means for retention on future contracts and explore alternative forms of security (i.e. letter of credit, performance bond, etc.).

## **Management Response:**

- Retention on each individual job is not required due to the ongoing work and magnitude of outstanding invoices due MPL monthly. These floating balances on invoices due MPL are on average \$5 million each month. Because of this 30 day float on outstanding invoices, NGD management believes risks are mitigated, therefore, retention on a job by job basis would not add financial or performance protections and would create a significant administrative burden for the company and MPL. The ongoing balance owed MPL exceeds the 10% retention of all work MPL completes for NGD. Retention has been utilized in the past for very large scope projects.

## Miller Pipeline – Contract Compliance Audit

### Observation:

- Internal Audit observed that lien waivers were not submitted with monthly payments or any final payments as required per the contract. Per the General Services Agreement between MPL and NGD, MPL shall submit an executed waiver of liens for the portion of the work completed in the previous month. Additionally, prior to final payment, MPL shall submit a final, unconditional lien waiver for the final cost of the work performed.
- Lien waivers are designed to prevent contractors and their subcontractors from filing liens with respect to work for which payment has been made. The goal of NGD should be to confirm not only that monies due have been paid but that the payee has no other unasserted claims.

### Recommendation:

- NGD management should enforce the conditions of payment clause of the contract with MPL to ensure that lien waivers are submitted at the appropriate time to mitigate the risks to NGD of liens against property, vendor/subcontractor claims of non-payment and unanticipated stoppages/delays.

### Management Response:

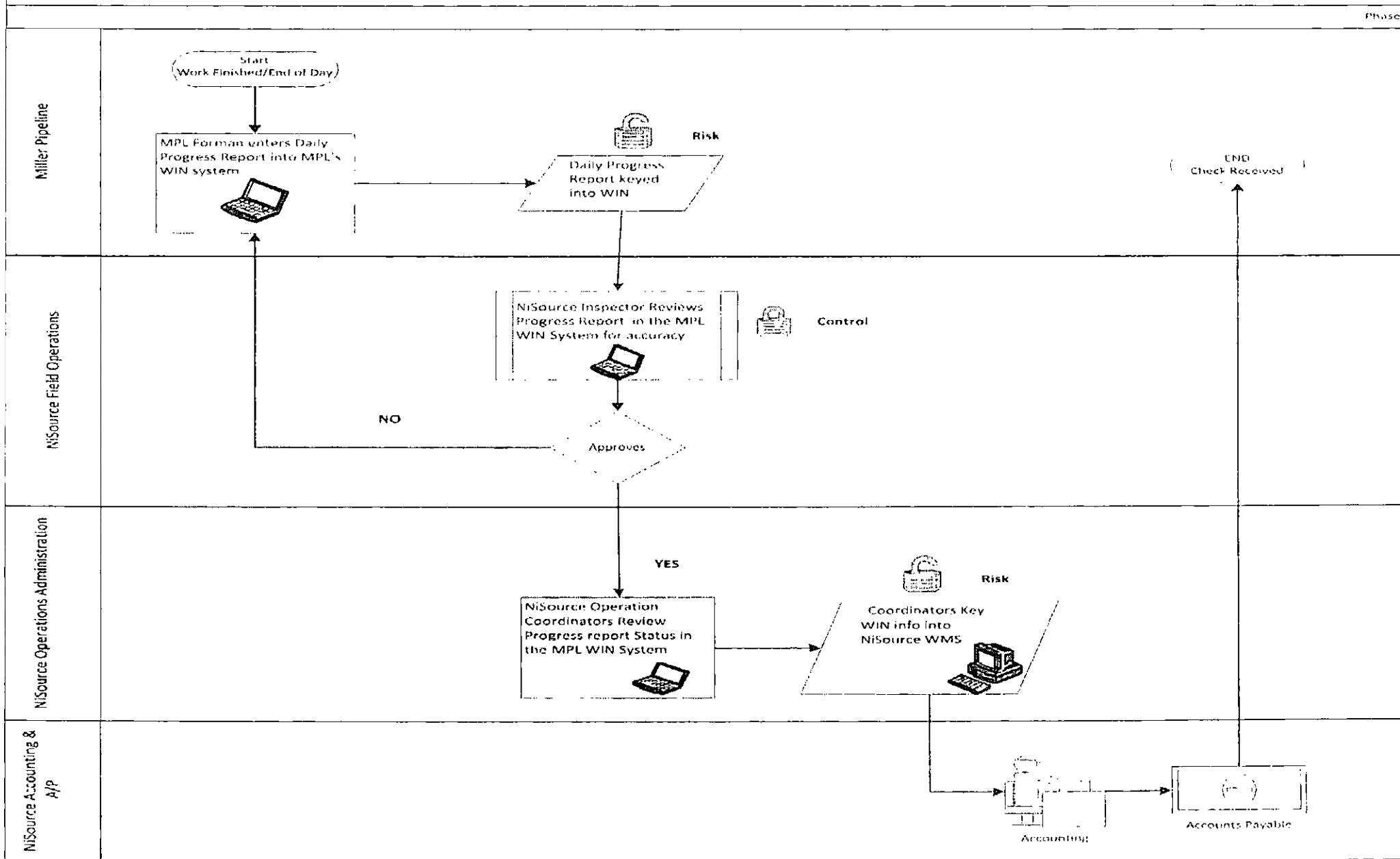
- Because blanket contracts are primarily used with MPL, management will review the following language currently in the general service agreement related to Lien Waivers and revise, if necessary:
  - Section 11 – Conditions of Payment – sub-section (C). The final payment for each Purchase Order or specific project, shall include, as evidence, the Contractor's final, unconditional Lien Waiver for the final cost of the work performed by Contractor or Subcontractors.

# Miller Pipeline – Contract Compliance Audit - Processes

Exhibit No. 4  
Schedule No. 4  
Page 15 of 22  
Witness N. M. Paloney

# Miller Pipeline – Contract Compliance Audit - Processes

Miller Pipeline current process for submitting daily progress report for payment from NiSource



## Observation:

- The invoicing process that is currently in place between MPL and NGD does not allow for a control identifier for daily progress reports. Daily progress reports are the daily reports that itemize daily activities completed by each contract crew. Contractors are paid based on the contract units entered on each daily progress report. These units are then transferred to the NGD WMS system. There is currently no common identifier that would connect an individual progress report to the same individual progress report in WMS. Without this “One to One” relationship, reconciling daily progress reports between MPL and NGD is a very labor intensive process. This issue creates a control risk for both MPL and NGD when it comes to reconciling payments made for a specific day of work.
- Another risk is that if NGD voids or revises a job order in WMS, after MPL has already entered the original job order in its WIN system, MPL would be unaware of this change until after the progress report was already submitted or until someone from NGD could intervene to correct the information.

*Please find an overview of the invoicing process on page 15 and a flow chart on page 16.*

## Recommendation:

- A single specific control number should be established for each progress report entered into WIN and identify only one daily progress report. This number would follow the progress report into the WMS system, thus creating a common control ID that can be traced for the entire life cycle of that progress report. This number could be created in WIN automatically, or, as shown on Page 18, can be the product of pre-printed numbered progress reports currently used with other contractors in NGD. This is the preferred method, given that this provides a hard copy supporting document that can be stored with the job order packet in the event a data entry error occurs.

# Miller Pipeline – Contract Compliance Audit - Processes

## Recommendations (continued):

Pre-printed numbered daily progress reports, if utilized by MPL, would mitigate this problem. It would be accomplished by utilizing this pre-numbered form and modifying the WIN system to allow this corresponding preprinted number to be entered with the daily progress report as shown below:

This same number could also be entered in to WMS in the *Control NO* field (this field is an open entry field, so anything can be entered in this field) as illustrated in this WMS screenshot:

```

T715    JOB ORDER EXECUTE - ACTUAL CONTRACT UNITS COMPLETED - WM2U7    06/06/13
                                           1 OF 1
JO NUM: 13-1081101-00 *JOB TYPE 565 *LOCATION NUMBER: 2421
SUMMARY: REPLACE COMP C/R 120249938 LOC AT: 828 MANOR ST
CONTR NUM: 12-6089-01 CONTR DESC MILLER CPA YORK JACKSON
CONTR NAME: MILLER PIPELINE CORP EFF DT: 09/15/12 EXPIR DT: 09/30/13

CONTR REP: test PROGRESS REPORT DT: 060613
COMPANY INSPECTOR: tmason CONTROL NO: 50636
ENTERED/UPDATED BY: TMASON ON DATE: 06/06/13 FINAL REPORT ENTERED: 
A/ PROJ *ITEM ESTIMATED COMPLETED UNITS
D CODE NUM *SZ *MTL ITEM DESCRIPTION *UOM UNITS ALL RPTS THIS RPT
21 - 150 P SERV REPLACE W-MAI EA 1.0+ 0.0+
32 - 025 ASPHALT REMOVAL 8- LF 10.0+ 0.0+
32 - 040 CONCRETE REMOVAL 4 LF 5.0+ 0.0+
42 - 020 COLD PATCH-CONTR SF 80.0+ 0.0+
76 - 015 MV-OUT RESMTR LTEQ EA 1.0+ 0.0+
96 - 300 3-MAN CREW, MAIN-S HR 1.0+ 0.0+
    
```

# Miller Pipeline – Contract Compliance Audit - Processes

## Observation:

- Reviewed the process of entering daily progress reports and found the following procedure/schedule given to MPL personnel, as the current procedure in place to assure the timely processing of daily progress reports:

After a Miller foreman completes his work for the day he has until noon of the following day to have his work entered into the WINS system. After this time it would be available for Superintendent and Inspector approval. The Superintendent and Inspector have until noon of the day after entry to have their approvals completed. The information would then be ready to be entered by Columbia Gas for payment on a daily basis.

Below is an easy "At A Glance-Best Practices" view of when each step should be completed based on the day the work was completed.

Date Work was Done by Foreman	Deadline For Foreman to have Entries Submitted	Deadline for Superintendent & Inspector to Approve Entries	Ideal Entry Time for Columbia Gas (Sherry & Elaine)	Recommended Start Time for Sending Emails for Records that still Need Approvals
Monday	Noon Tuesday	Noon Wednesday	Wednesday Afternoon	Noon Thursday
Tuesday	Noon Wednesday	Noon Thursday	Thursday Afternoon	Noon Friday
Wednesday	Noon Thursday	Noon Friday	Friday Afternoon	Noon Monday
Thursday	Noon Friday	Noon Monday	Monday Afternoon	Noon Tuesday
Friday	Noon Monday	Noon Tuesday	Tuesday Afternoon	Noon Wednesday

This procedure has eliminated most delays in processing of daily progress reports. Disputed progress reports are continually monitored by NGD and MPL, and are typically settled within two days to a maximum of two weeks from the day of the work being accounted for in the disputed progress report.

- Reviewed all end-of-year progress reports to verify that accruals of these expenses were booked in the correct accounting period. No exceptions were noted.
- Accounts Payable (A/P) has a control in place to accrue any outstanding progress reports in WMS regardless of approval status that occurs at year end. A comparison of A/P reports to the progress reports entered at year end validated that invoices were being properly accrued regardless of approval status.

## Recommendation: None.



# Miller Pipeline – Accounts Receivable Aging Activities

## Observation:

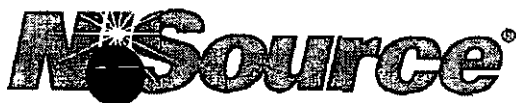
- A review of the 2012 Miller Pipeline Accounts Receivable Aged Trial Balance Report dated 01-02-2013 revealed outstanding credits for NGD totaling \$1,019,535. The following table summarizes outstanding credits:

Summary of Miller Pipeline 2012 Accounts Receivable Aged Trial Balance Report 01-02-2013							
Year Ending	Company	Credit Memos	Un-Applied Cash	Other Credits Past Due 0-30 days	Other Credits Past Due 31-59 days	Other Credits Past Due 60 days or more	A/R Total Transaction Amount
2012	28-Columbia Gas of Ohio	\$ (163,074)	\$ (32,354)	\$ (30,778)	\$ (109,873)	\$ (57,644)	\$ (393,723)
2012	113-Columbia Gas of Pennsylvania -Washington	\$ -	\$ (24,593)	\$ (326)	\$ (326)	\$ (799)	\$ (26,043)
2012	200-Columbia Gas of Ohio, Inc - Toledo	\$ -	\$ (25,568)	\$ (4,862)	\$ (10,709)	\$ (46,294)	\$ (87,433)
2012	255-Northern Indiana Public Service Co	\$ (2,420)	\$ -	\$ -	\$ -	\$ -	\$ (2,420)
2012	328-Columbia Gas of Pennsylvania	\$ (185)	\$ (89,475)	\$ (34,131)	\$ (12,094)	\$ (72,335)	\$ (208,219)
2012	454-Columbia Gas of Virginia	\$ (660)	\$ (16,638)	\$ (99)	\$ -	\$ (14,040)	\$ (31,436)
2012	655-Columbia Gas of Pennsylvania	\$ -	\$ (170)	\$ -	\$ -	\$ (13,650)	\$ (13,820)
2012	695-Columbia Gas Great Trails	\$ (1,946)	\$ (17,799)	\$ (1,740)	\$ (7,020)	\$ (22,616)	\$ (51,122)
2012	978-Columbia Gas Cleveland, OH	\$ -	\$ (66,731)	\$ -	\$ (22,053)	\$ (116,536)	\$ (205,319)
Total NiSource		\$ (168,285)	\$ (273,328)	\$ (71,936)	\$ (162,073)	\$ (343,913)	\$ (1,019,535)

- *For Information Purposes Only:* Internal Audit noted that there were no credits outstanding prior to our audit period (pre-2011). This may indicate that MPL is writing off (adjusting) outstanding credits after a specific period of time (i.e. 2 years), which is a common practice by most companies.

## Recommendation:

- These credits should be thoroughly investigated, properly accounted for (i.e. applied to existing outstanding invoices, monies refunded to NGD, etc.) and closely monitored going forward.



## Observation:

- If MPL invoices for services and materials that cannot be processed through WMS (because the contract items are not included within WMS), a manual check must be processed.
- A detailed review was performed for all 52 manual invoices (totaling \$504,758) that were processed directly through the NGD Catalyst System for Columbia Gas of Ohio. Internal Audit reviewed the supporting documentation for each of these 52 invoices to determine the reason for processing the items outside of the contractual unit pricing. Internal Audit also reviewed all of the account classifications assigned to each payment to ensure the manual checks were properly charged to the correct job order. No exceptions were noted.
- We also noted that the manual invoicing was used only for exceptional situations (i.e., video inspections, arrow boards, special shoring requirements, etc.).

Recommendation: None.

# Miller Pipeline – Contract Compliance Audit

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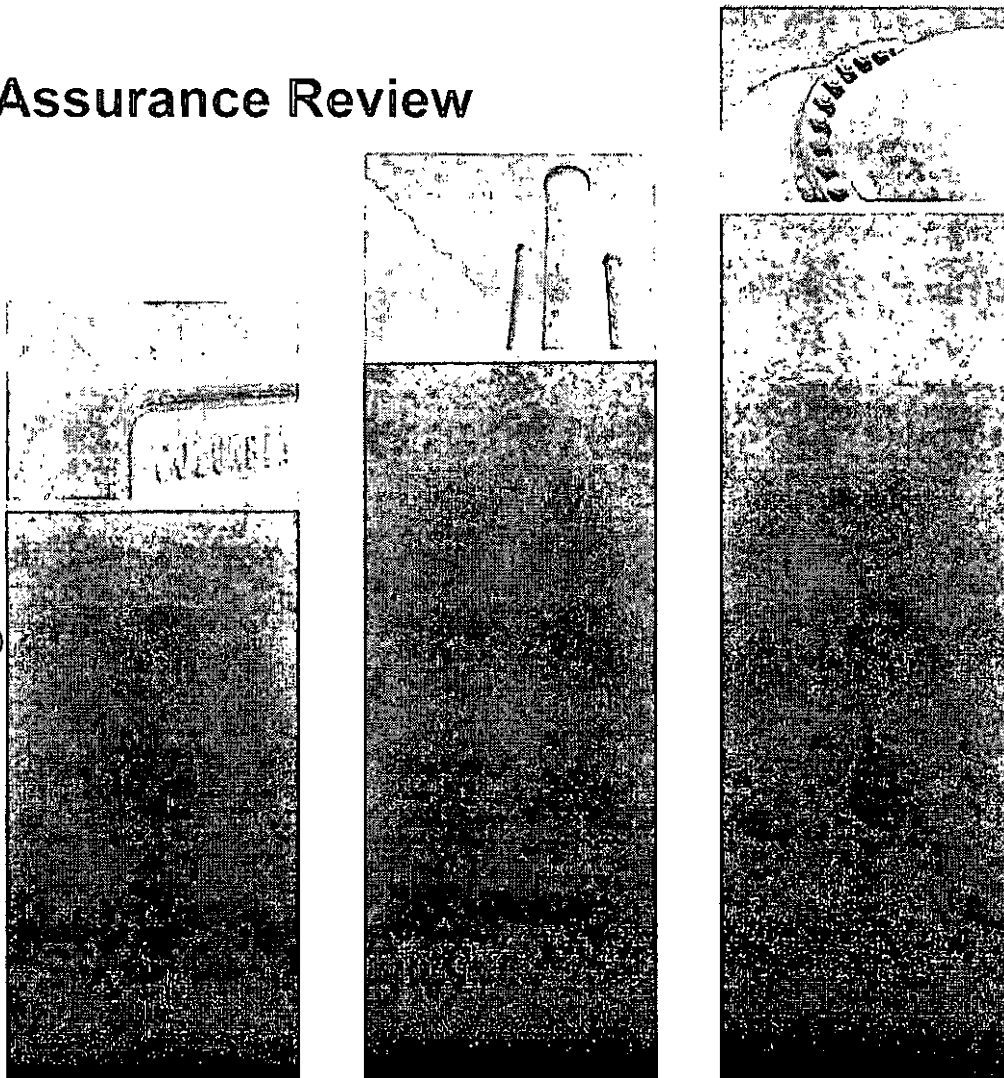
# NiFiT Deployment 1 - Phase Assurance Review

## NiSource IT Audit

June 27, 2013

To: Rick Fontaine, VP - Financial Transformation  
Russ Viater, VP - IT Serv. Delivery (NIPSCO/NCS)  
Jon Veurink, VP - Chief Accounting Officer  
Tim Tokish, VP - Financial Planning & Analysis

From: John Manfreda, Project Manager - IT Audit  
Greg Wancheck, Manager - IT Audit  
Ray Irvin, Director - IT Audit





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  - ▣ Audit Plan, Approach, Objectives and Background
  - ▣ Summary Findings
  
- ▣ Review Results (Assurance). . . . . Page 13
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  - ▣ Automated/Manual Business Process Controls
  - ▣ IT General Controls
  
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  - ▣ Deliverable Quality review results
  
- ▣ Follow-Up from prior IT Audit Deployment 1 Reviews . . . . . Page 55
  
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## NiFiT Deployment 1 - Phase Assurance Review

# EXECUTIVE OVERVIEW



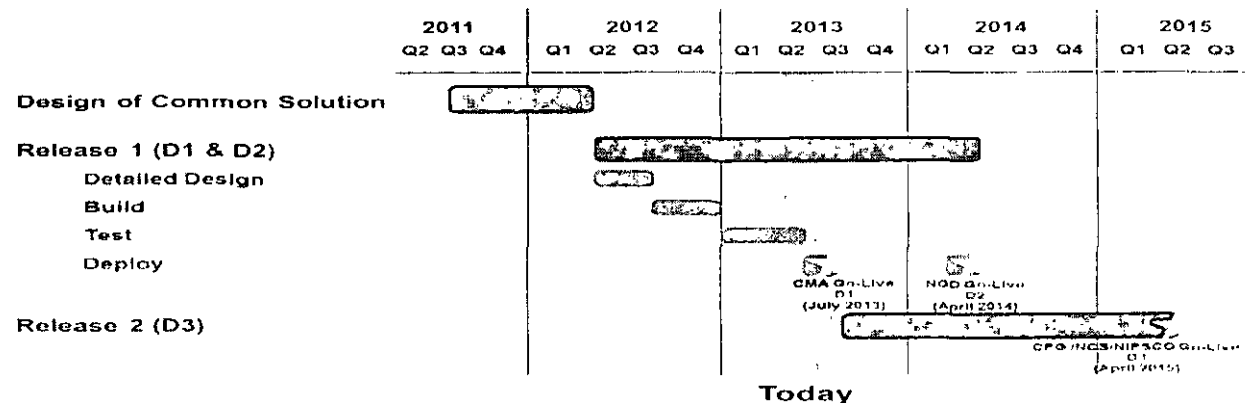
# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

NiFiT Scope

The NiFiT project is currently the largest IT project being undertaken by NiSource IT and NiSource Corporate Business Services. NiFiT has an estimated budget of \$115 -125MM over its projected four (4) year lifecycle and employs thirty-six (36) full-time NiSource personnel who are being assisted by their system integration partner, Accenture, and other partner firms (including IBM, HMB, PowerPlan, Navigator and Axia). The result is a full-time NiFiT Project team of 168 people spanning nine (9) different partner companies participating from four (4) countries around the globe.

The following timeline depicts the phased approach being followed by the NiFiT Project team. The approach calls for two (2) distinct releases with three (3) deployments. Release 1 of NiFiT will include all of the NGD (NiSource Gas Distribution) companies (CMA, COH, CPA, CKY, CVA and CMD), with Deployment 1 focused on CMA for July 2013 and Deployment 2 encompassing the remaining Columbia Distribution Companies targeted for April 2014. Deployment 3 will include the Columbia Pipeline Group (CPG), NiSource Corporate Services (NCS), and Northern Indiana Public Service Company (NIPSCO) business units and is currently planned for April 2015.





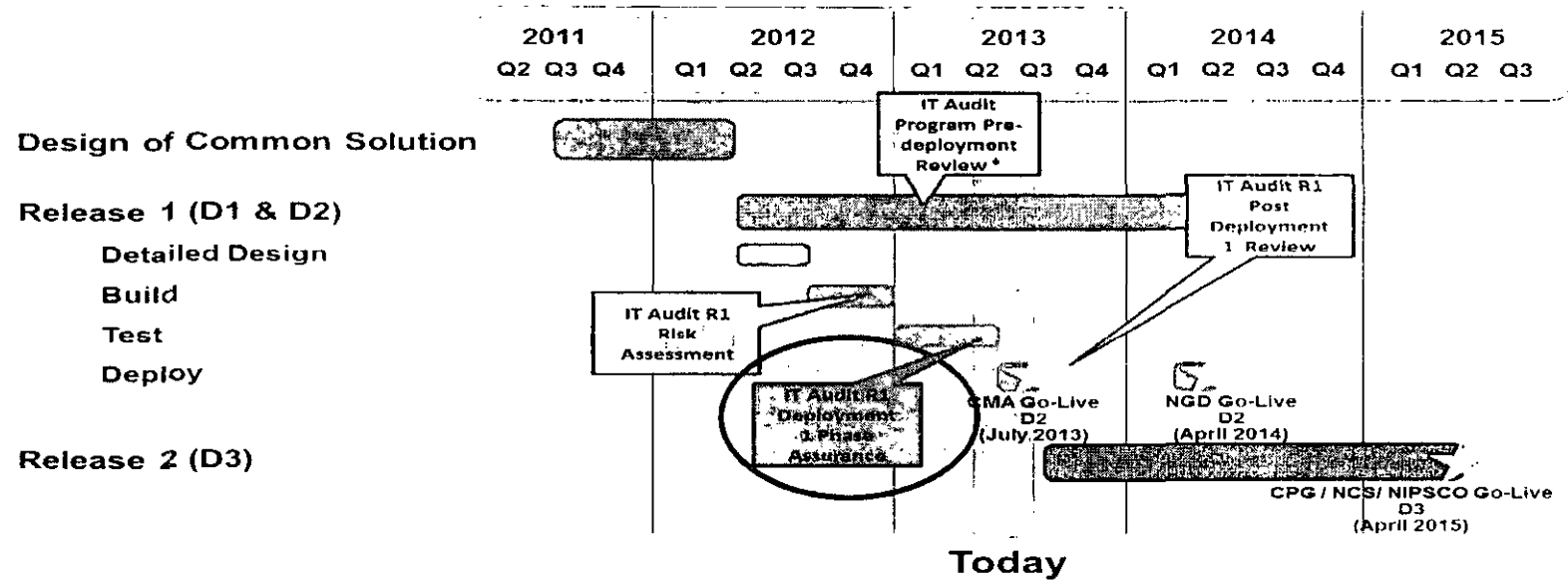
# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

NiFiT Audit Plan

IT Audit will issue several reports throughout 2013, which are timed and focused on the Release 1 Deployment 1 (R1 D1) phase for Columbia Gas of Massachusetts (CMA). Our reports will include this Phase Assurance Review and a Post Deployment Review timed shortly after CMA go-live that will include Hyper-Care support. The timing of these reports has been determined to allow for adequate and timely feedback to NiFiT management.

The following graph depicts the planned reviews and reports to be delivered by IT Audit in support of the Release 1 Deployment 1 (R1 D1) phase. The R1 D1 Phase Assurance items appearing in this report are highlighted below.







# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

NiFiT Approach

IT Audit continues to provide both advisory and assurance services during the current and future phases of NiFiT. These services will be divided between an overall Pre-Deployment Review, release specific Phase Assurance Review and a final phase Post Deployment Review post go-live. The purpose of each IT Audit review is as follows:

- Capture and report upon key information/data regarding NiFiT project delivery execution.
- Assess the effectiveness of adoption and usage of the system by NiSource.
- Conclude whether controls were considered and tested by relevant parties as part of NiFiT phase deployment.

The following terms are used to describe services provided by IT Audit throughout the duration of the NiFiT project:

**Assurance Services:**

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusion regarding an entity, operation, function, process, system, or other subject matter. (IIPF standards revised October 2010.)

**Advisory Services:**

Consulting services are advisory in nature and are performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. (IIPF standards revised October 2010.)





# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

### Phase Assurance Objectives

The objective of IT Audit's Phase Assurance Review was to provide management with an overall evaluation of the policies, procedures and processes used to manage activities associated with the NiFiT Deployment 1. Test phase, specifically focusing on the following areas:

**1) Project Management Controls**

Review project management controls in the areas of budget, schedule and scope to ensure that NiSource corporate policy or NiFiT standards are followed.

**2) Business Process Controls**

Review automated and manual business process control test status to provide an opinion on the adequacy of management's inclusion and testing. Also, independently test the effectiveness of both automated and manual business process controls.

**3) IT General Controls**

Review the IT general controls in the areas of systems change management, systems operation, data validation, systems security, and backup and recovery to assess whether NiSource corporate policy is followed.

**4) Program Conduct Controls**

Review conduct of the NiFiT Project team in its achievement of program objectives.

**5) Deliverable Quality Controls**

Review phase deliverable quality assurance practices and key deliverables by the NiFiT Project team to provide an independent perspective on quality measures.





# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

### Phase Assurance Background

The NiFiT Deployment 1. Phase Assurance Review covers activities supporting the NiFiT Test phase as conducted between March 2013 and June 2013 by the NiFiT Controls team, NiFiT Project team, and NiSource IT/SOX Compliance post IT Audit issuance of the final NiFiT Release 1. Pre-Deployment Review in February 2013.

During the Deployment 1 Test phase, NiFiT Project team leadership continued internal initiatives to help ensure alignment over test streams being executed by team members. These efforts included maintaining oversight and reporting diligence associated with project scope, schedule and financial cost controls in accordance with both NiSource corporate policy and documented NiFiT project standards.

The NiFiT Project team also undertook significant System and User Acceptance Test (UAT) efforts as part of the NiFiT Test phase to create individual business process test scripts within HPQC (Hewlett Packard Quality Center) whereby both NiFiT Project team members, along with participants from the NiSource end-user community, could re-perform newly implemented automated and manual business processes associated with the NiFiT solution for assurance the processes operated as intended prior to Deployment 1 go-live in July 2013. As part of the team's System and UAT testing efforts, the NiFiT Controls team also aligned with the NiFiT Project team to pinpoint specific test steps within the business process test scripts that impact NiSource's Sarbanes-Oxley (SOX) financial controls.

NiSource's IT Compliance and SOX Compliance teams also engaged in communication with the NiFiT Project team to analyze and conclude whether software and hardware solutions being deployed, as a result of the NiFiT program, would have an impact on documented NiSource IT General Controls defined and executed by NiSource IT management. Through this alignment, NiSource IT Compliance and SOX Compliance looked to determine whether any NiSource IT General Controls would need to be newly created, or current IT General Controls modified, for assuring both internal and external compliance post Deployment 1 go-live.

Throughout the duration of the Deployment 1 Test phase, the NiFiT Project team also created detailed internal documentation and analytic metrics to help with information sharing amongst project stakeholders and to ensure oversight in the quality of project deliverables reported to management.





# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

Phase Assurance Findings

IT Audit identified numerous positive practices and consistent control reviews being performed by the NiFiT Project team in the overall management of the Test phase gate associated with Deployment 1. Specifically, IT Audit noted the NiFiT Project team is using the standardized project change request (PCR) process to both initiate and approve changes to the NiFiT Project Charter, hours and staffing plan adjustments within the NiSource PWA scheduling system and project costing variances observed between budgeted/actual/forecasted hours displayed in the NiFiT Financial Tracking Model.

IT Audit noted the NiFiT Project team is also proactively managing project steps associated with the reporting and remediation of both test defects and project deliverable exceptions observed within the Deployment 1 Test phase gate. Observed test defects and project deliverable exceptions are being addressed by the NiFiT Project team in a timely manner, with status reporting being regularly updated to the stakeholder community and any test defect and/or project deliverable exceptions not remediated prior to Deployment 1 go-live having tangible rationale as to why/when remediation will occur along with temporary defect/exception workarounds incorporated to help mitigate associated project deployment risk. IT Audit also observed relevant parties involved in the Deployment 1 project management effort are aligned with one another through regularly scheduled status updates, reporting metric discussions and required conference calls.

IT Audit also determined efforts by the NiFiT Project team to fully test both automated and manual business process controls associated with the NiFiT solution are being completed. IT Audit observed all forty-three (43) automated controls defined within the locked, April 30, 2013 NiFiT Risk and Controls Matrices (RCMs) were tied to a corresponding NiFiT Project team test script within Hewlett Packard Quality Center (HPQC), which is the enterprise testing software utilized by both NiFiT and NiSource enterprise IT for software deployment quality assurance. Columbus Internal Audit also found seventeen (17) manual control scripts associated with the twenty-three (23) manual controls located in the April 30, 2013 NiFiT RCMs and noted that besides the six (6) duplicate manual test scripts identified, all seventeen (17) manual controls scripts were executed with a "pass" status by the NiFiT Controls team as part of System and User Acceptance Test (UAT) activity for NGD CMA query/report generation.





# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

Phase Assurance Findings (Cont)

IT Audit continued testing efforts for Deployment 1 by performing independent test script execution of the sixty-six (66) scripts developed to test the forty-three (43) automated controls present in the locked April 30, 2013 NiFiT RCMs. IT Audit found fifty-nine (59) of sixty-six (66) automated control scripts to be "effective" post initial testing performed during May 2013 and of the seven (7) test defects noted, IT Audit observed all seven (7) to be appropriately remediated in a timely manner by the NiFiT Project team as part of secondary automated controls testing performed during June 2013.

IT Audit also performed additional test efforts within the PeopleSoft Financials 9.1 test environment staged by the NiFiT Project team independent analysis of system robustness and quality. This engagement involved IT Audit team members performing various ad hoc testing techniques in a non-scripted manner to assert whether the NiFiT PeopleSoft Financials 9.1 environment would be able to withstand "unplanned" actions that could occur during the course of normal business action. Based on the sixty-six (66) automated control test scripts defined for initial independent IT Audit testing, a subset of forty-two (42) test exercises were identified for non-scripted testing with IT Audit noting only four (4) observed defects in checks for system robustness and quality. Of the four (4) defects found, IT Audit noted each was addressed and remediated in a timely manner by the NiFiT Controls team as part of subsequent non-scripted testing performed during June 2013.

For coverage of the four (4) NGD CMA data conversion streams migrated into both PeopleSoft Financials 9.1 and PowerPlant via NiFiT Project team transport/translation initiatives, IT Audit found a robust plan, test and deployment strategy in place by the NiFiT Project team to formally test and authorize legacy data conversion efforts for "completeness" and "accuracy". IT Audit also noted that for the Deployment 1 data conversion performed as of mid-June 2013 (2011/2012 income statement and balance sheet financials between NGD CMA's Lawson system and PeopleSoft Financials 9.1), all appropriate NiFiT and NiSource management authorizations were obtained on a corresponding Data Approval Sheet to help ensure legacy data was both transported and translated in a complete and accurate manner.





# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

Phase Assurance Findings (Cont)

In order to match Deployment 1 interfaces identified during NiFiT business process documented exercises to supporting NiSource SOX controls defined within the NiFiT RCMs (Risk and Control Matrices), IT Audit noted the NiFiT Controls team commenced a reconciliation process during May 2013 to provide assurance all supporting NiSource SOX controls were covered by a corresponding manual or automated interface. This coverage exercise was in-process between the NiFiT Project team and NiFiT Controls team at the time this report was being drafted, with the NiFiT Controls team having assessed eighty-one (81) of eighty-six (86) defined interfaces. As such, IT Audit will provide an final opinion on the "completeness" and "accuracy" of supporting interface testing as part of IT Audit's Deployment 1 - Post Deployment Review.

IT Audit observed various communication points and pre-scheduled reporting meetings occurring between the NiFiT Project and Controls teams, NiFiT Process Owners, NiSource's IT Audit and Columbus Internal Audit teams and Deloitte regarding assessment activities associated with the design/effectiveness testing of both automated and manual controls impacted by NiFiT. Besides being an active participant in discussion coordination between the multiple parties listed above, IT Audit attended regularly scheduled communication streams throughout duration of the NiFiT Build and Test phases to help ensure alignment between all relevant meeting attendees.

IT Audit found IT general controls associated with NiFiT-related applications follow the same control design and execution procedure as IT general controls currently in place for NiSource enterprise IT applications. IT Audit noted all twenty-nine (29) NiSource IT general controls in place for 2013 are remaining static for deployment of the dual NiFiT applications being implemented as part of Deployment 1: PeopleSoft Financials 9.1 and the PeopleSoft Financial Data Warehouse (FDW). IT Audit also found alignment between relevant internal and external parties in regards to IT general controls experiencing no change in design configuration as a result of NiFiT.





# NiFiT Deployment 1 - Phase Assurance Review

## Executive Overview

### Phase Assurance Findings (Cont)

IT Audit also noted adequate project controls in place by the NiFiT Project team in relation to quality control and risk monitoring, as various solution test efforts and continuous test result and project cost risk reporting were both incorporated and distributed. IT Audit did find a leading practice opportunity in the area of formalized trend analysis for risk monitoring of project costing, where as more historical data and project costing information becomes available, trend analysis can be utilized by the NiFiT Project team to more readily discover/prevent project costing challenges.

IT Audit found the NiFiT Project team regularly communicates project scope, status and requirements to stakeholders using numerous means of information distribution. IT Audit noted these stakeholder update mechanisms are integral to maintaining alignment and knowledge dissemination amongst active parties and encourages the NiFiT Project team to continue these ongoing communication efforts as part of future NiFiT deployments.

IT Audit reviewed quality assurance activities enacted by the NiFiT Project team for quality definition and standards adherence and found quality and standards defined and included within Deployment 1 Test phase gate documentation. IT Audit also found the NiFiT Project team instituted internal defect reporting for both identification and severity tracking of testing defects encountered in the Deployment 1 Test phase gate. IT Audit noted that as of Deployment 1 Test phase gate closure, only three (3) medium/low severity defects remained in "open" status providing for phase gate closure compliance prior to move to the Deployment stage. IT Audit did, however, identify leading practice opportunities for defect severity definitions to be established as part of the overall NiFiT Deployment Test phase plan rather than within plans for individual test solution stages and for future quality and/or defect severity definition changes to be subject to more formalized communication processes between the NiFiT Project team and NiFiT process owners.



NiFiT Deployment 1 - Phase Assurance Review  
Assurance Objectives

# REVIEW RESULTS





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1

Review project management controls in the areas of scope , schedule and budget to ensure NiSource corporate policy, good practice and NiFiT standards are followed.

#### Results:

IT Audit reviewed three (3) key project management control areas as part of the Release 1. Phase Assurance Review:

- Scope Controls - Is the NiFiT Project team managing what it delivers is appropriate and approved by NiFiT management?
- Schedule Controls - Is the NiFiT Project team managing a schedule to ensure on-time project delivery?
- Cost Controls - Is the NiFiT Project team managing costs to ensure delivery occurs within a defined and approved cost structure?

#### Scope Controls:

NiFiT has an approved Project Charter used as the key control document for establishment of project scope. IT Audit noted all project scope changes, including Project Charter modifications, are required to be reviewed and approved through the Project Change Request (PCR) process. This PCR process helps ensure any alterations in project deliverables are communicated, reviewed and approved by appropriate parties. IT Audit reviewed a selected sample of project scope changes documented in weekly NiFiT Status Reports and found the changes were reviewed and approved by appropriate parties using the relevant process.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont)

#### **Schedule Controls:**

IT Audit found NiFiT has a project schedule in place enabled by the NiSource PWA system. The project schedule is updated during planning activities for each NiFiT phase and tracks all work performed in regards to both planned and actual hours. NiFiT project personnel are required to enter their time in the PWA system in order for the NiFiT Project Management Office (PMO) to perform the following:

- Weekly variance analysis between planned and actual hours for performance tracking; and
- Weekly comparison of scheduled hours to the overall project staffing model.

Once the NiFiT PMO has completed their weekly activities and aligned with NiFiT Project team leads on both missing hours in the PWA system and staffing plan adjustments, the NiFiT PMO reports this information in the weekly NiFiT PMO Status Report and approves the project schedule. IT Audit noted that once the project schedule is approved, subsequent changes are also required to use the project change request (PCR) process.

For testing purposes, IT Audit reviewed a sample of project schedule changes as reported in weekly NiFiT PMO Status Reports and found that each selected change was reviewed and approved on a corresponding PCR form. IT Audit also reviewed a sample of both weekly variance analysis and comparison reports conducted by the NiFiT PMO out of the NiSource PWA system and noted differences observed were appropriately communicated to NiFiT Project leads with corresponding information required either for correction or detailed explanation.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont)

#### **Cost Controls:**

The NiFiT project has an approved budget used as the primary control for project costing. IT Audit noted the NiFiT Financial Tracking Model reported in the weekly NiFiT Status Report includes the following items, types and categories used for project costing efforts by the NiFiT Project team:

#### Items:

- Actuals – Actual costs incurred for the NiFiT project as reported by NiSource Accounting (updated monthly)
- Budget - Budgeted costs for the project
- Forecast – Estimates for current and future periods combined with actual costs from past periods (updated weekly)
- Variance – Reported differences between Actuals-to-Budget and/or Budget-to-Forecast information

#### Types:

- Internal Labor- NiSource employees engaged on the NiFiT project
- IBM - Specific NiFiT project vendor costs
- External Labor- Consultants and contractors engaged on the NiFiT project
- Non-Labor - Associated hardware and software costs for the NiFiT project.

#### Categories:

- Capital
- O&M (Operations & Maintenance)
- Total (combined Capital + O&M)

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont)

On a monthly basis, the NiFiT PMO uses the Financial Tracking Model to perform the following:

- Project actual costs are collected from various sources by the NiFiT PMO at month end.
- Actual O&M and Capital costs are updated for the previous month.
- Based upon the project budget, a variance analysis is produced against actuals for the month.
- Variance analysis of budget-to-actuals is used by management to enable subsequent changes to forecast.
- Previous period forecast amount is updated with the previous months actuals.
- Future period forecast amounts are subject to, and include, approved Project Change Requests.
- Variance analysis budget to forecast is used by management to determine project health and support corrective actions.

IT Audit reviewed a sample of project cost-related changes as reported in weekly NiFiT Status Reports and found each selected cost change was reviewed and approved on a corresponding PCR by appropriate personnel, along with the PCR containing the appropriate support materials used for cost estimation. IT Audit also reviewed selected weekly NiFiT Status Reports and found reported project costing information was accurately reflected in the Financial Tracking Model for the period reviewed. In support of IT Audit's conclusion that current NiFiT project cost controls in use by the NiFiT PMO appear to be operating effectively, Internal Audit will conduct an additional financial cost audit of the NiFiT project to provide further assurance in this area.

**Recommendation:** None.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2

**Review identified exceptions to corporate policy and whether the exception process/steps were communicated and reviewed with the IT PMO and NiFiT Project Team Management.**

**Results (Project Testing):**

Along with attending NiFiT Test phase gate review preparation meetings between the NiFiT PMO and NiSource IT PMO, IT Audit reviewed associated Test phase gate process documentation and concluded the NiFiT project is following the prescribed Test phase gate review process with test defects documented on an Open Items Defect list that is reviewed and approved by appropriate personnel. The following chart depicts Open Item Defects defined by the NiFiT PMO as of Test phase gate closure on June 14, 2013:

*Open Test Defects - NiFiT Test phase gate closure (as of June 14, 2013)*

Severity	Open Defects	Planned Defect Remediation (Prior to Go-Live)	Planned Defect Remediation (Post Go-Live)
High	11	9	2
Medium/Low	16	9	6

IT Audit noted that of the twenty-seven (27) open testing defects listed by the NiFiT PMO, eleven (11) were deemed "high" severity by the NiFiT Project team, meaning they require immediate remediation efforts by the Project team prior to Deployment 1 go-live or a workaround must be developed. IT Audit also found sixteen (16) open testing defects were combined as either "medium" or "low" severity, meaning although they are targeted for remediation prior to go-live, they have no direct risk impact on deployment activities and can be addressed as time allows by the NiFiT Project team.





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2 (Cont)

In order to determine whether the NiFiT Project team addressed open test defects with a "high" severity rating prior to Deployment 1 go-live, IT Audit obtained the June 21, 2013 Open Items Defect listing from the NiFiT PMO and found the following results:

*Open Test Defects (as of June 21, 2013)*

Severity	Open Defects (6/14/13)	Planned Defect Remediation (Prior to Go-Live)	Defects Remediated	Defect Remediation Percentage	Planned Remaining Defect Remediation (Prior to Go-Live)	Planned Defect Remediation with work around (Post Go-Live)
High	11	9	7	64%	2	2

IT Audit noted that of the eleven (11) open testing defects listed as "high" severity by the NiFiT PMO, nine (9) were identified and targeted for remediation by the NiFiT Project team prior to Deployment 1 go-live. Of those nine (9) "high" severity test defects planned for remediation prior to go-live, IT Audit found seven (7) had already been remediated within HPQC post Test phase gate completion on June 14, 2013, with the remaining two (2) "high" test defects on target for fix prior to go-live. IT Audit also noted that for the two (2) "high" severity test defects planned to be addressed post Deployment 1 go-live by the NiFiT Project team, corresponding defect workarounds were identified in order to implement a pre go-live solution for project risk mitigation purposes.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2 (Cont)

#### Results (Project Deliverables):

The NiFiT Project team also maintains an Open Items Deliverable listing to track project deliverable exceptions through the communication and remediation process. This Open Items Deliverable listing is circulated to NiFiT Project team leads and serves as control documentation for the completion and closure of items appearing. IT Audit noted the NiFiT PMO identified eight (8) Deployment 1 project deliverable exceptions as of Test phase gate closure on June 14, 2013, with a NiFiT Project team target of remediating seven (7) deliverable exceptions prior to Deployment 1 go-live:

*Open Project Deliverable Exceptions - NiFiT Test phase gate closure (as of June 14, 2013)*

Project Deliverable Exceptions	Planned Project Deliverable Remediation (Prior to Go-Live)	Planned Project Deliverable Remediation (Post Go-Live)
8	7	1

In order to determine whether the NiFiT Project team addressed open project deliverable exceptions prior to Deployment 1 go-live, IT Audit obtained the June 21, 2013 Open Items Deliverable listing from the NiFiT PMO and found the following results:

*Open Project Deliverable Exceptions (as of June 21, 2013)*

Project Deliverable Exceptions	Project Deliverables Remediated (Prior to Go-Live)	Planned Project Deliverable Remediation (Prior to Go-Live)	Planned Project Deliverable Remediation (Post Go-Live)
4	4	3	1



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2 (Cont)

IT Audit noted that of the eight (8) open project deliverable exceptions listed by the NiFiT PMO on June 14, 2013, four (4) had already been remediated by the NiFiT Project team as of June 21, 2013. IT Audit also found that for the four (4) remaining project deliverable exceptions, the NiFiT Project team had documented plans to remediate three (3) additional exceptions prior to Deployment 1 go-live, thereby leaving only a single project deliverable exception associated with the release of PowerPlant training material remaining for address as part of post Deployment 1 activity. The NiFiT Project team considers this a re-usability requirement exception for this deliverable

Based on documentation review associated with Deployment 1 project test defect and deliverable exception results, IT Audit concludes the NiFiT Project team is performing adequate project management control and defect/exception follow-up regarding remediation efforts prior to Deployment 1 go-live.

**Recommendation:** None.





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 3

Determine whether adequate alignment exists on project management control activities implemented by NiFiT across the NiFiT team, Process Owners, NiSource SOX Compliance, KPMG Controls Team and Deloitte & Touche Audit personnel.

#### Results:

Between January - May 2013, IT Audit regularly attended the following NiFiT project meetings. Covered topics associated with project management control activities including current project status (based upon relevant project management control metrics), project change request status, issue/risk identification and project updates.

- **NiFiT Project Leadership (Wednesday 10am EST)**

*Type:* Weekly Project Leadership team meeting regarding NiFiT project progress, project status updates by the NiFiT PMO and agenda presentations by NiFiT Project team leads and subject matter experts.

*Attendees:* NiFiT Project Leadership and IT Audit.

- **NiFiT Weekly Organizational Change Management/Business Unit Representative Status (Tuesday 1:00pm EST)**

*Type:* Weekly status meeting covering project work accomplished, deliverable(s) status, staffing updates and issue/risk metric reporting.

*Attendees:* NiFiT PMO, NiFiT Project team leads and IT Audit

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 3 (Cont)

- **NiFiT Weekly Technology/Deployment Status (Tuesday 2:00pm EST)**  
*Type:* Weekly team status meeting covering technical updates established/accomplished during the period along with current Deployment 1 status reporting.  
*Attendees:* NiFiT PMO, NiFiT Project team leads and IT Audit
- **NiFiT Weekly Testing Status (Tuesday 2:30pm EST)**  
*Type:* Weekly team status meeting relaying NiFiT Project team test script and defect execution status coupled with defect remediation effort progress.  
*Attendees:* NiFiT PMO and NiFiT Project team and IT Audit
- **NiFiT Controls Status (Monday 10:30am EST)**  
*Type:* Weekly status discussion regarding automated and manual controls inclusion within the NiFiT RCMs, System and UAT test script results communication between the NiFiT Controls and Project teams and Segregation of Duties evaluation status between the NiFiT Project/Control teams and Deloitte.  
*Attendees:* NiFiT Project team, NiFiT Controls team and IT Audit.
- **Deloitte NiFiT Status (Thursday 10am EST)**  
*Type:* Weekly status discussion supporting automated and manual control scripted testing efforts (planning, execution and reporting), Segregation of Duties tool execution (timing and remediation coordination), NiFiT PHIRE deployment software evaluation efforts and data conversion/interface identification test planning.  
*Attendees:* NiFiT Project team, NiFiT Controls team, IT Audit and Deloitte

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 3 (Cont)

IT Audit also engaged with key NiFiT Project team personnel on a one-on-one basis to facilitate project management alignment. Project management controls were discussed, as needed, by IT Audit as part of the following reoccurring weekly meetings:

- IT Audit and NiFiT Program Manager (Tuesday 9:00am EST)
- IT Audit and NiFiT Technology Director (Tuesday 9:30am EST)
- IT Audit and NiFiT Test Lead (Thursday 9:00am EST)

In addition, IT Audit acted as a facilitator between NiFiT Project team leadership and Deloitte's NiFiT Project Management team, who was engaged by NiSource for independent review/analysis of NiFiT project management controls. IT Audit coordinated information requests and results discussions between Deloitte and NiFiT Project team leadership which were published in May 2013 as part of Deloitte's NiFiT Project Risk Assessment report. IT Audit noted that, despite identifying two (2) low-risk project management items over contingency reserving and project hours/cost reconciliation in the NiFiT Project Risk Assessment, Deloitte noted key NiFiT project management controls are in place and operating as intended.

Based on routine NiFiT project status meeting attendance throughout the Deployment 1 Test Phase, coupled with one-on-one IT Audit weekly engagement with NiFiT Project team leadership and coordination facilitation between the NiFiT Project team and Deloitte, IT Audit found adequate alignment exists on project management control activities implemented by NiFiT amongst relevant parties.

**Recommendation:** None.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls - Objective 1

**Review automated and manual business process controls status within the Build and Test phases to provide an opinion on the adequacy of management's inclusion and testing of the automated business process controls.**

Starting in August 2012, NiSource partnered with KPMG to provide controls expertise targeted to the NiFiT solution. The KPMG team became the primary resource on a newly created NiFiT Controls team with responsibility for ensuring controls impacted by the NiFiT solution are appropriately documented, tested, approved and ready for operation prior to NiFiT go-live.

This section covers activities conducted by the NiFiT Controls team, NiSource IT/SOX Compliance, and the NiFiT Project team for the period between February 2013 – May 2013, post IT Audit issuance of the NiFiT R1 Pre-Deployment Report.

Prior to the NiFiT System Test phase, the NiFiT Controls team and the NiFiT Project team aligned to map controls, identified as "requirements", from the NiFiT RCMs (Risk and Control Matrices) to corresponding test scripts included in the NiFiT testing tool, Hewlett Packard Quality Center (HPQC). IT Audit noted the NiFiT Project team uses HPQC as the default enterprise testing tool to control project requirements (including controls), test plans, test execution steps and test results.

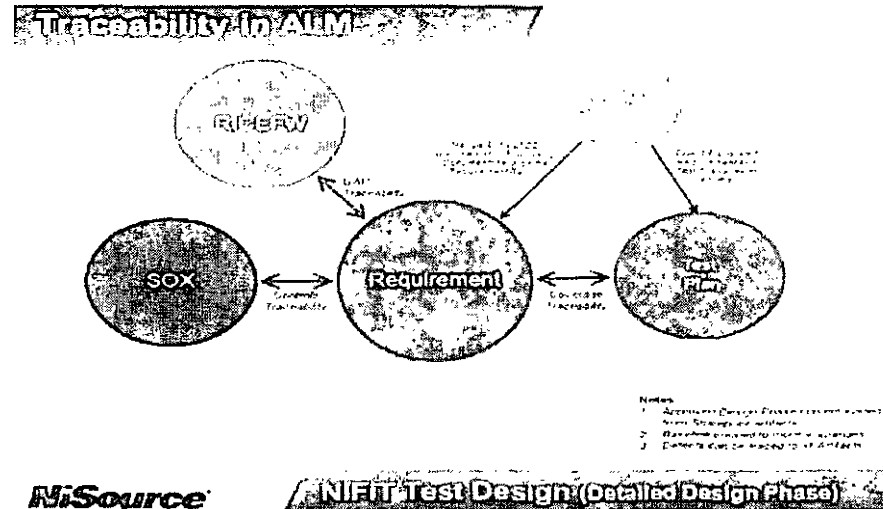


# NiFiT Deployment 1 - Phase Assurance Review

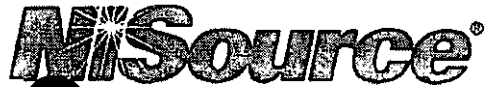
## REVIEW / RESULTS

### Business Process Controls – Objective 1 (Cont)

The following diagram illustrates the requirements traceability and documentation process developed and used by NiFiT for Application Lifecycle Management (ALM). NiFiT controls, labeled within the ALM as SOX, are traced by the NiFiT Controls team to test requirements in HPQC and then aligned with a corresponding test script (aka: Test Plan) to provide assurance controls operate as intended manner.



With guidance from the NiFiT Controls team, the NiFiT Project team developed unique HPQC test scripts with specific action steps identified as controls. IT Audit noted control steps within the individual HPQC test scripts contained directions for NiFiT System and UAT testers to capture evidence of control performance. The NiFiT Controls team also tracked results of NiFiT System and UAT test execution of controls-related scripts by the NiFiT Project team and reported the status of the test execution as part of their scheduling reporting to NiFiT management.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 1 (Cont)

#### **Automated Controls:**

For testing whether NiFiT automated controls identified within the NiFiT RCM's (Risk and Control Matrices) had corresponding test scripts mapped within HPQC, IT Audit analyzed locked versions of the April 30, 2013 NiFiT RCM's as supplied by the NiFiT Controls team. Of the forty-three (43) automated controls identified within the April 30, 2013 RCM's, IT Audit found 100% (43 of 43) of the included, automated controls were correctly mapped to a corresponding test script or scripts within HPQC.

#### **Manual Controls:**

For testing whether NiFiT manual controls identified within the NiFiT RCM's (Risk and Control Matrices) had corresponding test scripts mapped within HPQC, Columbus Internal Audit analyzed locked versions of the April 30, 2013 NiFiT RCM's as supplied by the NiFiT Controls team. Of the twenty-three (23) manual controls identified within the April 30, 2013 RCM's, Columbus Internal Audit found seventeen (17) corresponding test scripts related to generation of PeopleSoft Financials 9.1 system reports and/or queries – as six (6) manual NiFiT controls possessed duplicate HPQC scripts related to system/query report creation. Of the seventeen (17) manual control scripts tested, Columbus Internal Audit noted thirteen (13) of the scripts were passed by the NiFiT Project team for both System and UAT Test while the remaining four (4) manual control scripts were executed once, and passed, strictly as part of System Test – due to the limited risk associated with a secondary UAT Test requirement post initial NiFiT Project team System Testing. In addition to reviewing the System and UAT Test results for manual NiFiT controls, Columbus Internal Audit also selected key PeopleSoft Balance Sheet and Income Statement variation reports for the January 2012 time period and found data generated by the reports matched legacy account information provided by the NiFiT Project team.

**Recommendation:** None.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 2

**IT Audit will independently test the effectiveness of NiFiT automated business process controls.**

Per IT Audit's request to independently test automated business process controls associated with the NiFiT Release 1 deployment, the NiFiT Project team processed an approved PCR (Project Change Request) during Q4 2012 to allocate time associated with staging a unique PeopleSoft Financials 9.1 application environment for IT Audit testing. Post approval of the staging environment PCR, IT Audit and the NiFiT Project team aligned for IT Audit usage of the HPQC testing tool for independent automated control test execution using test scripts created and approved by the NiFiT Control team.

Independent IT Audit testing efforts commenced during May 2013 using NiFiT's PeopleSoft Financials 9.1 FS91TST (i.e. System Test) environment, which IT Audit verified included relevant code updates and staged data utilized for the NiFiT Release 1 System Test phase. Along with IT Audit testing, this FS91TST environment also formed the baseline for subsequent User Acceptance Testing (UAT) coordinated by the NiFiT Project team in order to provide assurance NiSource end-users were able to validate the NiFiT applications were operating in an effective manner.

Using the identical versions of the locked April 30, 2013 NiFiT RCM's already provided by the NiFiT Controls team for control to test script reconciliation, IT Audit identified sixty-six (66) unique automated control test scripts within HPQC for independent testing of the forty-three (43) automated NiFiT controls.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 2 (Cont)

Based on independent testing of the sixty-six (66) automated control test scripts performed between May 6-24, 2013, IT Audit noted an initial test script "success" rating of 89%, or fifty-nine (59) of sixty-six (66) test scripts passed with seven (7) initial test script defects. The seven (7) test script defects were categorized as follows:

- Accounting/GL (1) – Mapped to NiFiT Defect #2797
- Financial Transaction Hub (3) – Mapped to NiFiT Defects #2812 and #2818
- Time & Labor (3) – Mapped to NiFiT Defects #3027, #3029 and #3030

Automated Control Scripts	Total Scripts Tested	Testing Percent	Total Scripts Initially Passed (Success)	Initial Script Pass Percent	Total Scripts Failed (Defects)	Script Fail Percent
66	66	100.00%	59	89.39%	7	10.61%

Post defect remediation efforts performed by the NiFiT Project team during the week of May 27, 2013, IT Audit commenced a secondary round of independent control script testing within HPQC the week of June 1, 2013 and found all seven (7) of the initial defects found were appropriately remediated. As a result, IT Audit was able to conclude all sixty-six (66) automated control test scripts, or 100%, were operating effectively prior to Release 1 go-live.

Automated Control Scripts	Total Scripts Tested	Testing Percent	Total Scripts Failed (Defects)	Script Fail Percent	Total Scripts Remediated (Defects)	Script Remediation Percent
66	66	100.00%	0	0.00%	7	10.61%

**Recommendation:** None.





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 3

**IT Audit will conduct independent testing of the application system for robustness and quality.**

Using the same PeopleSoft Financials 9.1 FS91TST environment staged by the NiFiT Project team for previous IT Audit control script testing, IT Audit also performed independent testing of the application for system robustness and quality. This testing effort involved IT Audit team members performing test exercises in a non-scripted manner using combinations of the test techniques described below:

- Leaving required text fields with a null/blank, or invalid, value for attempted transaction processing.
- Attempting to access transactional areas with improper role-level security.
- Entry of transactional data amounts above/below pre-defined tolerance levels.
- Bypassing pre-configured transactional workflow steps by attempting to edit/modify standard approval parameters.

IT Audit performed their robustness and quality test exercises during the weeks of May 13 and 20. The purpose of this approach was to provide reasonable assurance the PeopleSoft Financials 9.1 environment would be able to withstand “unplanned” actions that could occur by end-users during the course of normal business action. Based on the sixty-six (66) automated control test scripts defined for initial independent IT Audit testing, a subset of forty-two (42) test exercises were identified for non-scripted testing as twenty-four (24) control test scripts did not require transactional data entry or workflow approval configuration.



# NiFiT Deployment - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 3 (Cont)

Based on the forty-two (42) unique robustness and quality tests performed, IT Audit noted an initial "success" rating of 90%, or thirty-eight (38) of forty-two (42) tests passed with four (4) initial test defects. The four (4) robustness and quality test defects were categorized as follows:

- Accounting/GL (1) – Mapped to NiFiT Defect #2943
- Financial Transaction Hub (2) – Mapped to NiFiT Defects #2790 and #2930
- Accounts Payable (1) – Mapped to NiFiT Defect #2967

Total "Unscripted" Tests	Total "Unscripted" Tests Completed	Testing Percent	Scripts NOT Requiring "Unscripted" Testing	Total "Unscripted" Tests Passed (Success)	"Unscripted" Test Pass Percent	Total "Unscripted" Fails (Defects)	"Unscripted" Fail Percent
42	42	100.00%	24	38	90.48%	4	9.52%

Post defect remediation efforts performed by the NiFiT Project team during the week of May 27, 2013, IT Audit commenced a secondary round of independent robustness and quality testing the week of June 1, 2013 and noted three (3) of the four (4) initial defects identified by IT Audit were appropriately remediated – with Accounts Payable Defect #2967 for Vendor Approval Workflow remaining open due to required NiFiT Project team remediation effort outside of the FS91TST PeopleSoft Financials 9.1 environment. IT Audit did observe the closure of Defect #2967 occurred June 19, 2013 via input from the NiFiT Project and Controls teams, thereby allowing IT Audit to note no outstanding defects in robustness and quality prior to Release 1 go-live.

Total "Unscripted" Tests	Total "Unscripted" Tests Completed	Testing Percent	Scripts NOT Requiring "Unscripted" Testing	Total "Unscripted" Tests Passed (Success)	"Unscripted" Test Pass Percent	Total "Unscripted" Fails Remediated	Defect Remediation Percent
42	42	100.00%	24	42	100.00%	4	100.00%

**Recommendation:** None.





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 4

Review NiFiT Data Conversion and Interface Controls to provide a perspective on the considerations taken for security, test planning, execution, documentation and end-user sign-off on conversion results and interface operation.

#### Results (Data Conversion):

The NiFiT Project team is executing the following four (4) data conversion efforts as part of NiFiT Deployment 1:

- Chart of accounts conversion (general ledger) - Lawson to PeopleSoft Financials 9.1
- Vendor conversion (accounts payable) - Lawson to PeopleSoft Financials 9.1
- Cost repository account code conversion (asset management) - PowerPlant
- Work order number conversion (asset management) - PowerPlant

IT Audit noted data conversion efforts by the NiFiT Project team contain both transport and translation elements required to ensure the “completeness” and “accuracy” of data within NiFiT. As the NGD CMA Lawson system will be retired post NiFiT Deployment 1, the chart of accounts and vendor conversion efforts have translation and transport components associated with legacy data migration into PeopleSoft Financials 9.1. With PowerPlant remaining as NiSource’s asset management system post deployment of NiFiT, the cost repository account conversion and work order numbering exercises for Deployment 1 were strictly performed for information translation purposes by the NiFiT Project team.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 4 (Cont)

IT Audit found the following control items in place for the four (4) NiFiT Deployment 1 data conversion efforts post review of associated data conversion documentation, observed conversion validation activities, participation in conversion sessions (work order number, cost repository accounts and vendors) and interviews with key NiFiT Project team members involved in the data conversion process:

- Conversion Approach/Plan
- Conversion Tests
- Deployment Conversion Activities Plan
- Conversion Results – Business User Review/Approval

#### **Conversion Approach Plan**

As part of initial data conversion efforts, a Conversion Approach Plan is created for providing overall guidance and objectives related to the data input and output validation strategy. IT Audit noted that for each of the four (4) data conversion streams present within Deployment 1, a corresponding Conversion Approach Plan was generated by the NiFiT Project team and shared with project members involved in the conversion exercise(s).

#### **Conversion Tests**

To help ensure data migration transport and translation would occur as planned during Deployment 1 go-live, the NiFiT Project team performed a series of mock conversion tests for each conversion stream. IT Audit inspected mock testing plans and results for all four (4) Deployment 1 data conversion streams and found the NiFiT Project team executed on performance of the mock tests, documented corresponding mock conversion test results and held consistent information sessions with relevant parties for status on mock test progress to date.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 4 (Cont)

#### **Deployment Conversion Activities Plan**

The NiFiT Project team has formulated a Deployment 1 Cutover Checklist for conversion activities planning. IT Audit inspected the Deployment 1 Cutover Checklist and found it incorporates the following planning metrics:

- Associated steps/tasks for the data conversion transport or translation migration;
- Team and individual owner responsible for each step in the conversion;
- Resource requirements plans(s) for the conversion effort;
- Timing/schedule for the conversion actions; and
- Issue Log tracking for errors/anomalies experienced during conversion cutover exercises.

For testing purposes, IT Audit found all four (4) data conversion streams associated with Deployment 1 were included in a single Cutover Checklist maintained by the NiFiT Project team. IT Audit also noted the Cutover Checklist is being both updated and actively managed on a daily basis by the NiFiT Project team in preparation for Deployment 1 go-live in July 2013.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 4 (Cont)

#### **Conversion Results – Business User Review/Approval**

As part of Deployment 1 go-live approval, select members of NiSource and NiFiT management are responsible for authorizing whether data conversion exercises performed through the mock testing and Cutover Checklist planning activities led to “complete” and “accurate” data transport and/or translation for NiFiT systems. As of Deployment 1’s Test phase gate closure on June 14, 2013, the only scheduled data conversion having occurred was 2011 and 2012 COA (Chart of Accounts) general ledger financials from the NGD CMA Lawson system into PeopleSoft Financials 9.1. IT Audit noted that in support of management authorization for “completeness” and “accuracy” of Lawson to PeopleSoft Financials 2011/2012 financial data, a series of three (3) validation sessions were conducted by the NiFiT Project team with CMA business SME’s (subject matter experts) where comparisons were performed of 2011/2012 balance sheet and income statement figures between the two systems. IT Audit noted that post determining 2011/2012 balance sheet and income statement figures were consistent between reports generated from both Lawson and PeopleSoft Financials 9.1, a formal Data Conversion Approval worksheet was created and authorized by the CMA Accounting Manager, Chart of Accounts – Team Lead (NiFiT Project team) and NGD Controller as evidence over data conversion “completeness” and “accuracy.”

IT Audit also noted subsequent data conversion efforts involving transport and/or translation between Lawson and PeopleSoft Financials 9.1, along with translation exercises planned for PowerPlant, are scheduled for near go-live in the late June, early July 2013 timeframe by the NiFiT Project team. As such, IT Audit will conduct an analysis of these additional data conversion streams as part of it’s Deployment 1 – Post Deployment Review.

**Recommendation:** None.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

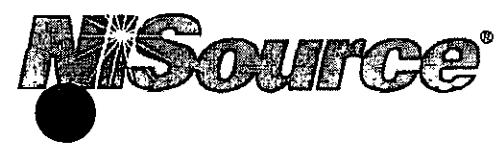
### Business Process Controls – Objective 4 (Cont)

#### Results (Interfaces):

As part of the NiFiT solution, both manual and automated interfaces exist for data transfer between NiFiT and legacy applications. These interfaces, defined during the Plan and Build phases by the NiFiT Project team, provide a platform for helping to ensure data is “completely” and “accurately” migrated from one system to another and that any errors/exceptions experienced are rectified by responsible parties in a timely manner. As part of the NiFiT Deployment 1 solution for NGD CMA, IT Audit noted a total of eighty-six (86) manual and automated interfaces were identified by the NiFiT Project team as part of the RICEFW (Reports, Interfaces, Conversions, Extensions, Forms and Workflow) project exercise performed during NiFiT business process development.

In order to match Deployment 1 interfaces identified in the RICEFW to supporting NiSource SOX controls defined within the NiFiT RCMs (Risk and Control Matrices), IT Audit noted the NiFiT Controls team commenced a reconciliation process during May 2013 to provide assurance all supporting NiSource SOX controls were covered by a corresponding manual or automated interface. This coverage exercise was in-process between the NiFiT Project team and NiFiT Controls team at the time this report was being drafted, with the NiFiT Controls team having assessed eighty-one (81) of eighty-six (86) RICEFW interfaces. As such, IT Audit will provide an final opinion on the “completeness” and “accuracy” of the RICEFW to NiSource SOX control identification and supporting interface testing as part of IT Audit’s Deployment 1 - Post Deployment Review.

**Recommendation:** None.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 5

**Determine adequate alignment exists on automated and manual control activities for associated parties (e.g. NiFiT Project team, NiFiT Process Owners, NiFiT Controls team, NiSource IT/Internal Audit and Deloitte.**

IT Audit observed various communication points and pre-scheduled reporting meetings occurring between the NiFiT Project and Controls teams, NiFiT Process Owners, NiSource's IT and Columbus Internal Audit teams and Deloitte regarding assessment activities associated with the design/effectiveness testing of both automated and manual controls impacted by NiFiT. Besides being an active participant in discussion coordination between the multiple parties listed above, IT Audit noted the following regularly scheduled communication streams throughout duration of the NiFiT Build and Test phases:

- **NiFiT Controls Status (Monday 10:30am EST)**

*Type:* Weekly status discussion regarding automated and manual controls inclusion within the NiFiT RCMs, System and UAT test script results communication between the NiFiT Controls and Project teams and Segregation of Duties evaluation status between the NiFiT Project/Control teams and Deloitte.

*Attendees:* NiFiT Project team, NiFiT Controls team and IT Audit.

- **Deloitte NiFiT Status (Thursday 10am EST)**

*Type:* Weekly status discussion supporting automated and manual control scripted testing efforts (planning, execution and reporting), Segregation of Duties tool execution (timing and remediation coordination), NiFiT PHIRE deployment software evaluation efforts and data conversion/interface identification test planning.

*Attendees:* NiFiT Project team, NiFiT Controls team, IT Audit and Deloitte.





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 5 (Cont)

Along with the scheduled, weekly NiFiT Controls and Deloitte NiFiT Status discussions, numerous ad hoc conversations also took place during both the Build and Test phases of NiFiT to align NiFiT Process Owners with the ongoing actions of the NiFiT Controls and NiSource IT/Internal Audit teams. IT Audit noted NiFiT Process Owners meet frequently with the NiFiT Controls team to determine the viability of both legacy manual and new, automated PeopleSoft Financials 9.1 controls for population of the NiFiT RCM's. These Process Owners were also engaged by the NiFiT Controls team to provide documented approval of the final April 30, 2013 versions of the NiFiT RCM's prior to independent IT Audit and Columbus Internal Audit script test efforts commencing in May 2013. IT Audit also held internal conversations on an ongoing basis with Columbus Internal Audit to coordinate independent script test efforts during May 2013 for alignment on reporting metrics to both NiFiT management and Deloitte.

As result of IT Audit's February 2013 Deployment 1 – Pre-Deployment Review, IT Audit recommended the NiFiT Controls team adopt a change control procedure for team deliverables that include process ownership assignment, a related process flow diagram and instructions for continued operation of the change control process. IT noted the NiFiT Controls team developed, approved and implemented documented change control process materials for associated NiFiT RCM deliverables during March 2013 for ongoing assurance process material changes are approved by Controls team management and communicated timely to NiFiT process owners. IT Audit also executed a review of NiFiT Controls team change control process materials, including inspecting documented change control artifacts and communications literature between the Controls team and NiFiT process owners for a selected sample of RCM changes. As part of this review, IT Audit found the NiFiT Controls team change control process is working in an effective manner with related RCM change communication occurring with NiFiT process owners when required.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Business Process Controls – Objective 5 (Cont)

IT Audit also recommended the NiFiT Controls team institute a monthly reconciliation procedure to align SOX controls present within the NiSource Risk Navigator controls database with those SOX controls newly inherent within the NiFiT Risk and Control Matrices (RCMs) as part of IT Audit's February 2013 Deployment 1 – Pre-Deployment Review. IT Audit found the NiFiT Controls team incorporated, and performed, monthly Risk Navigator to RCM controls recons for the months of March, April and May 2013 using locked, month-end versions of the NiFiT RCMs to help ensure consistent control reporting between the two mechanisms. IT Audit encourages the NiFiT Controls team to continue usage of the monthly Risk Navigator to NiFiT RCM recon as the NiFiT project moves through subsequent deployment stages.

**Recommendation:** None.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### IT General Controls – Objective 1

**Review IT general controls in the areas of systems change management, systems development, systems security, and systems operations to make sure corporate policy are followed. In cases where exceptions to corporate policy are encountered, validate proper sign-offs and documentation are obtained.**

#### **Results:**

IT Audit found IT general controls associated with NiFiT-related applications follow the same control design and execution procedure as IT general controls currently in place for NiSource enterprise IT applications. IT Audit noted NiSource IT has twenty-nine (29) IT general controls in place for 2013 that are distributed among the following four (4) IT control objectives:

- System Change Management (4 IT general controls)
- Systems Development (4 IT general controls)
- Systems Security (17 IT general controls)
- Systems Operations (4 IT general controls)

As part of ongoing discussions between the NiFiT Project Team, NiSource IT Compliance and NiSource SOX Compliance, IT Audit found all existing IT general control designs currently in place for NiSource enterprise IT applications are remaining static for deployment of the dual NiFiT applications being implemented as part of Release 1: PeopleSoft Financials 9.1 and the PeopleSoft Financial Data Warehouse (FDW).



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### IT General Controls – Objective 1 (Cont)

IT Audit also noted IT general controls associated with PeopleSoft Financials 9.1 and PeopleSoft FDW application modifications will adhere to the following IT general controls specifications in relation to the four (4) corresponding IT control objectives:

- **Systems Change Management** – will follow controls designs documented within NiSource's enterprise IT Change Management policy related to application modification test/approval, separated development/production environments and segregation of duties maintenance between application development and object code production migration.
- **Systems Development** – will follow control designs documented within NiSource's enterprise IT PMM (Project Management Methodology) over project charter approval, detailed design and infrastructure impact, business requirement synchronization and data conversion integrity.
- **Systems Security** – will follow control designs documented within numerous NiSource enterprise IT security manuals over new user access approval, user transfer/termination, periodic user and privileged application account certifications, object/file level security configuration appropriateness and infrastructure account appropriateness.
- **Systems Operations** – will follow control designs documented by NiSource enterprise IT and IBM over incident/problem management, application job scheduling and application backup/recovery.

By following existing NiSource IT general controls already in operation, which undergo periodic control design and effectiveness testing by internal and external parties, IT Audit noted the NiFiT Project Team is significantly reducing any inherent risk associated within having to deploy/test new IT general control designs for both PeopleSoft Financials 9.1 and the PeopleSoft FDW. IT also found that due to having no newly implemented IT general control design requirements for NiFiT, no secondary authorizations or supporting documentation were required to provide additional assurance around potential IT control design gaps and subsequent design gap remediation efforts.

**Recommendation:** None.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

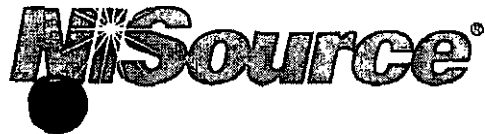
### IT General Controls – Objective 2

**Determine adequate alignment exists on IT general control activities for associated parties (e.g. NiFiT Project team, Process Owners, NiSource IT/SOX Compliance, NiFiT Controls team and Deloitte.**

#### **Results:**

IT Audit observed numerous alignment efforts and communication streams in place between the NiFiT Project team, NiSource IT/SOX Compliance, NiSource IT Audit and Deloitte regarding assessment of NiFiT IT general control designs. As part of NiFiT's following of the NiSource IT PMM (Project Management Methodology), the NiFiT Project team and NiSource IT/SOX Compliance held numerous discussions associated with IT general control documentation required for IT PMO phase gate approval over NiFiT Release 1. IT Audit also noted several conference calls undertaken between January 2013 and April 2013 where current NiSource enterprise IT control designs were discussed in relation to NiFiT's PeopleSoft Financials 9.1 and PeopleSoft FDW applications. These calls were attended by participating members of the NiFiT Project team, NiSource IT/SOX Compliance, the NiFiT Controls team, NiSource IT Audit and Deloitte to help ensure all parties collectively reviewed IT general control design structure and any potential design impacts effecting ongoing IT general control operation. Post completion of the conference call series in May 2013, IT Audit found all involved parties reached a consensus decision that IT general control designs associated with NiFiT would adhere to the existing IT general control designs as documented, and currently followed, for deployed NiSource enterprise IT applications.

**Recommendation:** None.





NiFiT Deployment 1 - Phase Assurance Review  
Advisory Objectives

# REVIEW RESULTS

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 1

Review the NiFiT Project team's conduct in achieving project quality control and risk monitoring objectives.

#### Results (Quality Control):

IT Audit performed a review of NiFiT Project team quality control (QC) activities and noted the primary (QC) effort conducted was solutions testing, as NiFiT conducted the following seven (7) key types of solution tests below in chronological order:

- Unit Testing – Validates developed solution components function as designed.
- Integration Testing – Validates the various technical systems in the solution communicate in the correct manner.
- System Testing – Validates the solution conforms to approved requirements and is fit for use.
- Performance Testing – Validates that technical components of the solution execute within expected timeframes.
- Deployment Testing – Validates the plan to deploy solution components (technical and functional) are accurate and complete.
- User Acceptance Testing (UAT) – Validates the solution conforms to approved requirements by using end-user test scenarios.
- Parallel Testing – Validates the solution provides a comparable result to the preceding system (limited to the T&L/Payroll area).

IT Audit noted each type of solution test effort performed above by the NiFiT Project team, with the exception of initial Unit Test, had embedded test plans created and housed with HPQC as Unit Test had already been included within the NiFiT Build plan. IT Audit also inspected the test Summary Report created for each solution test above and determined the individual Summary Reports specified the individual solution test scope, objective(s), results, as well as any established entrance/exit criteria for the test.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 1 (Cont)

With the exception of Unit Test, IT Audit found all solution testing was conducted using HPQC with the NiFiT Project team tracking metrics associated with both test script execution and defect remediation. IT Audit noted the NiFiT Project team consistently reported test script execution (i.e. planned vs. actual, success vs. failure) and defect remediation status to the NiFiT PMO for proper inclusion in the weekly NiFiT Project Status Report.

#### **Results (Risk Monitoring):**

IT Audit performed a secondary review of risk monitoring activities conducted by the NiFiT Project team post IT Audit's NiFiT Release 1 Risk Assessment audit report. IT Audit reviewed a random sample of project risks as reported in weekly NiFiT Project Risk Logs and found closed risks all contained a detailed risk description, documented risk mitigation strategy and daily journal time-stamped with risk closure approvals. IT Audit also reviewed a selection of open risks within the weekly NiFiT Project Risk Logs and noted these open risk are being monitored with both ongoing mitigation plans identified and daily journal time-stamps of why the risk remains in an open status.

IT Audit also reviewed monitoring activities as evidenced in weekly NiFiT Project Status Reports. IT Audit inspected a selection of weekly NiFiT Project Status Reports and found each contained a variance analysis for planned vs. actuals deliverables, planned vs. actual staffing hours and budget/actual and budget/estimate project costing. IT Audit also found that although trend analysis for deliverables and staffing hours are presented within the weekly NiFiT Project Status Report, trend analysis for project costing is not presented in the Project Status Report or in other formal project communications.





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 1 (Cont)

**Leading Practice Opportunity:** IT Audit see an opportunity in the area of formalized trend analysis for project costing. As more historical data and project costing information becomes available, trend analysis can be a predictive tool for the NiFiT Project team to more readily discover preventative project costing challenges, as opposed to lone usage of variance analysis.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 2

**Review the program alignment of project scope, business needs and requirements with stakeholders expectations.**

#### **Results (Stakeholder Notification/Communication):**

IT Audit found the NiFiT Project team regularly communicates project scope, status and requirements to stakeholders using the following means of information distribution:

- NiFiT Communications and Engagement Plan
- NiFiT Sponsor Meetings
- NiFiT Executive Advisor Updates
- NiFiT Project Announcements
- NiFiT MySource web portal
- NiFiT Change Champion Network



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 2 (Cont)

#### **NiFiT Communications and Engagement Plan:**

IT Audit noted a formal NiFiT Communications and Engagement Plan is maintained by the Project team for tracking both planned and due delivery dates of key messaging streams, along with identifying stakeholders for knowledge dissemination. IT Audit also found the NiFiT Communications and Engagement Plan, in being a working document, is being charted and updated by the Project Team on a monthly basis to track metrics related to communication type, demand requirements, activity estimates, project communication progress (both monthly and to-date), executive committee communication status and cancelled communications.

#### **NiFiT Sponsor Meetings:**

On a monthly basis, and more recently, a bi-weekly basis, executive sponsors of the NiFiT program are presented a communication deck from NiFiT Project team leadership detailing ongoing items requiring executive oversight. IT Audit noted that topical information included within the Sponsor Meeting presentations include a rolling Budget and Contingency Status for NiFiT, Project Status for CMA go-live (encompassing testing, training, change management communication and deployment updates) and coordination activities planned and executed between the NiFiT Project team and NGD/CMA leadership as part of the CMA 3.0 business process enhancement initiative. IT Audit also noted these Project Sponsor Meetings are taking place as scheduled and with active participation/feedback from members of the executive sponsor group, thereby helping to ensure project sponsor alignment with the NiFiT Project team.



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 2 (Cont)

#### **NiFiT Executive Advisor Updates:**

Weekly NiFiT Executive Advisor (EA) Update decks are being created by NiFiT Project team leaders, and distributed to the greater NiFiT Project to provide insight and knowledge updates on topics required for successful implementation of the NiFiT project. IT Audit noted these EA Updates are capturing relevant data and project themes that are inherent for collective NiFiT Project team alignment and are being updated with themes pertinent to the specific NiFiT project stage to keep information targeted to both current and future action steps. IT Audit also found these EA Updates are being formally tracked by the NiFiT Project team on a month-by-month basis by agenda items and are used to determine whether any previous talking points from prior EA Updates need revisited with refreshed information.

#### **NiFiT Project Announcements:**

On an "as needed" basis, IT Audit noted project announcements related to significant NiFiT R1/D1 milestones are released by either NiFiT Project team leadership or members of NGD/CMA executive leadership as a means of keeping parties effected by the pending NiFiT CMA release abreast of project happenings. IT Audit found these communication streams are helping to supplement more formal data distribution efforts by NiFiT Project team leadership by providing stakeholders with frequent ad hoc updates regarding NiFiT project status and the effect those updates may have on day-to-day business operations.



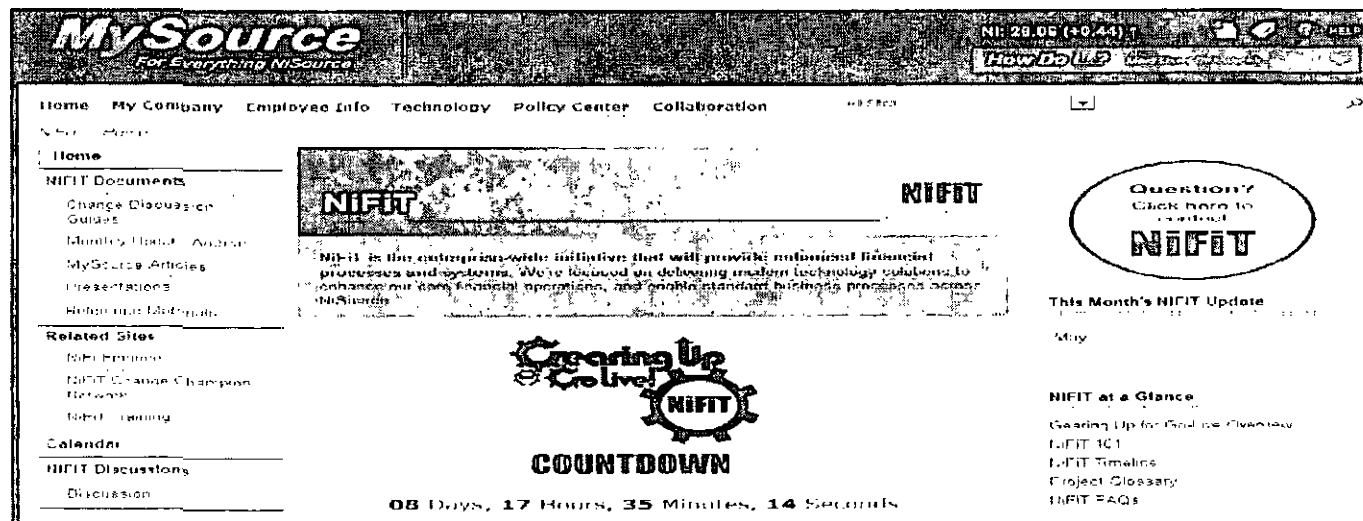
# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 2 (Cont)

#### NiFiT MySource Web Portal:

The NiFiT Project team maintains a dedicated information site on Nisource's MySource intranet portal to provide Project team members, and interested NiSource employees with information on project timing, discussion guides or reference materials. IT Audit found the connection to the NiFiT MySource portal is easily located from the MySource "My Company" links and adequately provides a detailed repository of MySource articles, presentations and discussion threads to help guide the NiFiT Project team and the broader NiSource user community with pertinent project information. IT Audit also noted the NiFiT MySource portal is continuously updated by the Project team to keep information fresh and related to upcoming events.





# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 2 (Cont)

#### **NiFiT Change Champion Network:**

The NiFiT Change Champion Network (CCN) is comprised of project Change Champions from across NiSource whose areas will be impacted by the NiFiT solution. The NiFiT CCN is designed to enable two-way communication across the organization and to extend NiFiT project reach to impacted employees. The goal of the CCN is to provide NiFiT project stakeholders with the required information, support and guidance to help ensure a successful transition to the desired future state.

IT Audit noted a list of the NiFiT Change Champions is displayed within the Change Champion site on the NiFiT MySource portal to identify those individuals with responsibility for NiFiT project communication back to their fellow business/operations team members. IT Audit observed the Change Champion list is structured by physical location and provides both name and title of active members. IT Audit also found the Change Champion portal maintains an up-to-date reference to the CMA Release 1/Deployment 1 Classroom Training Schedule. Post inspection, IT Audit determined the CMA Release 1/Deployment 1 Classroom Training Schedule provides training course name descriptions, displays corresponding dates/locations for the included courses and also contains an appendix highlighting focused training such as Ad-Hoc Reporting Workshops and Reporting labs.

**Recommendation:** None.

# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Deliverable Quality – Objective 1

**Review project deliverable quality assurance activities for the project phases under consideration.**

#### **Results:**

IT Audit reviewed quality assurance activities enacted by the NiFiT Project team for quality definition and standards adherence.

#### **Quality Definitions and Standards**

IT Audit found the NiFiT Project team has defined and documented quality definitions and standards included within Deployment 1 Test phase gate documentation. IT Audit noted key quality definitions were resident within the following testing documentation created/maintained by the NiFiT Project team:

- Quality definition for System & UAT (functional quality) – Included in System & UAT Test plans
- Quality definition for Performance Testing (technical quality) – Included in Performance Test plans
- Quality standards for Test Phase Entrance and Exit criteria – Included in System, UAT, & Performance Test documentation
- Quality standards for Defect Severity Definitions – Included in System Test plans

IT Audit noted that NiFiT's functional quality definition was consistent with published good practice documentation as "... a test executed to completion to ensure the business solution meets identified business requirements deemed in Scope." IT Audit also found technical quality definitions were established in line with good practice as "... a test to determine end-to-end timings for time critical transactions and business processes to verify execution within an expected timeframe and in a dedicated, controlled and production-like environment."



# NiFiT Deployment 1 - Phase Assurance Review

## REVIEW / RESULTS

### Deliverable Quality – Objective 1 (Cont)

#### Quality Control Measurement Adherence to Quality Standards

IT Audit found the NiFiT Project team instituted internal defect reporting for both identification and severity tracking of testing defects encountered in the Deployment 1 Test phase gate. This defect tracking exercise was performed daily by the Project team using a system-generated Defect Tracking Log generated from the HPQC test repository. During the Deployment 1 System Test phase, IT Audit was informed when the NiFiT Project team performed a change in defect severity definitions with changes requiring both review and approval by NiFiT business process owners.

Based on the defect severity definition changes reported by the NiFiT Project team, IT Audit conducted an analysis of severity changes occurring during the Deployment 1 Test phase to determine the impact on Test phase gate closure compliance. IT Audit reviewed a log of all defect severity changes recorded within HPQC between February 10, 2013 and June 7, 2013 and noted the following:

#### *Defect Severity Changes (as of June 7, 2013)*

Total Defect Severity Changes	Total Defect Severity Upgrades*	Total Defect Severity Upgrades Closed (6/7/13)	Defect Severity Upgrade Closure Percentage (6/7/13)	Total Defect Severity Downgrades**	Total Defect Severity Downgrades Closed (6/7/13)	Defect Severity Downgrade Closure Percentage (6/7/13)	Defect Severity Downgrades Open (6/7/13)
287	106	106	100%	181	170	94%	11

\* Severity upgrades are defects moved from a Medium/Low severity up to Urgent/High.

\*\* Severity downgrades are defects moved from Urgent/High down to Medium/Low.







# NiFiT Release 1. Phase Assurance Review

## REVIEW / RESULTS

### Deliverable Quality – Objective 1 (Cont)

IT Audit also inspected the defect severity change log from HPQC as of Deployment 1 Test phase gate closure on June 14, 2013 and found eight (8) of the eleven (11) remaining defect downgrades were remediated by the NiFiT Project team prior to the gate close, leaving three (3) medium/low defects in "open" status.

*Defect Severity Changes – Test phase gate closure (as of June 14, 2013)*

Defect Severity Downgrades Open (6/7/13)	Total Defect Severity Downgrades Closed (6/14/13)	Defect Severity Downgrades Open – Test Phase Gate Closure (6/14/13)
11	8	3

IT Audit noted the three (3) defect severity downgrades did not have an impact on Deployment 1 - Test phase gate closure compliance as each open defect severity change was deemed reasonable by IT Audit based on both aggregate defect severity change log analysis and review of defect log entries within HPQC for a selection of open downgraded items.

**Leading Practice Opportunity:** IT Audit sees an opportunity for defect severity definitions to be established as part of the overall NiFiT Test phase plan rather than within plans for individual test solution stages. IT Audit also sees an opportunity for future quality and/or defect severity definition changes to be subject to more formalized communication processes between the NiFiT Project team and NiFiT process owners.



NiFiT Deployment 1 - Phase Assurance Review

Follow-up Items from IT Audit Deployment 1 - Risk Assessment and  
Pre-Deployment Reviews

# REVIEW RESULTS

## NiFiT Deployment 1 - Phase Assurance Review

### Follow-up Items from IT Audit's Deployment 1 - Risk Assessment Review

The following items were documented as recommendations requiring management response at the conclusion of IT Audit's Deployment 1 - Risk Assessment Review of NiFiT. Included below is an update on the status of these recommendations from the NiFiT PMO. IT Audit continues to appreciate the access and cooperation of the NiFiT Project team in this area and noted both recommendations below are being addressed.

#### IT Audit Recommendations (with Management Updates):

##### IT Audit Recommendation 1:

Enhance project risk management documentation by creating a swim-lane process diagram.

##### Management Actions Update (as of 6/1/13):

Created a corresponding flow diagram and process communications materials covering team level risk management. This improvement item has been implemented during the Release 1/Deployment 1 phase of NiFiT in April 2013.

##### IT Audit Recommendation 2:

Enhance project risk management documentation to align categories tracked in the project risk log with the Executive Risk Summary categories.

##### Management Actions Update (as of 6/1/13):

This activity will be included in NiFiT PMO deliverables during September 2013 and be part of on-going NiFiT PMO risk management activities for Deployment 2 and Deployment 3 of the NiFiT solution.



# NiFiT Deployment 1 - Phase Assurance Review

## Follow-up Items from IT Audit's Deployment 1 - Pre-Deployment Review

The following items were documented as recommendations requiring management response at the conclusion of IT Audit's Deployment 1 - Pre-Deployment Review of NiFiT. Included below is an update on the status of these recommendations from both the NiFiT Controls and NiFiT Project teams. IT Audit continues to appreciate the access and cooperation of both the NiFiT Controls and Project teams in this area and noted both recommendations below are being addressed.

**IT Audit Recommendation 1:** IT Audit recommends the NiFiT Controls team adopt a change control procedure for the team's deliverables that include process ownership assignment, a related process flow diagram, and instructions for operation of the change control process.

**Management Actions Update (as of 6/14/13):** The NiFiT Controls team developed, approved and implemented documented change control process materials for team deliverables during March 2013 for ongoing assurance process material changes are approved by Controls team management and communicated to NiFiT process owners.

**IT Audit Recommendation 2:** IT Audit recommends the NiFiT Controls team implement a reconciliation process to keep the Risk Navigator SOX database consistently aligned with the NiFiT Risk and Controls Matrices (RCMs) being documented by the NiFiT Controls Team.

**Management Actions Update (as of 6/14/13):** The NiFiT Controls team has created a monthly reconciliation process to align the number of controls present within the Risk Navigator SOX database to the number of controls present within the NiFiT RCMs. The NiFiT Controls team also performed a monthly Risk Navigator to NiFiT RCM controls alignment for locked, month-end March, April and May 2013 versions of the NiFiT RCMs to ensure control counts are accurately reflected and reportable.



# NiFiT Deployment 1 - Phase Assurance Review

## Follow-up Items from IT Audit's Deployment 1 - Pre-Deployment Review

**IT Audit Recommendation 3:** IT Audit recommends a regular comparison review of estimated project hours to complete versus actual project hours incurred be done by the NiFiT PMO in both the staffing plan and the project scheduling tool (PWA).

**Management Actions Update (as of 6/14/13):** Management has documented and implemented a comparison analysis of estimate vs. actual hours from both the staffing plan and the project scheduling system (PWA). Internal Audit will further review this information as part of our planned NiFiT Financial Assessment Review scheduled to begin in August 2013.



# NiFiT Deployment 1 - Phase Assurance Review

## REPORT DISTRIBUTION

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**TO:** Susan Taylor, Controller, NiSource Corporate Services Company

**FROM:** Chris Marlatt, Audit Senior *Christopher Marlatt*  
Shelley Duling, Audit Manager *Shelley Duling*  
Ryan Binkley, Audit Director *Ryan Binkley*

**DATE:** July 11, 2013

**SUBJECT:** NiSource Corporate Services Company Cost Allocation Audit

We have completed a review of the accounting systems, source documents, allocation methods, and billing procedures used by NiSource Corporate Services Company (NCSC) to allocate costs/expenses to the various subsidiary companies ("affiliates") including the holding company, as of February 28, 2013.

### **Background**

In February 2006, the Public Utility Holding Company Act (PUHCA) was repealed and replaced with the PUHCA of 2005. Prior to this date, NCSC was required to obtain prior approval from the Securities and Exchange Commission on new allocation methods used to allocate costs and expenses. The PUHCA of 2005 is primarily a "books and records" statute and provides the Federal Energy Regulatory Commission (FERC) with the authority over the books and records, the ability to prescribe standards, and gives access to the books and records of the holding company to the public utility commissions, but only to the extent relevant to the costs of the subsidiaries.

NCSC uses various allocation methods to assign expenses to companies (including the holding company), or groups of companies, to classify and disclose expenses in the financial statements. Such allocation methods are defined in the service agreements ("agreements") between NCSC and the affiliates. Affiliates are billed by NCSC via contract and convenience billings. Contract billings represent labor and expenses billed to an affiliate. These costs are identified by job order and represent costs incurred by NCSC to render services defined in the service agreements with affiliates. Convenience billings are accommodation payments that are rendered when NCSC makes a payment to a vendor for goods or services that are for the benefit of more than one or all affiliates, and can be made for an affiliate who may not have the means to wire money to outside vendors. Each affiliate is billed monthly for their proportional share of the payments made in that respective month.

Annually, Internal Audit conducts a review of the cost allocation methods and billing procedures used by NCSC and makes recommendations related to cost allocation and billing processes.

The primary business risks associated with these activities are:

- Allocation factors may not be updated regularly to reflect current statistical data to ensure that NCSC charges are billed relative to current operations;
- Contract and convenience billings may not be properly billed to affiliates;

- Holding company costs incurred may not be properly segregated and paid by the holding company;
- Executive time allocation may not accurately reflect the companies benefiting from their services;
- Costs charged by department may not be in accordance with the NCSC cost allocation guidelines;
- Indirect costs may not be appropriately allocated to affiliates on a monthly basis;
- Intercompany payables and receivables may not be billed and settled accurately and timely; and
- Contract billings and accommodation payments may not be accurately reported in the annual FERC Form 60 Financial Report.

### **Conclusion**

Based on our audit results, the methods and procedures used to allocate costs/expenses and bill subsidiary companies, including the holding company, are reasonable. Amounts reported as accommodation and contract billing payments in the FERC Form 60 are proper.

### **Summary of Audit Objectives, Scope, Results, and Recommendations**

**Audit Objective 1:** Costs are fairly and equitably allocated to all subsidiary companies including the holding company.

#### **Scope:**

- Determine if allocation factors are updated regularly to reflect current statistical data to ensure that NCSC charges are billed relative to current operations;
- Verify contract and convenience billings are properly billed to affiliates;
- Verify holding company costs incurred are properly segregated and paid by the holding company;
- Verify executive time allocation accurately reflects the companies benefiting from their services; and
- Verify costs charged by department are in accordance with the NCSC cost allocation guidelines.

#### **Results:**

- Allocation factors are updated semiannually and reflect allocation bases as defined in the agreements between NCSC and the affiliates. A sample of allocation factors were recalculated without exception.



Two additional allocation bases were added in 2012, as follows, to allow for more direct billing by activity based transactions:

- Allocation 3, Number of Meters Serviced, utilized for meter shop labor for the NiSource Gas Distribution Companies; and
- Allocation 4, Number of Accounts Payable Invoices Processed, utilized for Accounts Payable labor charges.

In addition, NCSC added two new allocators under existing Allocation Basis 20 which will be used specifically for Legal and IT Service Company billings. The legal allocator under Basis 20 will be used for internal legal labor costs for employees that benefit all companies. The IT allocator under Basis 20 will be used for two primary groupings of costs:

- Data storage and server costs not identifiable by business unit or company; and
  - Internal IT labor costs for employees that benefit all companies.
- A sample of affiliate contract billings showed that direct charges are being properly allocated to affiliates based on actual costs and current allocation percentages for respective bases per the agreements between NCSC and affiliates. A sample of accommodation payments made by NCSC was reviewed and charges to affiliates for accommodation billings were accurately billed to the affiliates.
  - Holding company costs are required to be segregated and paid by the holding company. Examples of holding company costs include, but are not limited to:
    - Board of directors fees; and
    - Consulting, legal and all other costs related to mergers, acquisitions and corporate restructuring.

A sample of costs charged to the holding company was tested and indicated that costs being charged to the holding company appeared proper.

- Executives are required to report time based on the affiliates receiving benefit from their services. A sample of executive timesheets indicated charges for executive labor appeared to be accurately allocated to the affiliates benefiting from their services.
- NCSC employees are required to report time based on the affiliates receiving benefit from their services and in accordance with the NiSource Cost Allocation Manual. A sample of NCSC employee timesheets was tested and indicated charges for labor appear to be charged in accordance with guidelines established in the Cost Allocation Manual.

**Recommendation(s):** None

**Audit Objective 2:** Processes and procedures are in place to verify monthly that all costs have been allocated and intercompany payables and receivables are billed and settled in a timely manner.

**Scope:**

- All costs are appropriately allocated to affiliates;
- Intercompany payables and receivables are billed and settled accurately and timely; and
- Verify contract billings and accommodation payments are accurately reported in the FERC Form 60 Financial Report.

**Results:**

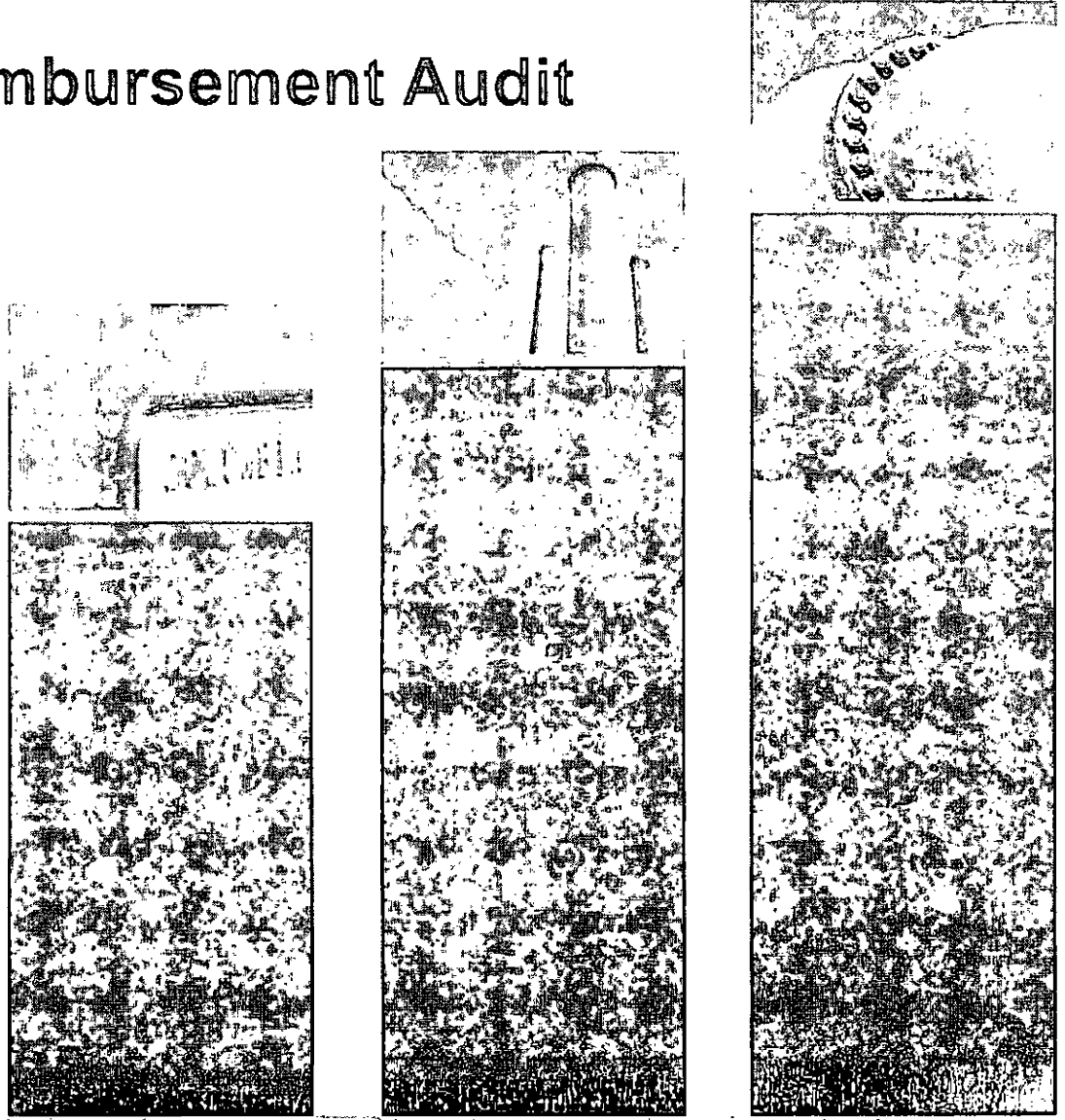
- Summaries detailing costs to be billed to affiliates for contract and convenience billings are prepared monthly to ensure that all costs are allocated out to the affiliates. A sample of contract and accommodation billings was reviewed, and all costs were properly allocated to affiliates.
- Monthly, summary and detail bills for contract and accommodation costs are generated for each affiliate. The receivable is immediately settled via a money pool transaction. For a selection of months, Internal Audit confirmed the intercompany contract and accommodation payable amount with the affiliated company noting that the amount agreed to the respective invoice for the selected month. As such, it appears that the intercompany amounts are being settled timely and accurately.
- FERC Form 60 is an annual regulatory support requirement for centralized service companies, designed to collect financial information from centralized service companies subject to the jurisdiction of the FERC. Within the Form 60, amounts related to contract and accommodation payments are disclosed. Internal Audit reviewed the most recent filing of the Form 60 (2012) and tested a sample of transactions included in the amounts disclosed for contract and accommodation payments. Amounts included in the filing for contract and accommodation payments appeared proper and reconciled to amounts billed to affiliates by NCSC.

**Recommendation(s):** None

We appreciate the cooperation and assistance that your staff provided to the Audit Team during this review. Should you have any questions or require additional information, please do not hesitate to contact Ryan Binkley at (614) 460-5985, or Shelley Duling at (614) 460-6062.

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# Employee Expense Reimbursement Audit NiSource Internal Audit



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## Executive Summary

The Internal Audit Department began performing regular audits of the expense reimbursement process in 2009 to analyze trends in employee spending to aid in identifying non-compliant expense transactions.

- The scope of the audit includes the following NiSource Business Units (BU):
  - NiSource Gas Distribution Companies (NGD);
  - NiSource Corporate Services (NCS);
  - Columbia Pipeline Group (CPG); and
  - Northern Indiana Public Service Company (NIPSCO).
  
- Executive Council (Officer) expense statement reviews are performed annually. Internal Audit issued a separate report for the 2013 Officer Expense Reimbursement on April 24, 2013.

## Executive Summary (Cont'd)

Specifically, the focus of our audit included the following:

- Perform data analysis on employee expense reimbursement data to identify any unusual items and/or trends. Based on the results of the data analysis, determine that employee expenses (including “Gifts and Awards”) are incurred and reimbursed in accordance with corporate policy and Internal Revenue Service guidelines; and
- Determine that corporate credit card use is limited to authorized personnel and that processes are in place to monitor corporate credit card use.

### ***Overall Conclusions:***

As a result of our procedures, Internal Audit identified some minor exceptions to established Employee Expense policies and procedures and have made some recommendations to management to consider the following: reinforce or revise personal mileage policies and procedures; enhance receipt documentation requirements for certain high dollar transactions that do not currently require receipt support; and ensure employees submit expense reports timely and, where appropriate, include more detailed comments in ERS to better describe the nature of transactions.

## Executive Summary - Results

**Audit Objective 1:** Perform data analysis on employee expense reimbursement data to identify any unusual items and/or trends. Based on the results of the data analysis, determine that employee expenses (including “Gifts and Awards”) are incurred and reimbursed in accordance with corporate policy and Internal Revenue Service guidelines.

*Internal Audit observed the following:*

- Total NiSource employee spend increased **~4.4%** from **~\$25.2M** for the 12 month period ending June 30, 2012 (prior audit period) to **~\$26.2M** for the 12 month period ending June 30, 2013 (current audit period);
  - Net NiSource employee headcount increased by **~1%\*** from June 30, 2012 to June 30, 2013.
- For the periods under review, NiSource Corporate Services (NCS) saw a decrease in expenses of **~\$880K** while the NiSource Gas Distribution Companies (NGD), Northern Indiana Public Service Company (NIPSCO) and Columbia Pipeline Group (CPG saw an increase in expenses of **~\$1.0M, ~\$520K, ~\$379K, respectively**.
  - Net NCS headcount increased **~5%\*** from June 30, 2012 to June 30, 2012 while all other BU's headcount changed less than **~1%\***.
- **“Air Travel”, “Business Lunches”, “Business Dinners”, “Hotel”, and “Car Rentals”** were the largest drivers of employee expenses for the 12 month period ending June 30, 2013.



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\* Refer to Supplement Data on **Slide 53** for more information.

## Executive Summary - Results (Cont'd)

### Audit Objective 1 (Cont'd):

- The **Top 10** ERS categories in terms of spend accounted for **~84%** of total employee expenses, or **~\$21.9M**.
- While the number of transactions in the Top 10 Spend Categories decreased during the audit period, the "Average Cost" per transaction is trending upward across NiSource.
- The **Top 25** spenders at NiSource accounting for **~9%** of total employee spend in the current audit period, or **~\$2.3M**.
- Personal mileage of **~3.5 Million Miles** was reimbursed during the **12** month period ending June 30, 2013.
  - Personal mileage reimbursements in excess of **12,000\*** miles were submitted by **27** employees.
- Through a risk based analytical sampling process, Internal Audit reviewed **60** expense reports noting no significant or recurring policy violations.
  - **NOTE:** Current policy requires receipt documentation for a limited set of transactions (i.e. "Room and Tax" & "Cash"). Internal Audit's assessment of the reasonableness of the expense in accordance with policy was limited to the information required to be input into ERS.



*\*12,000 miles is the minimum annual mileage for which a fleet vehicle should be considered in accordance with the Fleet Management policy.*



## Executive Summary - Results (Cont'd)

**Audit Objective 2:** Determine that corporate credit card use is limited to authorized personnel and that processes are in place to monitor corporate credit card use.

*Internal Audit observed the following:*

- Internal Audit identified **3** active American Express (AMEX) cards assigned to inactive employees that were subsequently cancelled by management.
  - Internal Audit confirmed that no charges were associated with these cards and current quarterly controls would have identified the inactive employees and cancelled these cards in the normal course of business.
- Accounts Payable (A/P) performs periodic audits on employee expenses based on consistent criteria and risk factors.
  - *A/P's assessment of whether an expense item is in accordance with policy can be affected by the limited amount of detail required to be input into ERS for some transactions.*
- Generally, NiSource employees remit expenses within **45 days** after incurring expenses, as required by policy. Internal audit determined that the current average time to submit expenses across NiSource for the past 12 months is **18 days**. Internal Audit did identify some employees who submitted expenses outside of the timeline established by policy.

## Background

- AMEX corporate credit cards are provided to exempt employees to pay for appropriate Company related expenses and to certain non-exempt employees who *travel frequently on Company business*.
  - “Receipt Acknowledgments” are required to be signed by each employee, agreeing to the terms for using the AMEX card.
- Expenses are captured, processed and approved in the Expense Reporting System (ERS) maintained by IBM.
  - AMEX charges are auto-fed into the ERS system and then processed by individual employees.
  - Payments are remitted to AMEX by NiSource.
- Employees who are not issued corporate credit cards may still incur legitimate reimbursable business expenses.
  - Expenses are submitted and approved on an employee expense statement and sent to Accounts Payable for processing.
  - Cash advances are also available for approved expenses and are captured in the ERS system.

# Audit Procedures, Results and Recommendations

## Objective 1

**Audit Objective 1:** Perform data analysis on employee expense reimbursement data to identify any unusual items and/or trends. Based on the results of the data analysis, determine that employee expenses (including gifts and awards) are incurred and reimbursed in accordance with corporate policy and Internal Revenue Service guidelines.

- **Focus Area 1:**
  - Provide analytical data for the current audit period's employee expense reimbursements and examine historical spending patterns to detect significant variations over time.
  
- **Focus Area 2:**
  - Examine a sample of employee expense reports and evaluate their compliance with Corporate Policy.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Focus Area 1:** Provide analytical data for the current audit period's employee expense reimbursements and examine historical spending patterns to detect significant variations over time.

### ***Audit Results:***

- For the current audit period, Internal Audit independently accessed ERS through its online reporting tool (GERS) and extracted all employee expense data from July 1, 2012 – June 30, 2013 - **Audit Year-End (AYE) 6/30/13.**
  - Data accuracy is limited by potential data input errors by employees (i.e. coding an expense incorrectly).
- For trending and comparative purposes only, Internal Audit included some historical data from GERS reports utilized during the prior Employee Expense Reimbursement Audit performed in 2012, with an audit report date of *January 2, 2013.*
  - The prior audit included ERS data from the 12 month period ending June 2012 **Audit Year-End (AYE) 6/30/12.** Internal Audit re-evaluated prior year data in the current audit prior to ensure its accuracy and completeness.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### **Audit Results – Focus Area 1 (Cont'd):**

- Data retrieved through ERS for 2012 & 2013 was analyzed to identify unusual patterns, behaviors, or other activity that is outside normal, observed ranges.
  - All data was reviewed based upon the “Expense Date” within ERS.
  - Internal Audit performed the following **4-part risk analysis** in order to identify expense reports to test as part of **Focus Area 2**.
    1. **Spend Amounts:** Summary of employee expenses by all NiSource employees and by BU (NGD; NIPSCO; NCO; CPG) (**Slides 12-20**).
    2. **Spend Categories:** Identify the **Top 10** ERS spend categories across all of NiSource (**Slides 21-28**).
    3. **Who did the Spending:** Identify the **Top 25** spenders at NiSource and the **Top 10** by BU (**Slides 29-30**).
    4. **Key insights:** Identify key observations in the data to understand spending patterns and identify unusual activities which may not be in line with policies and procedures (**Slides 31-38**).

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### ***Audit Results – Focus Area 1 (Cont'd):***

The key highlights and significant fluctuations from the analytics performed on total employee spend and spend by BU are as follows:

- **NiSource**\*: Spend has increased over the last four years (**See Slide 13**):
  - ~71% from 6/30/2010 to 6/30/2011 (~\$10.0M to ~\$17.1M)
  - ~47% from 6/30/2011 to 6/30/2012 (~\$17.1M to ~25.1M)
  - ~4% from 6/30/2012 to 6/30/2013 (~\$25.1M to \$26.2M)
- **NGD**: Employee spend increased ~\$1.0M or ~25% from AYE 6/30/12 of ~\$4.1M to AYE 6/30/13 of ~\$5.1M (**Slide 14**);
- **NIPSCO**: Employee spend increased ~\$526K or ~15% from AYE 6/30/12 of ~\$3.5M to AYE 6/30/13 of ~\$4.1M (**Slide 14**);
- **NCS**: Employee spend decreased ~\$880K or ~9% from AYE 6/30/12 of ~\$10.3M to AYE 6/30/13 of ~\$9.4M (**Slide 14**); and
- **CPG**: Employee spend **increased** ~\$379K or ~5% from AYE 6/30/12 of ~\$7.1M to AYE 6/30/13 of ~\$7.5M (**Slide 14**).

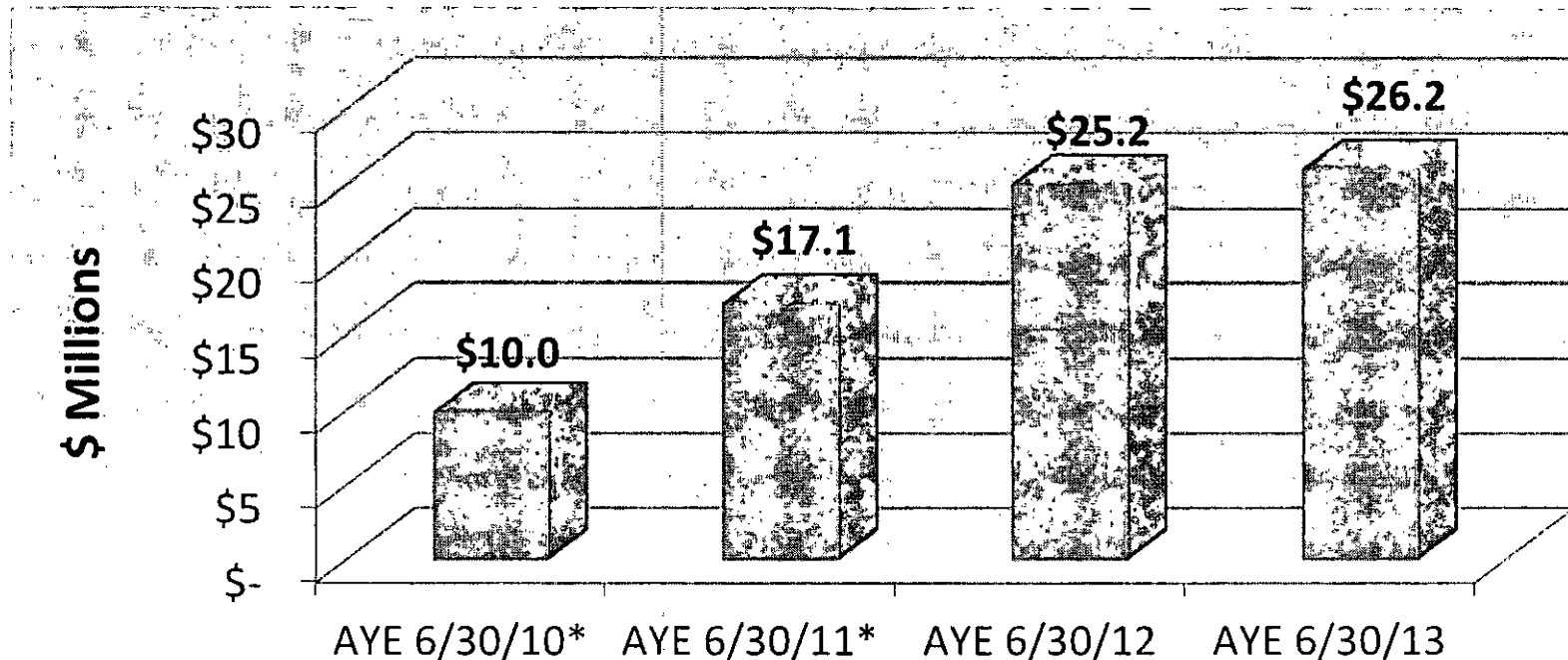


\*Refer to **Slides 14 - 20** for quarterly and year over year comparisons for each BU.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Total NiSource Employee Expenses**  
(Last 4 Audit Years, AYE 6/30/10-6/30/13)



- \*AYE 6/30/10 & 6/30/11 include a portion of data from NGD and NIPSCO Company legacy employee expense systems. The CDC's transitioned to ERS in April of 2011, CMA in September of 2010, and NIPSCO in October of 2010. NCS & CPG utilized ERS for all periods noted above.

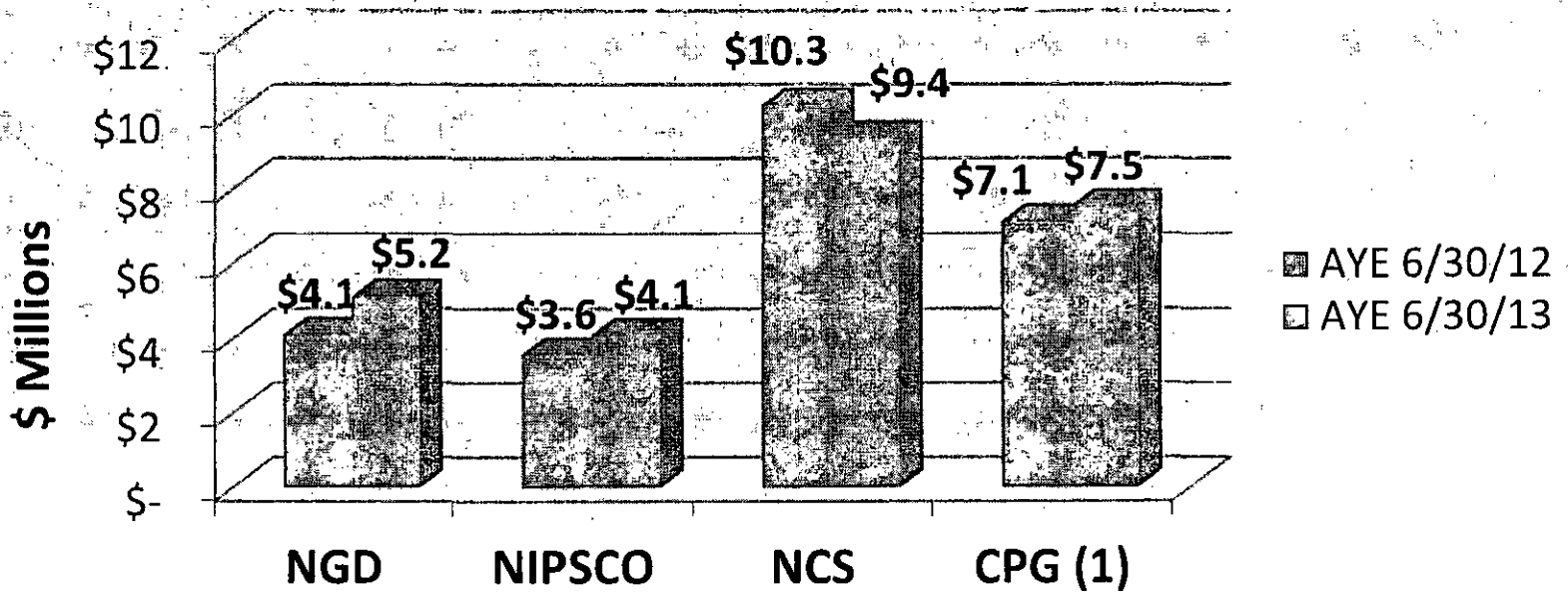


**NOTE:** Total Employee Spend in the table above excludes "Officer" spend.

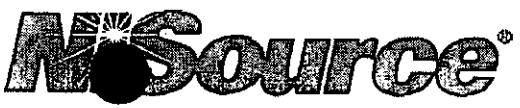
# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Total NiSource Employee Expense Spend by BU**  
 (AYE 6/30/12, 6/30/13)



- Internal Audit aligned employees by BU's in the table above through review of employee data provided by Human Resource (HR). Internal Audit noted that total **NCS** headcount increased ~5% from June 30, 2012 (1,442 employees) to June 30, 2013 (1,519 employees); including a net increase of 26 employees that transferred from other BU's to NCS during the period. **NGD**, **CPG**, and **NIPSCO** headcount remained relatively constant between periods. Refer to **Slide 50** for more information.



(1) **CPG includes:** NiSource Gas Trans & Storage; Columbia Gas Transmission; NiSource Midstream; Columbia Gulf Transmission; Crossroads Pipeline.

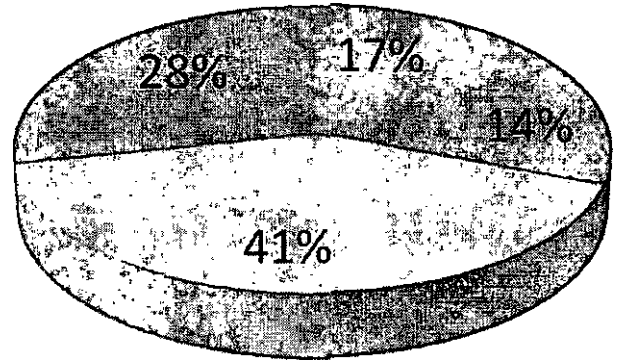


# Audit Procedures, Results and Recommendations

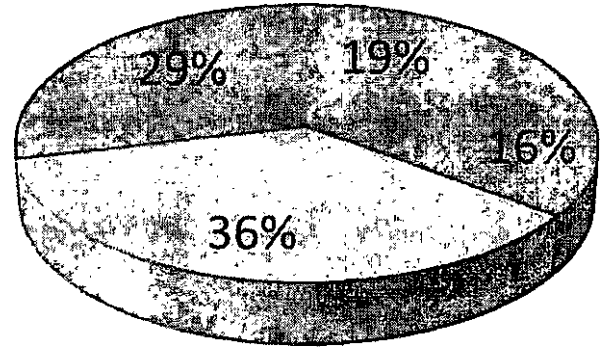
## Objective 1 (Cont.)

### Total Employee Expense Spend by BU (AYE 6/30/12, 6/30/13)

AYE 6/30/12



AYE 6/30/13



- NGD
- NIPSCO
- NCS
- CPG (1)

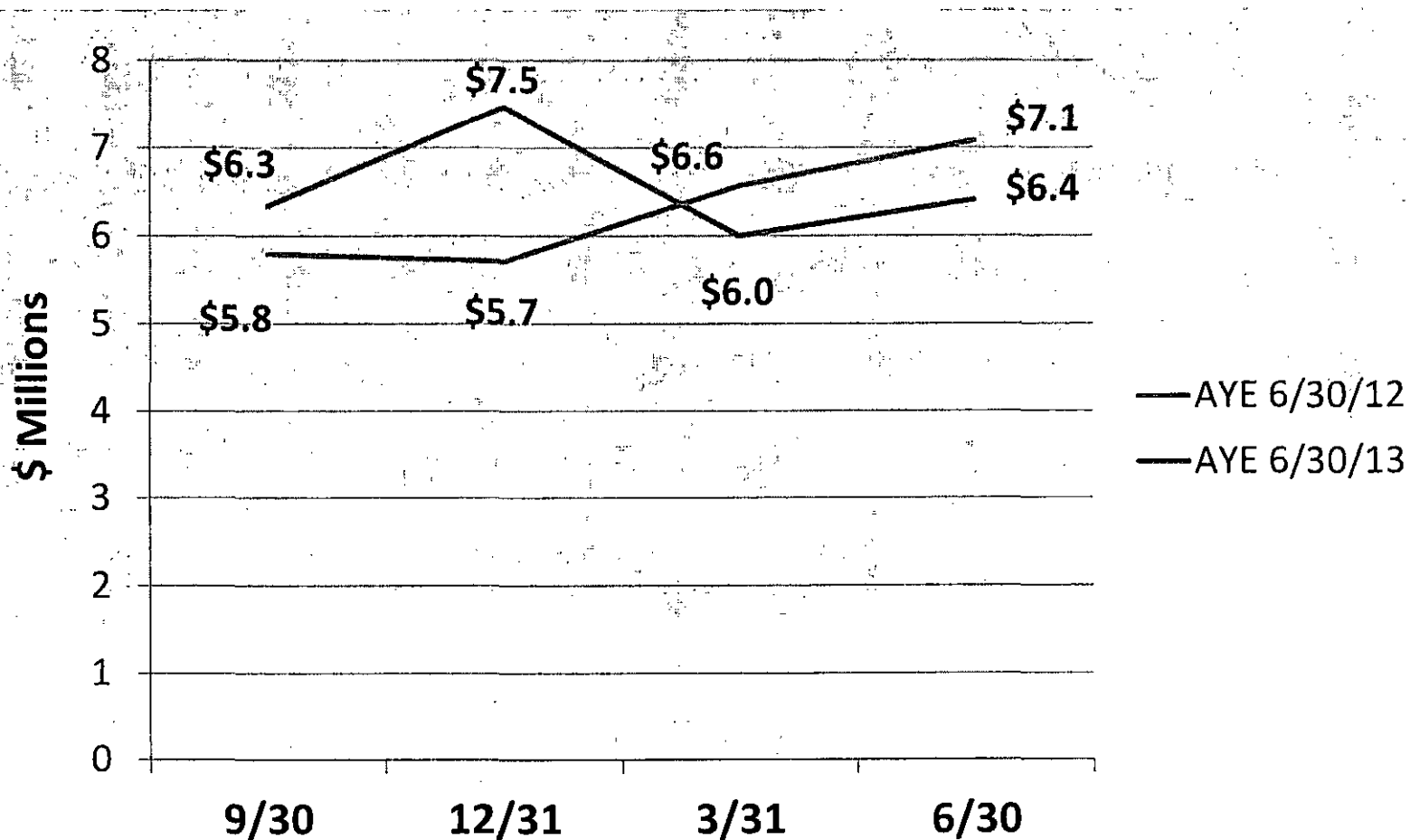


(1) CPG includes: NiSource Gas Trans & Storage; Columbia Gas Transmission; NiSource Midstream; Columbia Gulf Transmission; Crossroads Pipeline.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

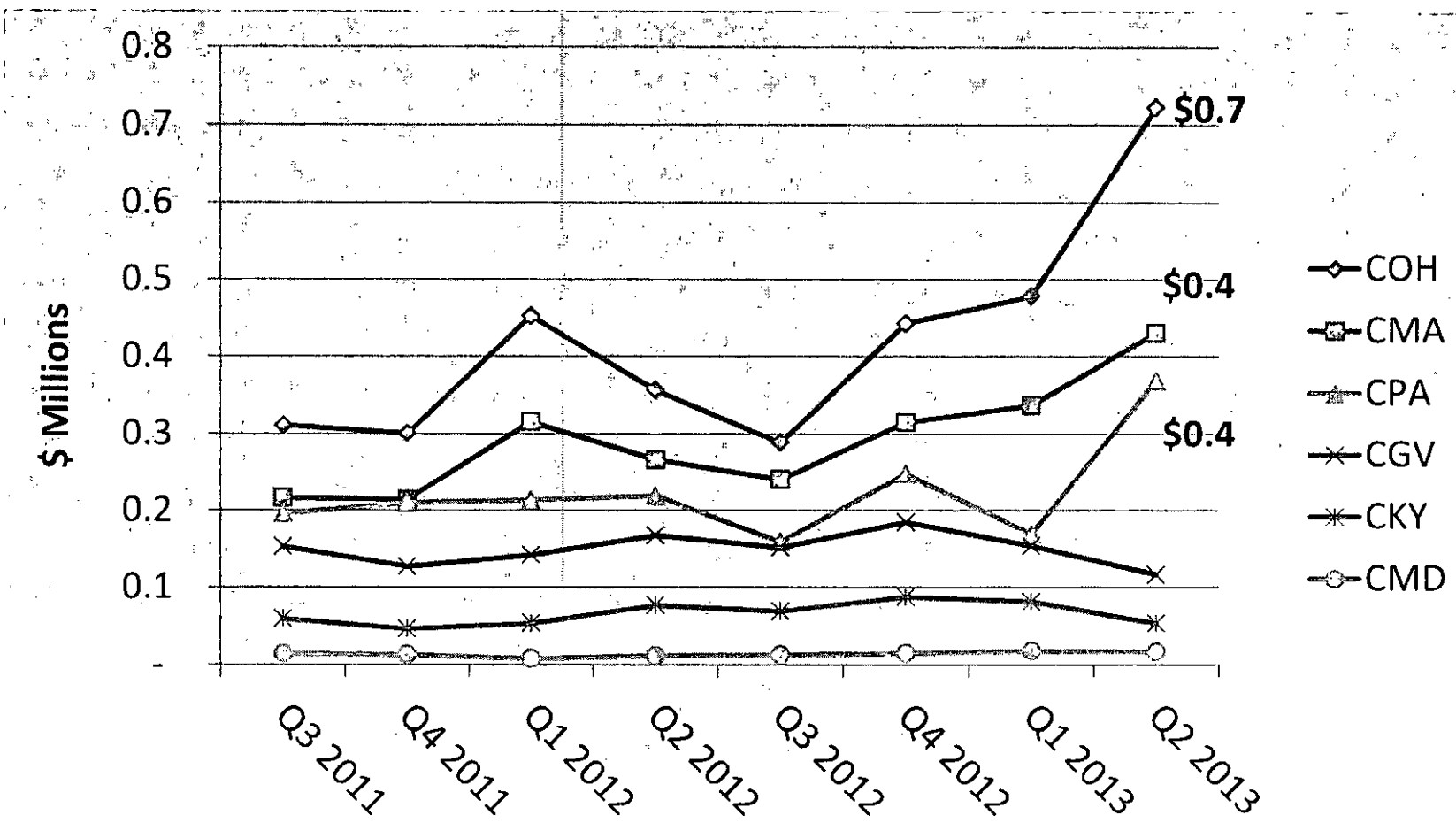
**Total NiSource Employee Expense Spend by Quarter**  
(AYE 6/30/12, 6/30/13)



# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**NGD Employee Expense Spend by Quarter**  
 (AYE 6/30/12, 6/30/13)

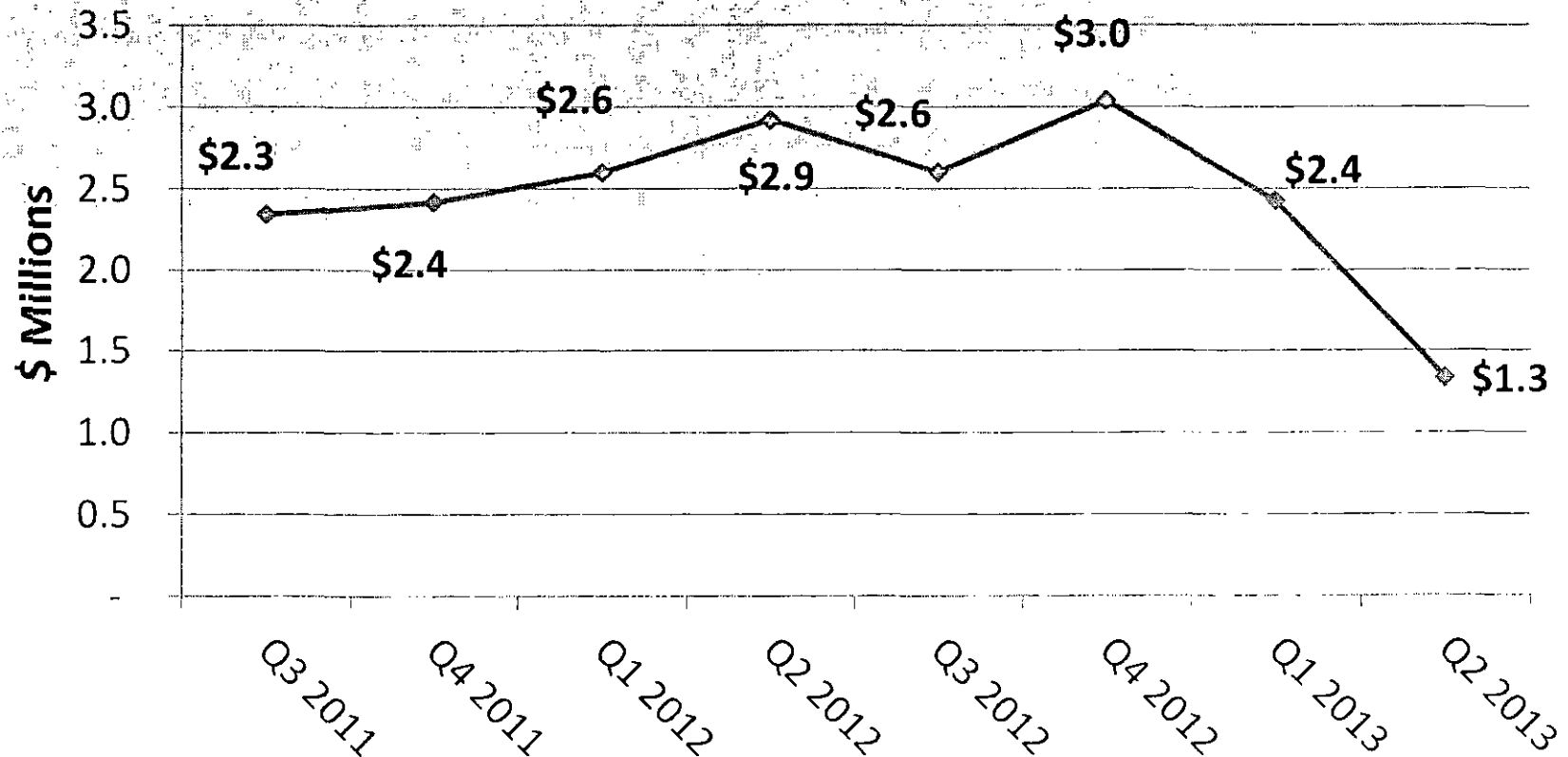


**Note:** "Hotel", "Air Travel", "Personal Miles", and "Business Lunches" attributed to the increase of noted spend across NGD in Q2 2013.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**NCS Employee Expense Spend by Quarter**  
(AYE 6/30/12, 6/30/13)

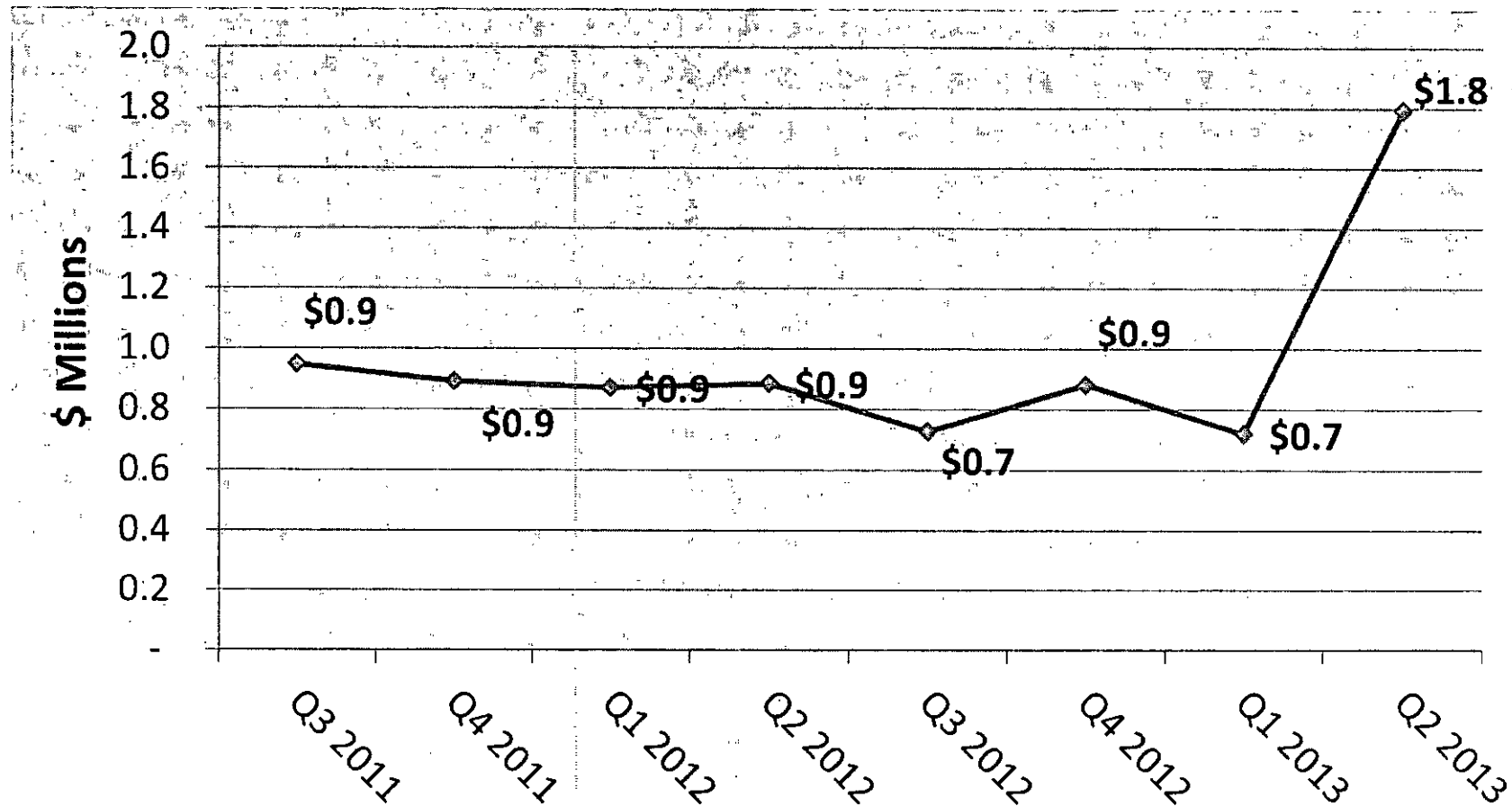


**Note:** "Hotel" expenses have increased as of Q2 2013, while "Air Travel", "Business Meals", "Rental Cars", and "Seminar/Conferences" have all decreased.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**NIPSCO Employee Expense Spend by Quarter**  
(AYE 6/30/12, 6/30/13)



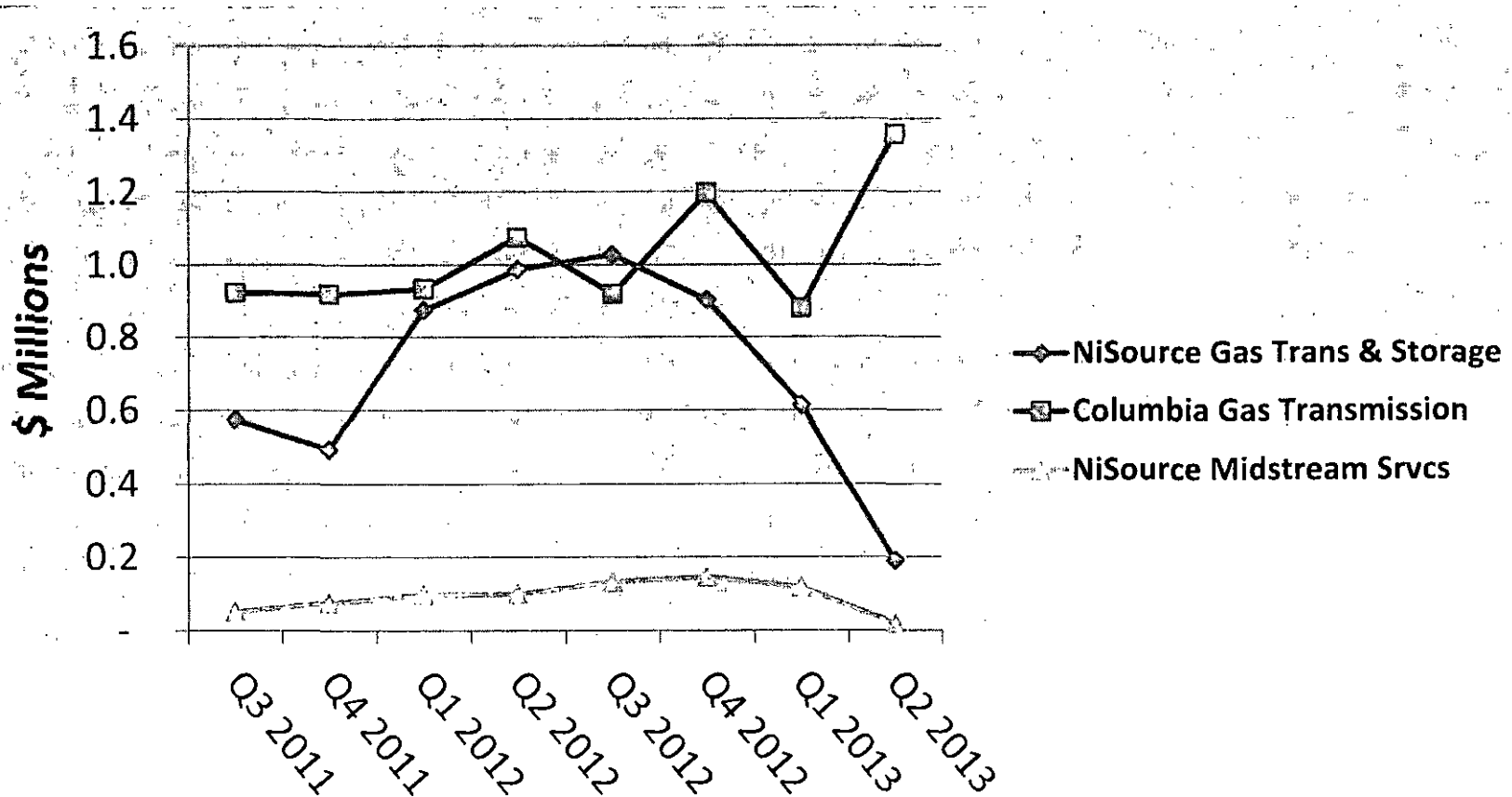
**Note:** "Hotel", "Air Travel", "Business Meals", and "Car Rental" expenses have all increased in Q2 2013.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### CPG Employee Expense Spend by Quarter

(AYE 6/30/12, 6/30/13)



**Note:** "Hotel", "Car Rentals", and "Personal Mileage" have all increased at Q2 2013, with offsetting reductions in "Air Travel" and "Business Meals."

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### ***Audit Results – Focus Area 1 (Cont'd):***

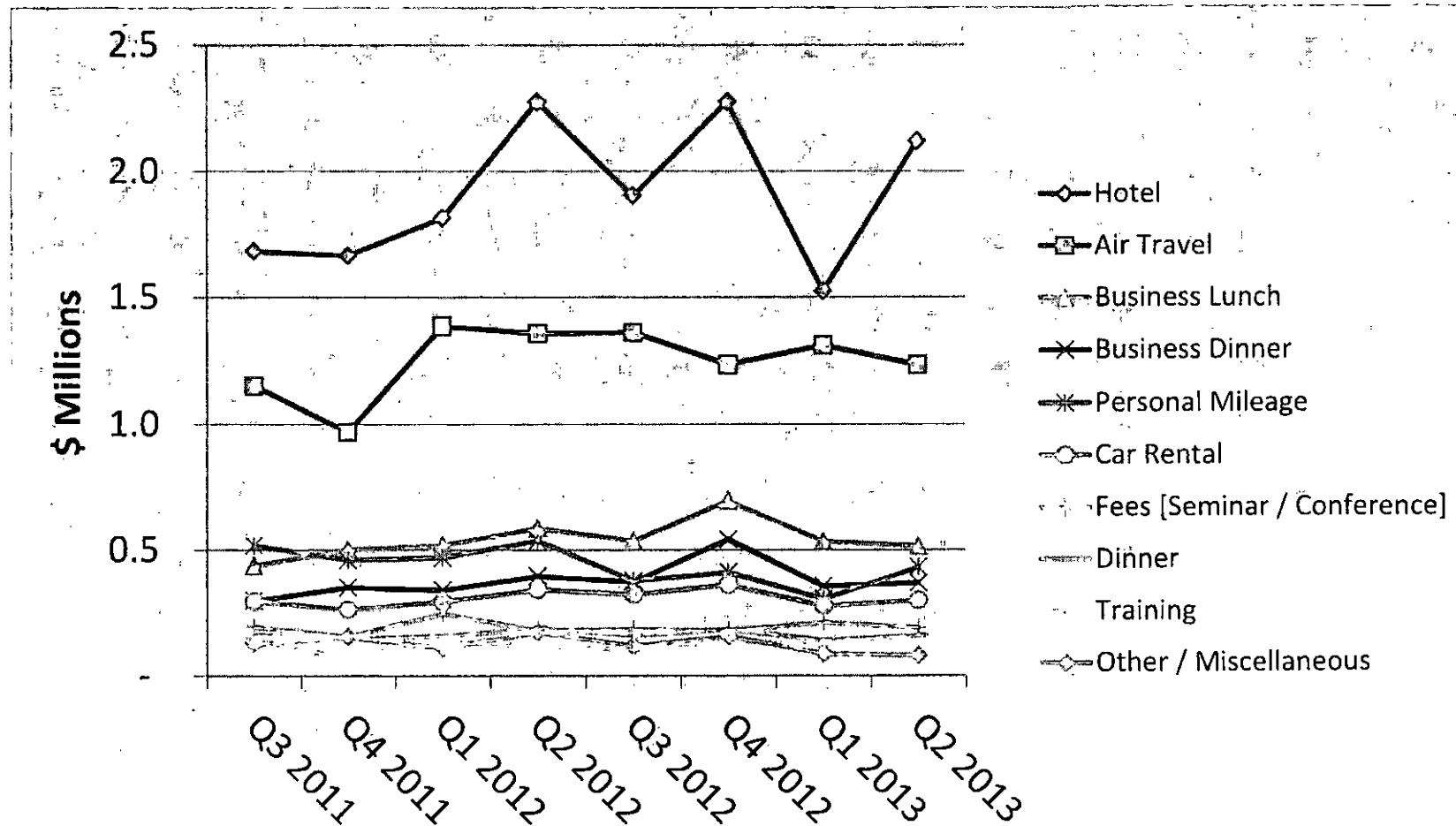
#### ***Top 10 ERS Spend Categories by Dollars (See Slide 22 for the categories and spend).***

- The **Top 10** ERS spend categories represent **84%** of total spend for AYE 6/30/13, or **~\$21.9M**.
  - Internal Audit observed that **“Hotel”**\*, **“Business Lunches”**, and **“Air Travel”** are the three largest ERS spend categories across NiSource.
    - “Hotel” decreased in Q1 2013, but rebounded in Q2 2013.
    - “Business Lunches” and “Air Travel” have remained relatively consistent through AYE 6/30/12 and AYE 6/30/13.
  - “Personal Mileage” had been decreasing since Q3 2011, but has recently seen an increase in Q2 2013.
  - Remaining spend categories have remained relatively consistent with small spikes or decreases during various quarters; see **Slide 22**.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Top Ten ERS Spend Categories by Dollars (\$)**  
 (AYE 6/30/12, AYE 6/30/13)



\*Hotel expense includes Room & Tax, Conferences Rooms, and Other expenses charged through at hotels.



# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### ***Audit Results – Focus Area 1 (Cont'd):***

#### ***Top 10 ERS Spend Categories by Dollars – Average Spend per Transaction***

- Refer to **Slide 24** for a chart that calculates the average spend per transaction for AYE 6/30/13 and AYE 6/30/12 for the **Top 10** spend categories in AYE 6/30/13.
- Through our analysis, Internal Audit noted significant fluctuations from AYE 6/30/2012 to AYE 6/30/2013 as follows:
  - “Hotel”\* expenses, while in total are up ~5% in AYE 6/30/13, had a ~12% higher average transaction cost as compared to the average cost in AYE 6/30/12;
  - “Air Travel” spend has seen a ~8% increase in average spend and a ~1% decrease in the number of transactions suggesting airline costs are increase even as amount of flights has decreased; and
  - Average spend related to “Other/Miscellaneous” has decreased ~17%.
- Given the amount of dollars flowing through these ERS spend categories, a significant increase in cost per transaction could impact overall employee spend.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### NiSource Top Ten ERS Spend Categories (\$) (AYE 6/30/12, AYE 6/30/13)

Top 10 Expense Category	AYE 6/30/12			AYE 6/30/13			% Inc/Dec in Ave. Spend
	Total Spend	# of Transactions	Average Spend	Total Spend	# of Transactions	Average Spend	
Hotel*	\$ 7,431,441	30,082	\$ 247	\$ 7,817,627	28,180	\$ 277	12.3%
Air Travel	\$ 4,859,002	17,525	\$ 277	\$ 5,131,282	17,222	\$ 298	7.5%
Business Lunch	\$ 2,040,588	31,878	\$ 64	\$ 2,279,291	34,366	\$ 66	3.6%
Business Dinner	\$ 1,383,806	10,060	\$ 138	\$ 1,639,520	10,548	\$ 155	13.0%
Personal Mileage	\$ 1,980,277	51,925	\$ 38	\$ 1,521,212	35,321	\$ 43	12.9%
Car Rental	\$ 1,193,711	7,574	\$ 158	\$ 1,259,396	7,813	\$ 161	2.3%
Fees [Seminar / Conference]	\$ 773,778	1,452	\$ 533	\$ 761,917	1,327	\$ 574	7.7%
Dinner	\$ 650,456	28,743	\$ 23	\$ 639,653	27,882	\$ 23	1.4%
Training	\$ 457,588	949	\$ 482	\$ 491,922	974	\$ 505	4.7%
Other / Miscellaneous	\$ 558,479	10,259	\$ 54	\$ 436,369	9,643	\$ 45	-16.9%
<b>Total</b>	<b>\$ 21,329,126</b>	<b>190,447</b>		<b>\$ 21,978,190</b>	<b>173,276</b>		

- *The average spend per transaction increased for nearly every category, as noted by the percentages for each category above. Other / Miscellaneous spend decreased mostly due to items coded in this category being moved to new categories.*

**Note:** Average spend per transaction is based solely on how items were input into ERS, thus items such as "baggage fees" coded as "Air Travel" could skew the numbers depending on the volume of these transactions.

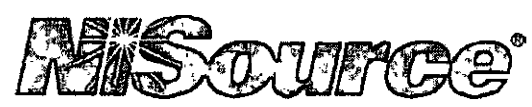
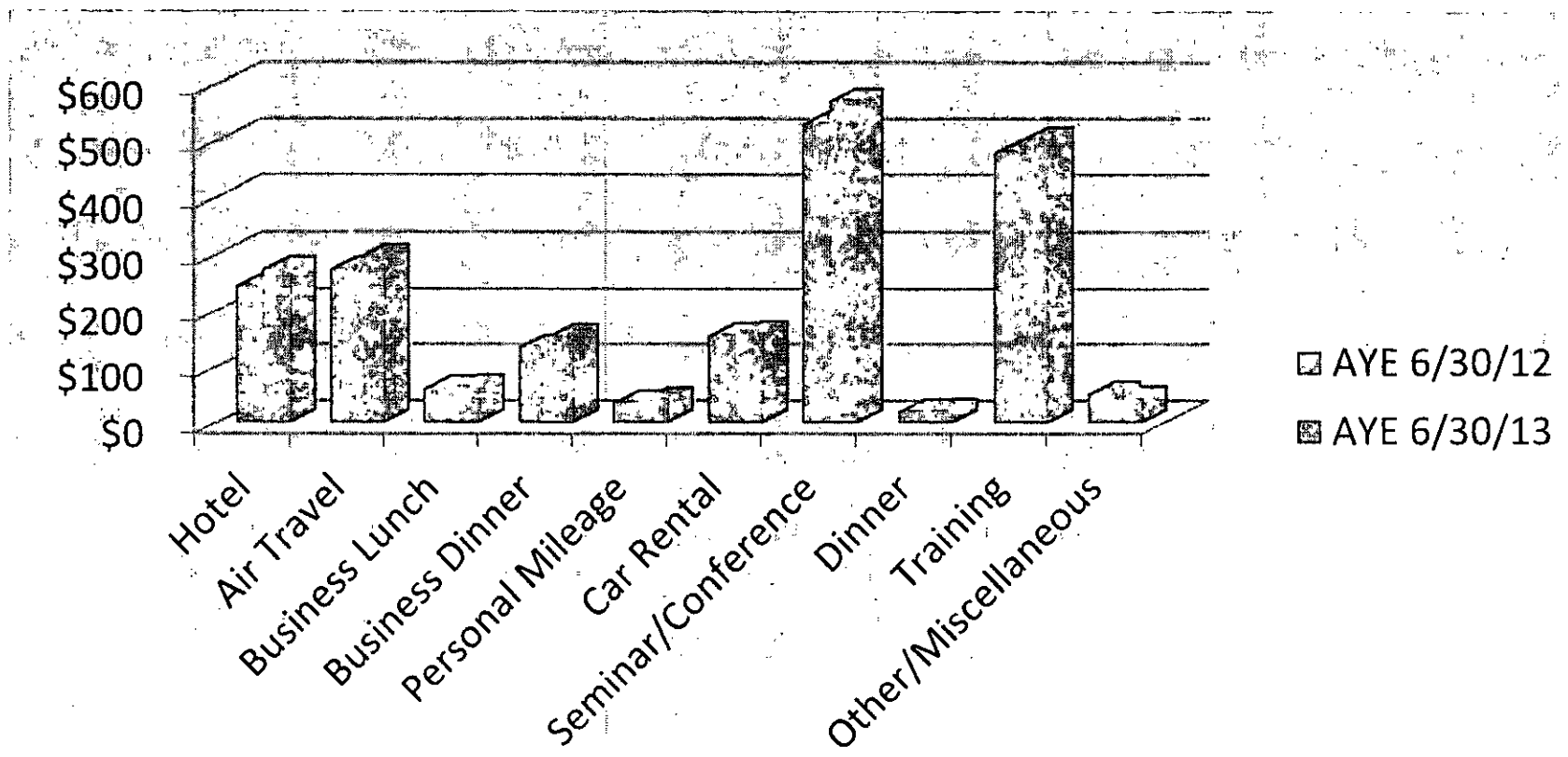


\*Hotel expense includes Room & Tax, Conferences Rooms, and Other expenses charged through at hotels.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Top Ten ERS Spend Categories**  
*(Average Spend per Transaction – Actual \$'s)*  
*(AYE 6/30/12, AYE 6/30/13)*



**Note:** Refer to **Slide 24** for actual per-transaction amounts.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### ***Audit Results – Focus Area 1 (Cont'd):***

#### ***Average Cost by Transaction***

- In addition to the **Top 10** spend categories in terms of total dollars (**Slides 24 & 25**), Internal Audit analyzed the **Top 10** spend categories by average cost per transaction.
- Internal Audit determined that the transactions with the highest average spend were not included in the **Top 10** spend categories.
  - *Internal Audit noted that when using AMEX, the Top 10 categories by average spend do not currently require a receipt for support, although frequency is significantly lower than the top 10 spend amount categories noted at **Slides 24-25**.*
- Refer to **Slide 28** for a chart that outlines the average spend per transaction for AYE 6/30/13 and AYE 6/30/12 for the **Top 10** spend categories in terms of average spend per transaction.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### Top 10 ERS Spend Categories by Average Spend per Transaction (AYE 6/30/12, AYE 6/30/13)

Expense Category	AYE 6/30/12			AYE 6/30/13		
	Total Spend	# of Trans.	Average Spend	Total Spend	# of Trans.	Average Spend
Safety Awards (Taxable)	\$ 182,133	55	\$ 3,312	\$ 181,226	59	\$ 3,072
Advance Request (1)	\$ 6,195	7	\$ 885	\$ 7,400	7	\$ 1,057
Special Event Ticket	\$ 25,947	92	\$ 282	\$ 92,503	112	\$ 826
Gift [Cash or Cash Equivalents (gift cards)]	\$ 37,813	191	\$ 198	\$ 124,218	155	\$ 801
Sporting Event	\$ 168,481	242	\$ 696	\$ 157,482	214	\$ 736
Fees [Seminar / Conference]	\$ 773,778	1,452	\$ 533	\$ 761,917	1,327	\$ 574
Training	\$ 457,588	949	\$ 482	\$ 491,922	974	\$ 505
Civic Associations	\$ 180	1	\$ 180	\$ 6,754	17	\$ 397
Gifts [Employees]	\$ 55,914	132	\$ 424	\$ 52,055	134	\$ 388
Award [Cash or Cash Equivalents (gift cards)]	\$ 155,528	395	\$ 394	\$ 152,498	399	\$ 382
<b>Total</b>	<b>\$ 1,863,558</b>	<b>3,516</b>		<b>\$ 2,027,975</b>	<b>3,398</b>	

**NOTE:** For taxable gifts, "Average Spend" in the table above is determined per transaction processed in ERS, not average per employee. Internal Audit reviewed HR data that included all taxable gifts ("Safety Awards", "Gifts"...etc.) issued to employees for AYE 6/30/2012 & 06/30/2013 and noted the following:

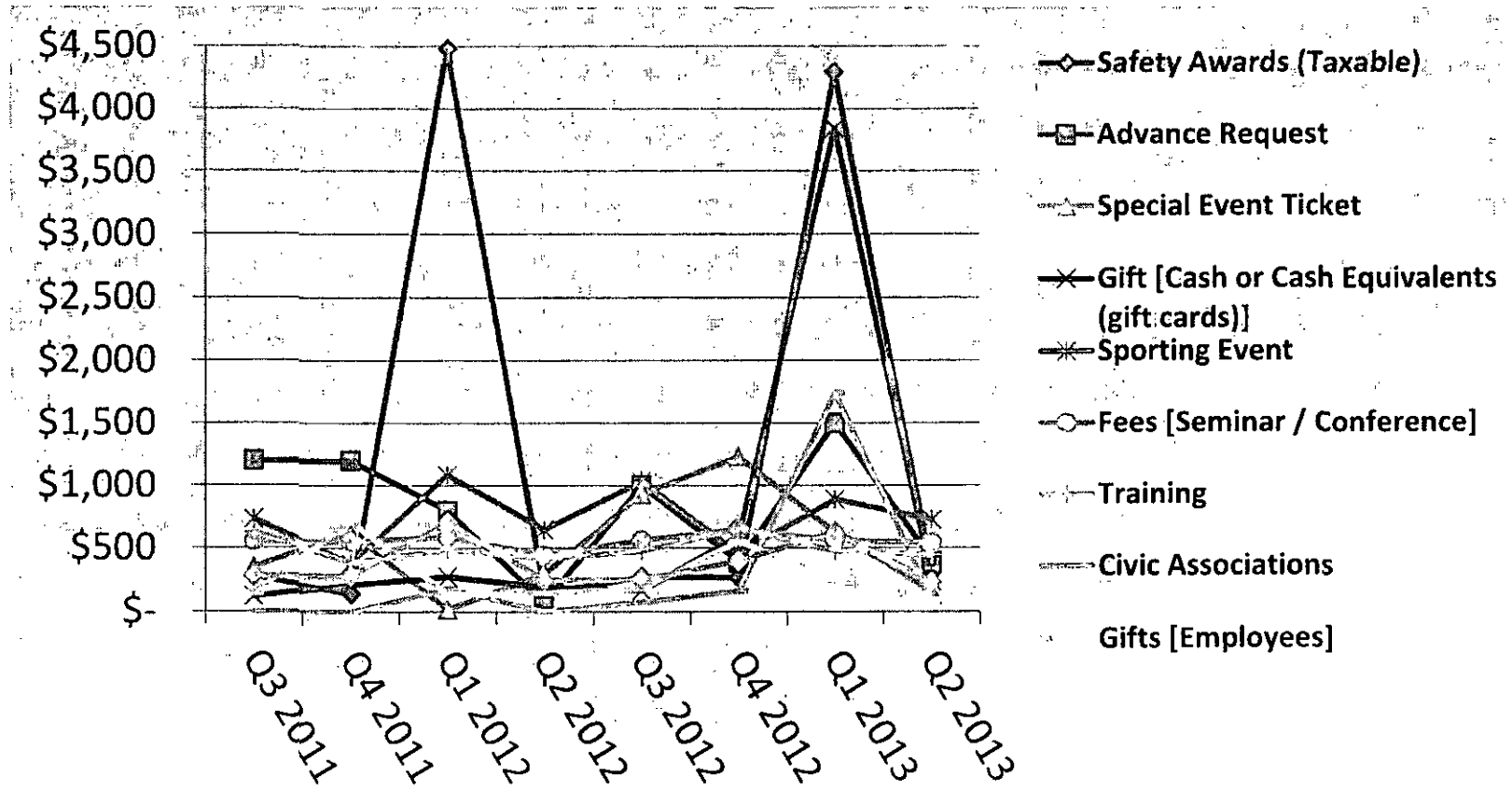
- AYE 06/30/2012 Total Taxable Gifts = **~\$411K**; 4,919 transactions for a total of **~\$83** per employee
- AYE 06/30/2013 Total Taxable Gifts = **~\$633K**; 6,949 transactions for a total of **~\$91** per employee

Because the data from HR above included gifts/awards that were processed outside of ERS, Internal Audit was unable to reconcile total taxable gift dollars processed by HR to ERS data in the table above.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

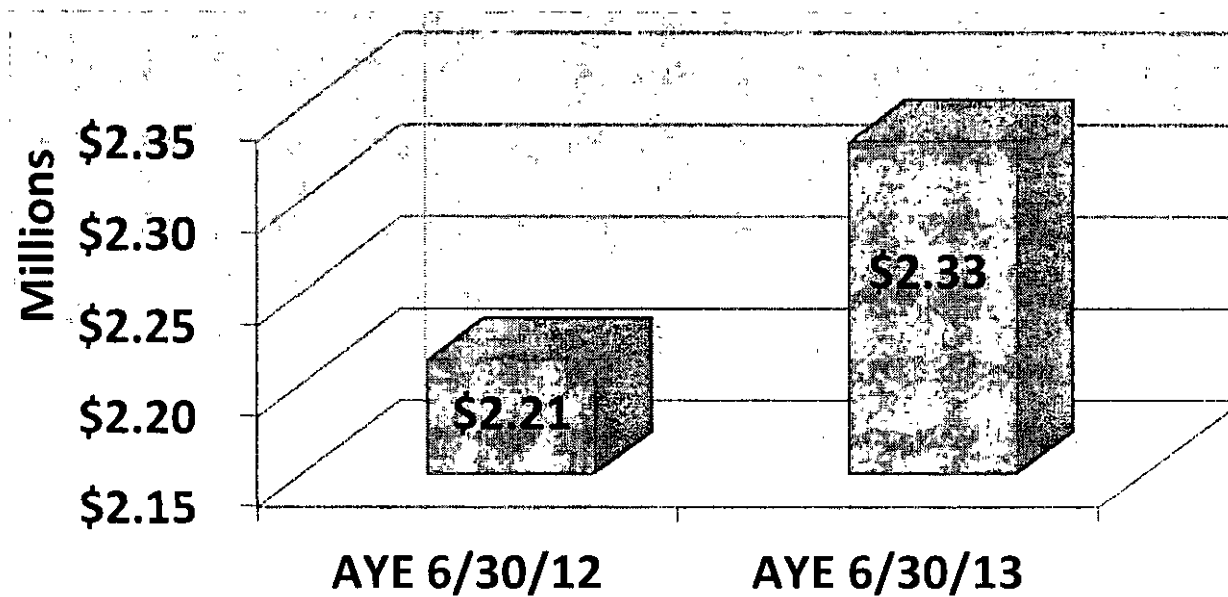
### Top 10 ERS Spend Categories by Average Spend per Transaction (AYE 6/30/12, AYE 6/30/13)



# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Total Employee Expense Spend by Top 25 Spenders**  
(AYE 6/30/12, AYE 6/30/13)



The spend of the **Top 25** employees increased ~5% from the prior period to ~\$2.3M in AYE 6/30/13.

- **Top 25** employees constitute ~9% of overall spend, which is consistent with AYE 6/30/12.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### ***Audit Results – Focus Area 1 (Cont'd):***

#### ***Top 10 Spenders by BU:***

- ***NGD: Top 10*** spenders comprised ~**10%** of total spend for NGD for AYE 6/30/13.
  - The top spender at NGD submitted ~**\$106K** in spot bonuses for safety awards given to COH employees.
    - Amount represents ~**58%** of all NiSource safety awards processed in ERS.
- ***CPG: Top 10*** spenders constituted ~**14%** of the total CPG spend for AYE 6/30/13.
  - Midstream comprised the second smallest group in terms of spend for CPG, but had the two highest spenders.
  - ***NOTE:*** *Internal Audit completed focused procedures regarding some focused Midstream employee transactions that appeared to show patterns of potential risk, but determined that all expenses reviewed were submitted in accordance with Company policy and were properly approved.*
- ***NIPSCO: Top 10*** spenders spent ~**10%** of the total NIPSCO spend for AYE 6/30/13.
- ***NCS: Top 10*** spenders spent ~**9%** of the total NCS spend for AYE 6/30/13.

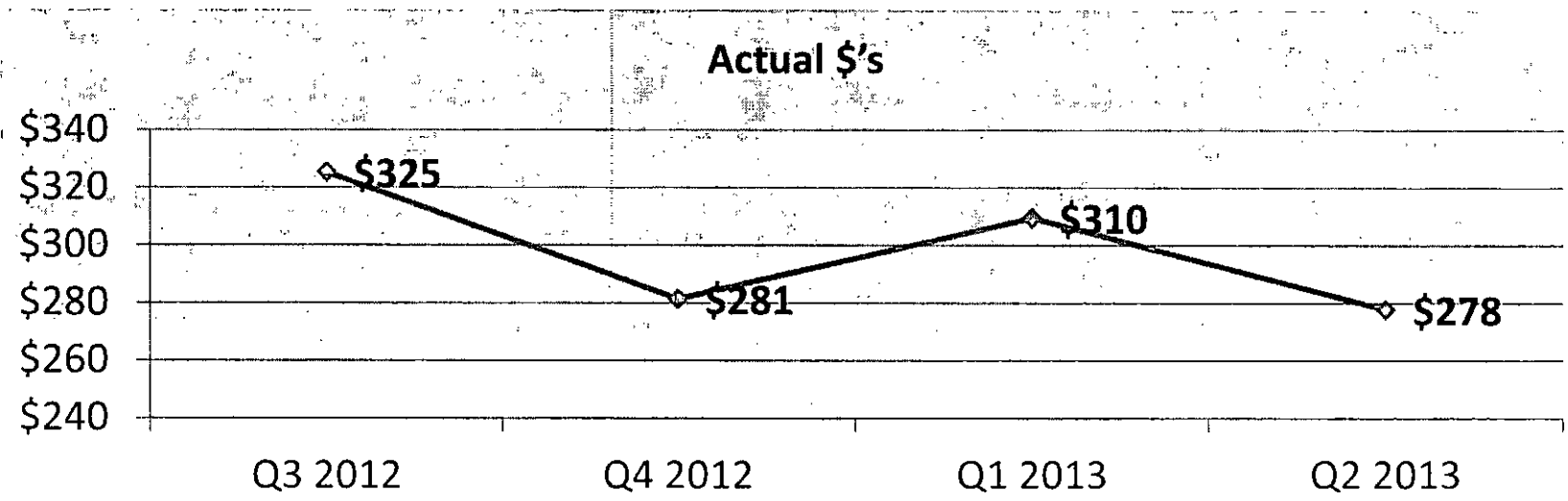


# Audit Procedures, Results and Recommendations

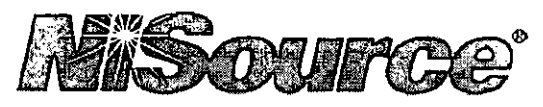
## Objective 1 (Cont.)

### Key Insights:

**Average Air Travel Price Per Trip**  
(AYE 6/30/13)



- For the period under review, the overall airfare cost per ticket has been decreasing over time. Average airfare for AYE 6/30/13 was ~\$278 per ticket.
- Internal Audit identified a total of over \$10,000 in air travel credits that were refunded back to NiSource. Currently, non-refundable flight credits issued for cancelled flights are not independently tracked and monitored to ensure the credit is utilized for business purposes only.

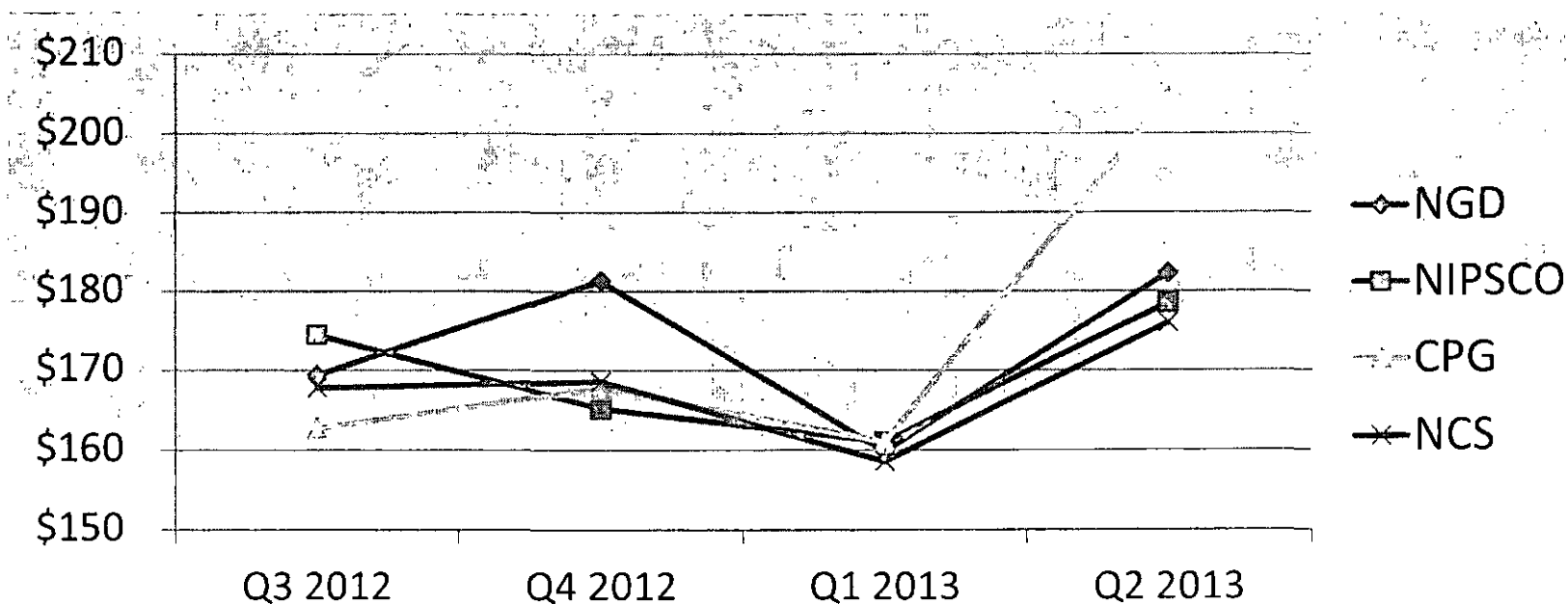


# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### Key Insights (Cont'd):

**Average Room and Tax Rate per Night by Business Unit (Actual \$'s)**  
(AYE 6/30/13)



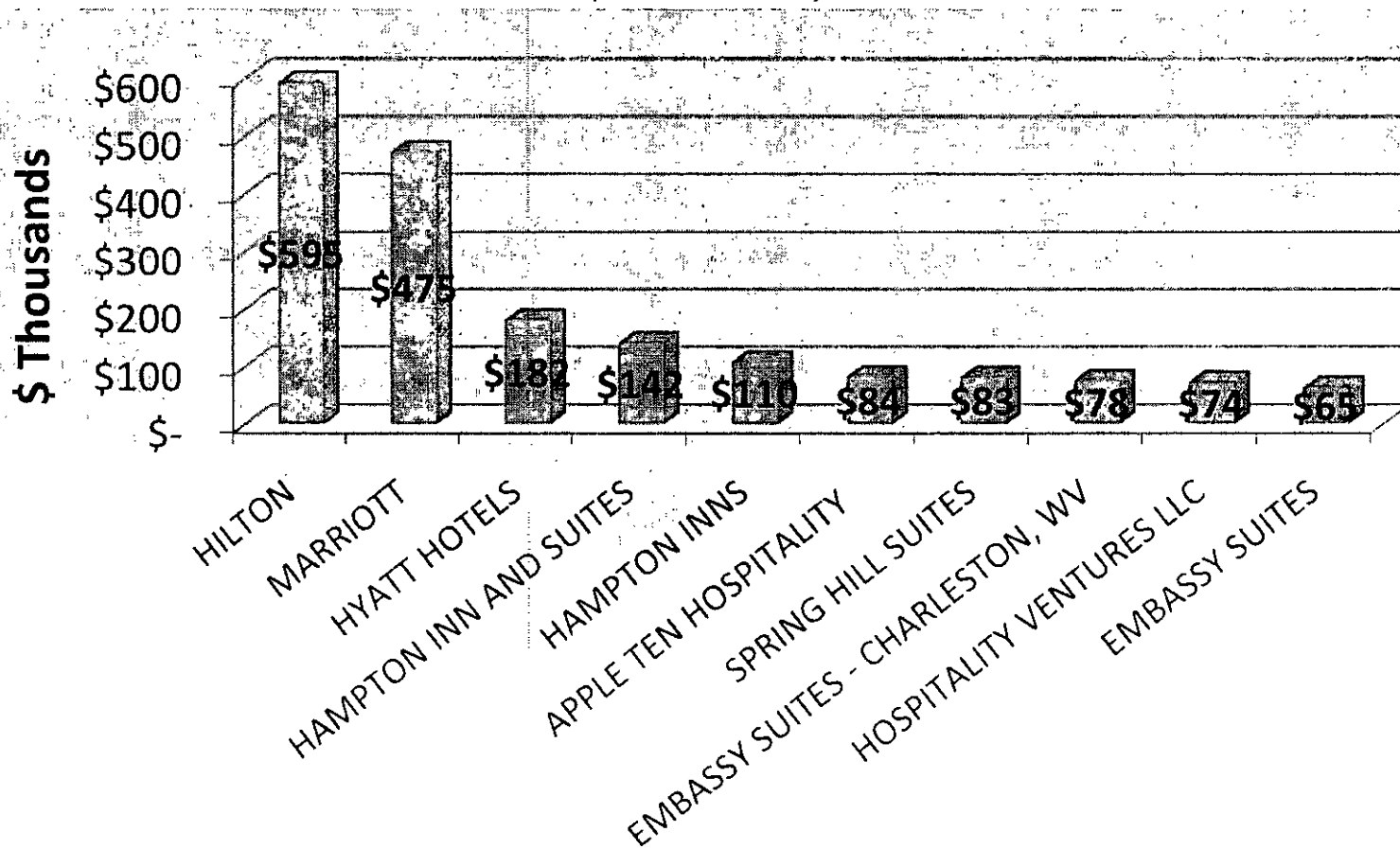
- The average "Room and Tax" cost was ~\$166 for current audit period; average cost appear to be on an upward trend throughout 2013 for all BU's.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### Key Insights (Cont'd):

**Total Room and Tax Spend for Top 10 Preferred Vendors**  
(AYE 6/30/13)

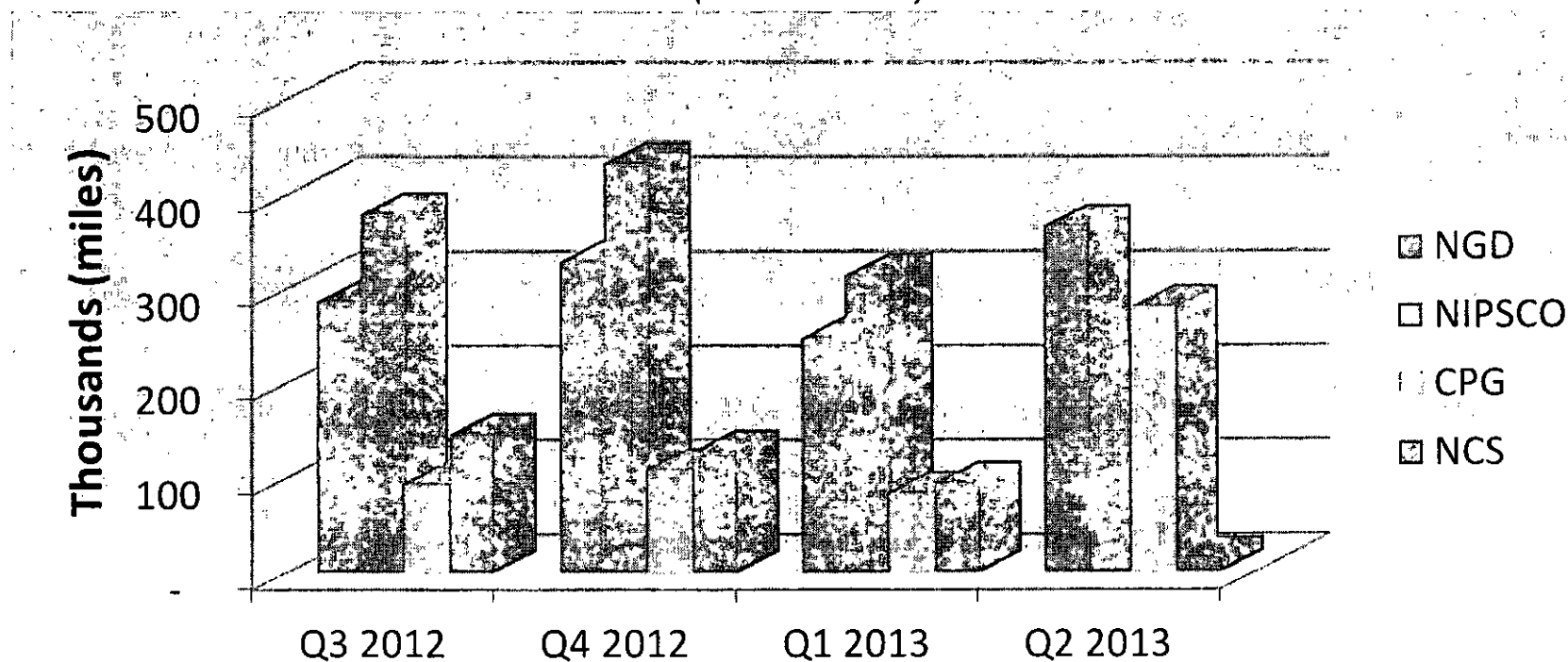


# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### Key Insights (Cont'd):

**Total Personal Mileage Expense Reimbursement by Business Unit**  
(AYE 6/30/13)



- NiSource employees expensed ~**3.5 Million Miles** in the current audit period.
  - NGD and NIPSCO employees expensed **70%** of the total miles driven.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### *Audit Results – Focus Area 1 (Cont'd):*

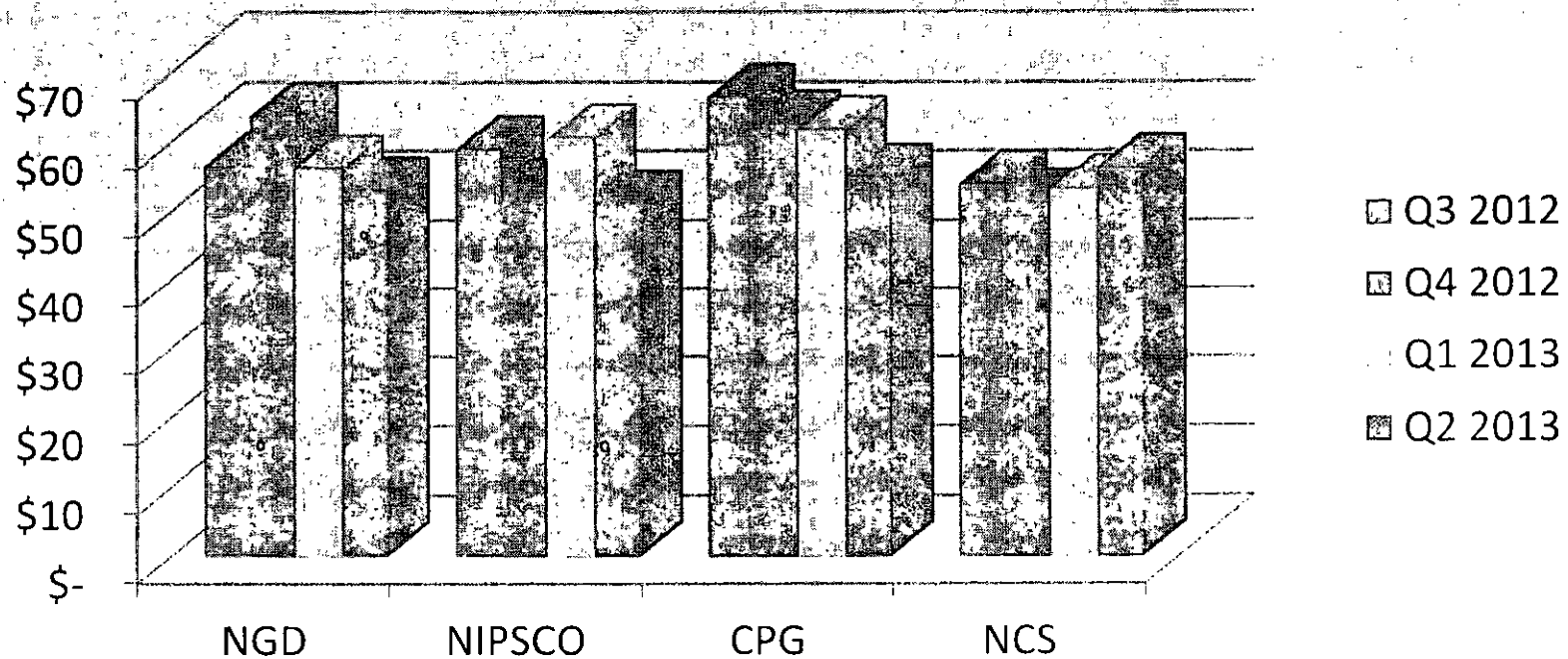
#### *Personal Mileage Analysis (Cont'd):*

- Internal Audit summarized all personal miles for AYE 6/30/13 and found **27** people had driven over **12,000** miles in the audit year, which is the minimum annual mileage to be eligible for a fleet vehicle, per Fleet Management policy.
  - Internal Audit noted some employees received over **~\$10K** in reimbursement for personal vehicle miles during the current audit period.
- Per travel policy, a rental car or flight must be taken if the cost is cheaper than the estimated personal mileage reimbursement. When the vehicle rental rate is cheaper than the mileage reimbursement, employees are required to rent a vehicle from a preferred vendor.
  - Internal Audit identified instances whereby employees drove their personal vehicle extended distances when a rental car or a flight should have been considered, per policy.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Average Rental Car Rate per Day**  
**(AYE 6/30/13)**

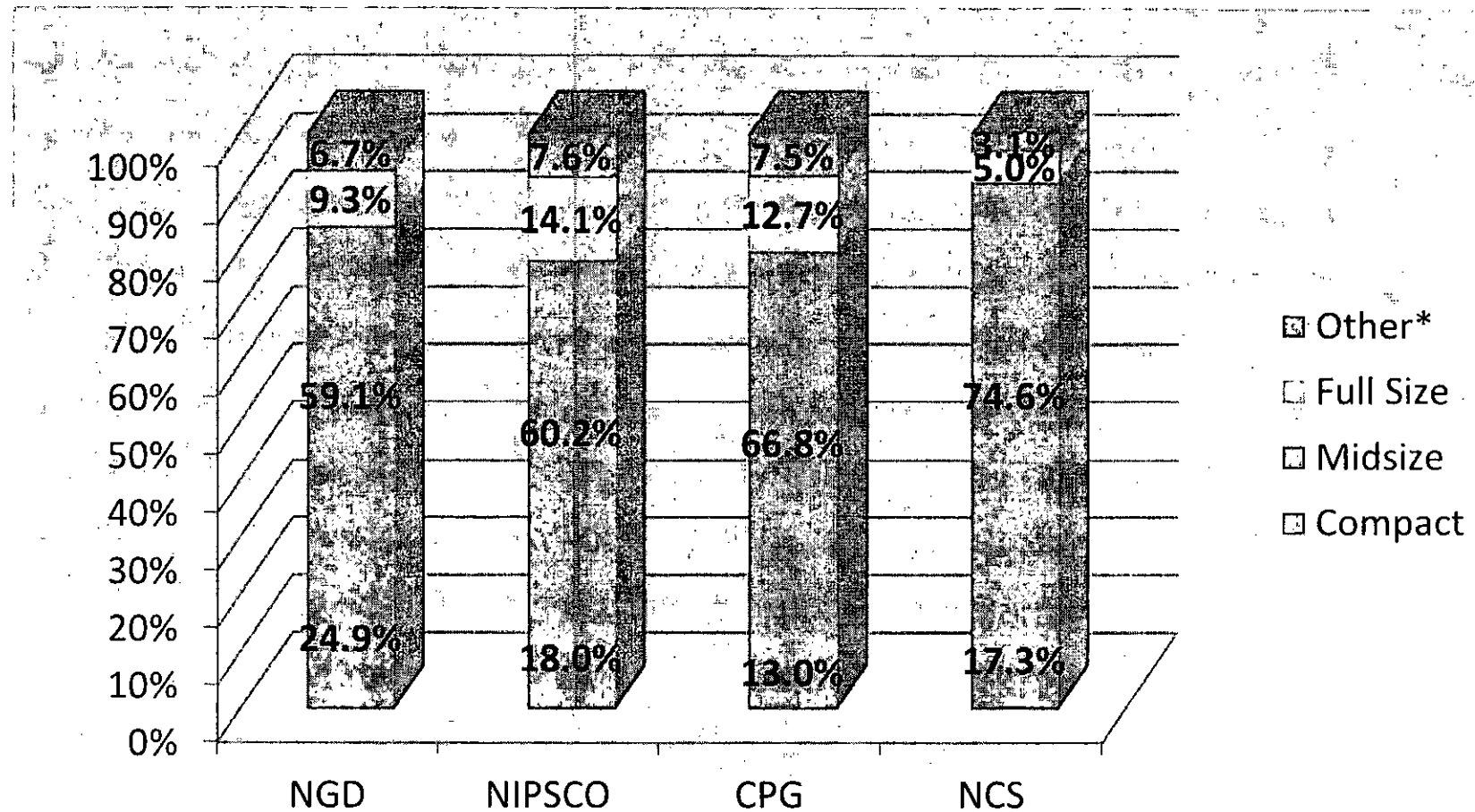


- Average NiSource rental car rate per day is ~\$57 for AYE 6/30/13.
  - CPG has the highest rental car rate per day at ~\$61.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

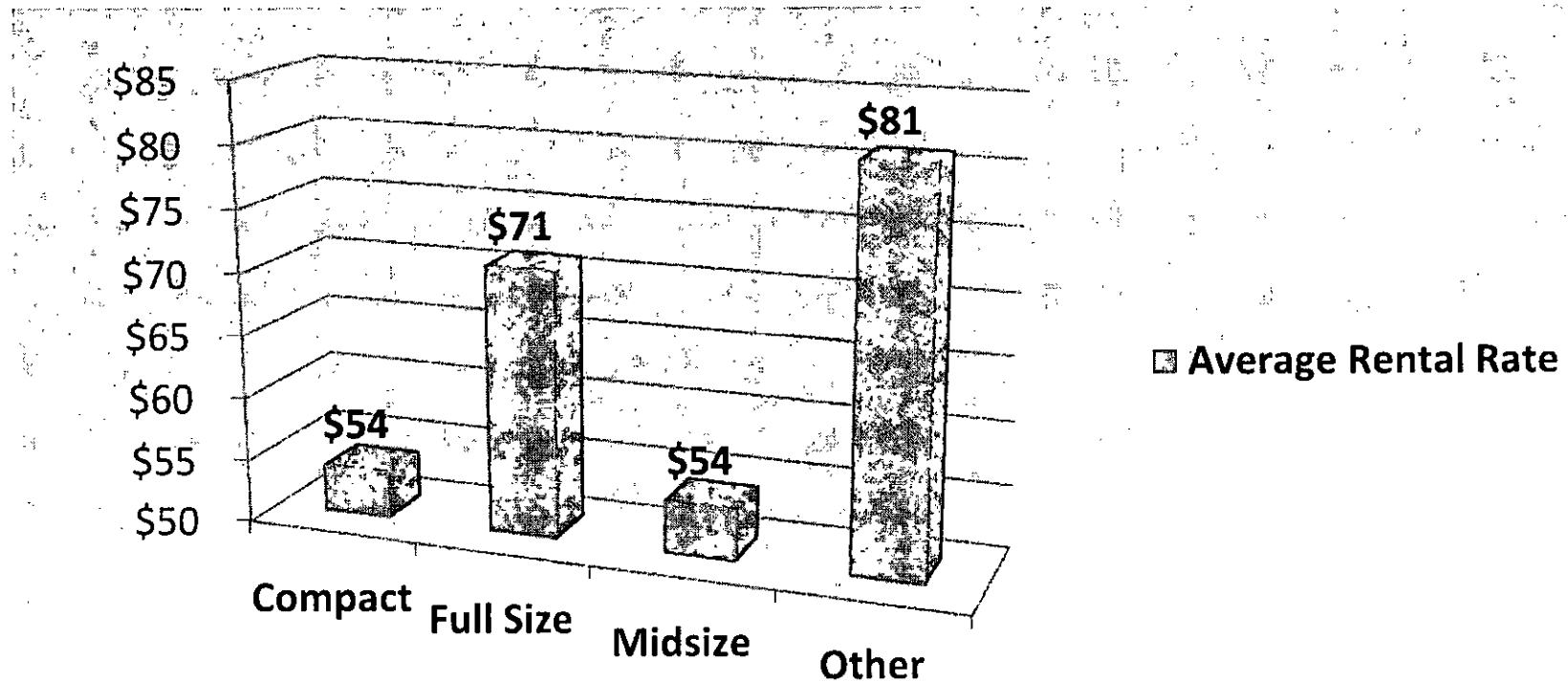
### Rental Cars by Car Type by Business Unit (AYE 6/30/13)



# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Average Rental Car Rate by Car Type**  
(AYE 6/30/13)



- Full Size and Other vehicle types are the most expensive rental car types; however, they are the least frequently rented by NiSource employees as noted at **Slide 37**.



# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### ***Audit Results – Focus Area 1 (Cont'd):***

### ***Internal Audit Recommendation(s):***

- Management should consider reinforcing the Fleet Management policy that defines when fleet vehicles should be considered to be cost effective for the Company. Additionally, management should consider reinforcing the expense policy regarding required method of travel for long distances.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

**Focus Area 2:** Examine a sample of employee expense reports and evaluate their compliance with corporate policy.

### ***Audit Results:***

Based on the analytical analysis performed at **Focus Area 1**, **60** samples were selected for further testing using a risk based sampling approach.

- Internal Audit reviewed the selected expense statements within ERS to determine compliance with corporate policy.
  - Internal Audit did not identify significant and/or recurring violations of policy based on the samples selected. However, the following item was noted:
    - Receipts, per policy, are **primarily** only required for “Hotel”\* expenses.
      - *Due to the lack of detail and supporting documentation required by corporate policy, Internal Audit’s assessment of the selected expense item, as a reasonable business expense in accordance with corporate policy, was limited in some cases based on the information retained in ERS. The current version of ERS would not allow additional receipts to be required for categories which currently do not require one.*



\*Hotel expense includes Room & Tax, Conferences Rooms, and Other expenses charged through at hotels.

# Audit Procedures, Results and Recommendations

## Objective 1 (Cont.)

### *Audit Results – Focus Area 2 (Cont'd):*

#### *Internal Audit Recommendation:*

- If a future ERS system update is implemented, Management should consider revising current employee expense policies to require additional receipt documentation for certain high dollar transactions.

**General Comment:** In order to improve the documentation in ERS, all employees should consider providing as much information as practicable to support their expenses in the comments section of ERS; examples include mileage details and explanations for submitted expenses that do not align with policy.

# Audit Procedures, Results and Recommendations

## Objective 2

**Audit Objective 2:** Determine that corporate credit card use is limited to authorized personnel and that processes are in place to monitor corporate credit card use.

- **Focus Area 1:**
  - Verify that active credit cards are only assigned to active personnel.
  
- **Focus Area 2:**
  - Review the procedures performed by Accounts Payable to periodically audit employee expense transactions and review the results of their audits for instances of non-compliance.
  
- **Focus Area 3:**
  - Review employee expense reimbursement data to identify duplicate payments.
  
- **Focus Area 4:**
  - Ensure expenses are timely entered into ERS for review, approval, and payment.

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont.)

**Focus Area 1:** Verify that active credit cards are only assigned to active personnel.

### ***Audit Results***

- To ensure only active credit cards are assigned to active personnel, Internal Audit compared the NiSource active employee listing (as of 3/31/2013), as obtained from Human Resources, to a listing of employees with active American Express Corporate Credit Cards as obtained from Supply Chain. Internal Audit noted the following:
  - Supply Chain Management confirmed that **34** AMEX cards are currently held by various departments to be used for special projects, such as, meetings, conferences, etc.
  - **3** AMEX cards were assigned to inactive employees and were subsequently cancelled, as verified by Internal Audit.
    - Supply Chain performs a quarterly review of inactive employees.
    - As with prior employee expense audits, Internal Audit noted that these **3** AMEX cards would have been identified as part of the quarterly review.

***Internal Audit Recommendation: None***

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont.)

**Focus Area 2:** Review the procedures performed by Accounts Payable to periodically audit employee expense transactions and review the results of their audits for instances of non-compliance.

### **Audit Results – Focus Area 2:**

- Internal Audit noted that Accounts Payable performs audits on employee expenses that fall into the following categories:
  - *A pre-audit of all expense reports exceeding \$10,000;*
  - *A pre-audit of specifically identified employees based on historical experience and/or position within the Company;*
  - *A post audit of a random 10% sample of all expense submissions;*
  - *A post audit on all miscellaneous expenses exceeding \$250; and*
  - *A post audit on all cash out of pocket meals greater than \$25.*
  
- Internal Audit noted that Accounts Payable is limited in their assessment as receipts are not required for expenses other than “Room and Tax” and “Cash” transactions.
  - Accounts Payable relies heavily on the supervisor’s approval of the expense.
  - Items that appear to be non-compliant with policy are investigated.

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont.)

### *Audit Results – Focus Area 2 (Cont'd)*

#### ***Internal Audit Recommendation:***

- If a future ERS system update is implemented, Management should consider revising current employee expense policies to require additional receipt documentation for certain high dollar transactions.

**NOTE:** Recommendation is also included at ***Slide 41.***

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont.)

**Focus Area 3:** Review employee expense reimbursement data to identify duplicate payments.

### ***Audit Results:***

- Internal Audit reviewed all employee expense reports for AYE 6/30/13 via Microsoft Access and performed a duplicate payment query to check for employee expense payments which had the same expense report claim ID, payment amount, vendor, and receipt date.
  - Internal Audit did not identify any instances of duplicate payments being made to employees through the testing performed.

***Internal Audit Recommendation:*** None



# Audit Procedures, Results and Recommendations

## Objective 2 (Cont.)

**Focus Area 4:** Ensure expenses are timely entered into ERS for review, approval, and payment.

### ***Audit Results:***

- Per the Employee Expense policy, expenses must be submitted **10** days after an employee receives a monthly statement, but not to exceed **45** days from the date of the expense transaction.
  - Internal Audit determined that the average time to submit an ERS expense report during AYE 6/30/13 was **18 days** from the date the expense was incurred.
  - While the observed number of days to submit expense reports is within Company policy, Internal Audit noted several employees who were frequently taking in excess of **300** days to submit reports.
    - Internal Audit did not identify reimbursed late fees related to these employees.

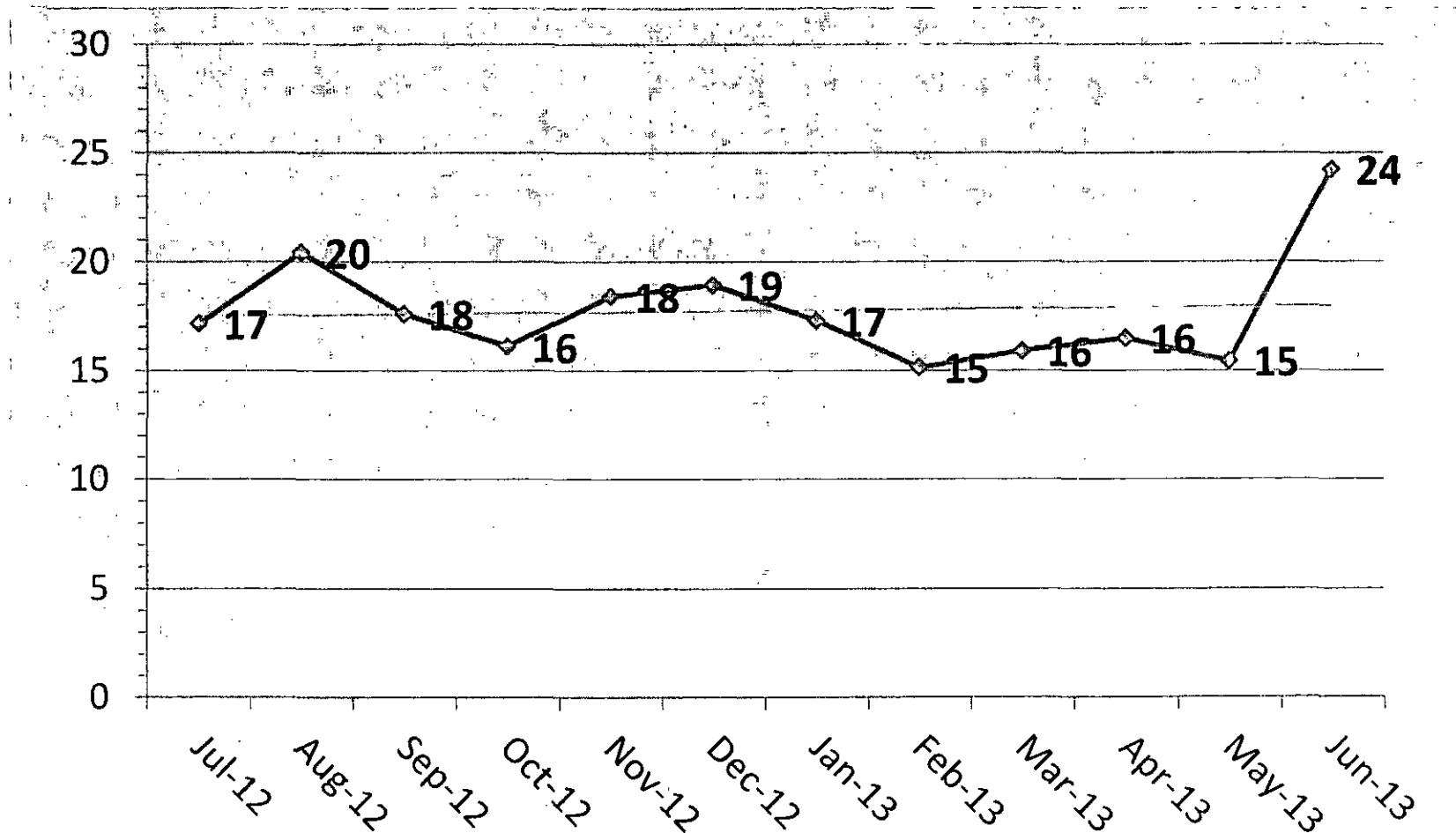
### ***Internal Audit Recommendation:***

- Management should reinforce expense policy for those employees who may consistently submit expense reports past 45 days.

# Audit Procedures, Results and Recommendations

## Objective 2 (Cont.)

**Average Days to Submit Expenses from Transaction Date**



## Employee Spend Data by Business Unit (Exhibits)

Specific employee spend data related to each of the BU's are included in the following exhibits:

- Exhibit A – NiSource Gas Distribution Companies
  - Exhibit B – Columbia Pipeline Group
  - Exhibit C – NiSource Corporate Services
  - Exhibit D – Northern Indiana Public Service Company
- Relative Exhibits have been provided to each BU's executive management for informational purposes and additional internal use as deemed appropriate. Additional detailed expense information can be provided by request.

## Supplemental Information

- Through review of HR data, Internal Audit noted that total NiSource headcount increased by ~1% during the audit period; The most significant change in headcount occurred at NCS with a total net headcount increase of ~5%. See the table below.

Employee Count Per Quarter			
Company	6/30/2012	6/30/2013	% Difference
NCS	1,442	1,519	5.3%
NGD	2,667	2,693	1.0%
CPG	1,302	1,292	-0.8%
NIPSCO	2,954	2,936	-0.6%
<b>Totals</b>	<b>8,365</b>	<b>8,440</b>	<b>0.9%</b>

- Internal Audit noted that NCS had a net gain of 26 people during the audit period attributing to some of the increase in employee expenses at NCS.

Transfer Into and Out of NCS 7/1/2012 - 6/30/2013			
Company	Transfer to NCS	Transfer From NCS	Net Change
NGD	61	24	37
NIPSCO	8	13	-5
CPG	3	9	-6
<b>Totals</b>	<b>72</b>	<b>46</b>	<b>26</b>

- Through review of ERS data, Internal Audit noted that a total of 4,440 employees submitted an expense report during AYE 06/30/2012, while 4,441 employees submitted an ERS expense report during AYE 6/30/2013.

# Report Distribution Listing

**cc:** R. C. Skaggs (All Exhibits)  
S. P. Smith (All Exhibits)  
C. J. Hightman (All Exhibits)  
J. Hamrock (Exhibit A)  
J. Stanley (Exhibit B)  
J. D. Staton (Exhibit C)  
V. G. Sistovaris  
L. J. Francisco (All Exhibits)  
J. D. Veurink (Exhibit D)  
T. E. Bartlett  
L.M. Bolin  
D.A. Eckstein  
S.D. Noel  
T. L. Tucker  
Deloitte & Touche, LLP

## MANAGEMENT ACTION PLAN (MAP)

<b>Audit: Operator Qualification Review</b>	<b>MAP #: 1</b>
<b>Prepared by:</b> Tanya Estice	
<b>Date Issued:</b> July 19, 2013	<b>Response Date:</b> 9/30/2014
<b>KEY BUSINESS RISKS:</b> Employees perform a covered task that they are not qualified to perform based on Learning Management System (LMS) records.	
<b>AUDIT OBJECTIVE:</b> Analyze employee training records to ensure that records are adequately maintained and monitored in LMS.	
<b>AUDIT PROCEDURES:</b> Review the LMS Status Report as of June 21, 2013 and investigate any expired tasks.	
<b>OBSERVATIONS:</b>	
<b>Criteria</b> The standard used to meet the objective was the expectation of zero expired tasks.	
<b>Condition</b> There were <b>404</b> expired tasks involving <b>145</b> NGD employees.	
<b>Cause</b> According to discussions with the Technical Training Department, Internal Audit noted that there are various reasons employee tasks could be expired, including, but not limited to, the following: <ul style="list-style-type: none"><li>• Employee is on short or long term leave due to personal illness or injury;</li><li>• Assigned curriculum task is deemed not necessary by the FOL based on the work performed by that employee;</li><li>• Scheduled training sessions were not previously attended by the employee; and</li><li>• Work continuity position.</li></ul>	
A process does not exist to ensure corrective action is taken to resolve expired tasks on the LMS Status Report through attendance of training or removal of a non-applicable course from LMS.	
<b>Effect</b> Without appropriate internal monitoring of these expired tasks, employees may complete a task they are not qualified to perform. This could result in work being re-performed by qualified personnel and regulatory fines/penalties. In addition, employees with expired tasks are limited in the work they are qualified to perform, which limits permitted job assignments.	
<b>RECOMMENDATION:</b> Management should develop a process to ensure violations are resolved as soon as training is available; non-applicable assigned trainings should be removed from the LMS curriculum.	
<b>ACTION PLAN:</b>	
<u>Management Response:</u> To address these MAPs, management is working to establish a team of personnel (either internal resources, third-party consulting resources, or both) to evaluate current OQ systems and processes and recommend or implement OQ system and process changes that will ensure compliance with regulatory requirements and enhance Company performance.	
<u>Assignment of Responsibility:</u> <i>Dave Monte, NGD Chief Operating Officer &amp; Mark Chepke, Director of Compliance. Additional assignments will be determined once the operational team is established.</i>	
<u>Implementation Date:</u> <i>A project team will be developed and a project operation and IT Plan will be implemented by 9/30/2014</i>	

## MANAGEMENT ACTION PLAN (MAP)

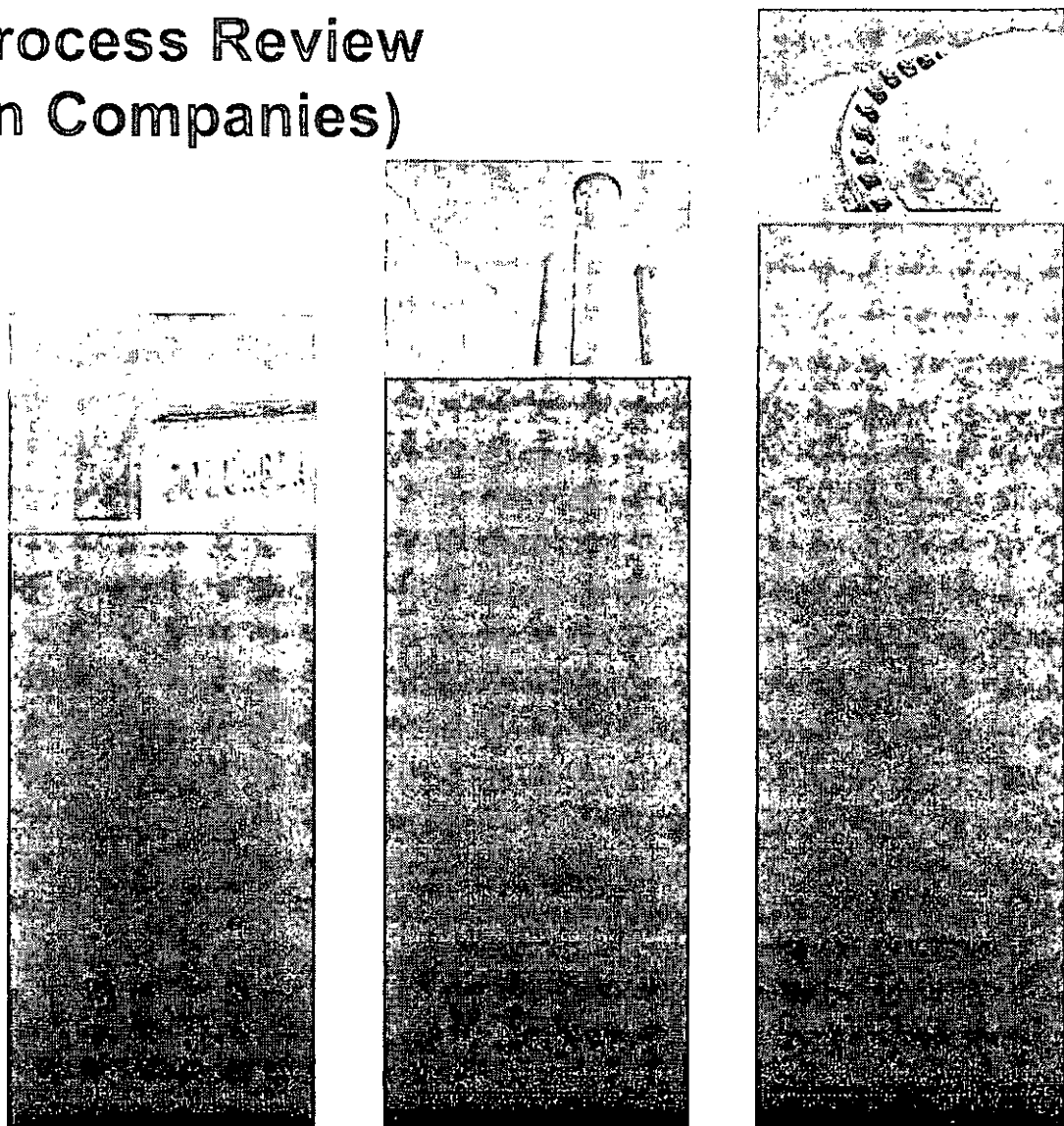
<b>Audit: Operator Qualification</b>	<b>MAP #: 2</b>
<b>Prepared by:</b> Tanya Estice	
<b>Date Issued:</b> July 19, 2013	<b>Response Date:</b> 09/30/2014
<b>KEY BUSINESS RISKS:</b> Roles and responsibilities are not defined to create accountability in verifying OQ compliance for employees and contractors on each project.	
<b>AUDIT OBJECTIVE:</b> Evaluate whether the NGD Operator Qualification program provides sufficient provisions to ensure covered tasks are performed by qualified employees and third-party contractors.	
<b>AUDIT PROCEDURES:</b> Review monitoring procedures for OQ compliance and continued, periodic reevaluation and or requalification of employees and third-party contractors performing covered tasks.	
<b>OBSERVATIONS:</b> <u>Criteria</u> All personnel involved in OQ compliance should have clear instruction and accountability related to their responsibilities in ensuring OQ compliance for employees and contractors.  <u>Condition</u> Through discussions with FOLs, Technical Training, and the Integration Center perceived responsibilities in ensuring OQ compliance are not consistent even within similar job types (i.e. FOLs).  <u>Cause</u> Policies and procedures do not clearly outline responsibilities and accountability in verifying OQ compliance for employees and contractors. A training program to clearly instruct the roles and responsibilities for OQ compliance does not exist.  <u>Effect</u> Without clear instruction and accountability in verifying OQ compliance, employees or contractors may perform tasks for which they are not qualified. This could result in work being reperfomed by qualified personnel and regulatory fines/penalties.	
<b>RECOMMENDATIONS:</b> Operations Management, Technical Training, and Integration Center Management should collaborate as part of the Company's current training development and improvement initiatives to develop policies and procedures to outline responsibilities and clear accountability in verifying OQ compliance for employees and contractors.	
<b>ACTION PLAN:</b> <u>Management Response:</u> To address these MAPs, management is working to establish a team of personnel (either internal resources, third-party consulting resources, or both) to evaluate current OQ systems and processes and recommend or implement OQ system and process changes that will ensure compliance with regulatory requirements and enhance Company performance.  <u>Assignment of Responsibility:</u> Dave Monte, NGD Chief Operating Officer & Mark Chepke, Director of Compliance. Additional assignments will be determined once the operational team is established.  <u>Implementation Date:</u> A project team will be developed and a project operation and IT Plan will be implemented by 9/30/2014	

# Accounts Payable Field Process Review (NiSource Gas Distribution Companies)

September 23, 2013

To: Dave Monte, Chief Operating Officer NGD

From: Jaclyn Callahan, Internal Audit Lead  
Ryan Binkley, Internal Audit Director  
Shelley Duling, Internal Audit Manager





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- Audit Procedures, Results and Recommendations
  - Focus Area 1..... 11 – 22
  - Focus Area 2..... 23 – 35
- Report Distribution List..... 36



## Executive Summary

Internal Audit conducted a review of the processes utilized by NiSource Gas Distribution (NGD) Construction Services and Field Operations to accurately and timely record job order expenses in the Accounts Payable (AP) feeder systems, which in turn, allows for the proper recording of outstanding liabilities.

Internal Audit engaged in discussions with appropriate members of the following departments to properly address management's perception of risk and potential process improvement opportunities as a part of our review:

- Accounts Payable
- NGD Accounting
- NGD Business Intelligence
- Construction Services
- Field Operations
- Integration Center

The focus of our review included the following:

- A walkthrough of the current processes and procedures followed by Construction Services and Field Operations to record job order expenses; and
- Analysis of monthly WMS expense data for the period January 1, 2013 through May 31, 2013 to determine if any trends exist in regards to the timely input of job order data.

Internal Audit has reviewed our results with management.

## Executive Summary (Cont'd)

**Audit Objective:** Identify potential business process improvements to expedite the input of job order expenses incurred by Construction Services and Field Operations into the AP feeder systems to ensure the proper accrual of outstanding liabilities.

### ***Audit Results***

- Process flows that outline the responsibility of WMS system users (including timing considerations to ensure compliance with GAAP) have not yet been developed and distributed for the use of employees who process expenses within WMS.
- Internal Audit notes that expenses are being processed through WMS in a more timely manner than they were in the prior year (a **72%\* reduction** in the “missed” AP accrual from June 2012 to June 2013); however, Internal Audit identified some minor inconsistencies in processes to record expenses in WMS, including the following:
  - Instances of expenses being entered into WMS in excess of 30 days from the Progress Report Date (i.e. the date the work was performed);
  - Instances of the incorrect date being entered into the Progress Report Date field, which is the key field in determining the liability date for accounting purposes; and
  - Minor instances of employees approving expenses in WMS for work which did not fall under their responsibility.

## Executive Summary (Cont'd)

### Internal Audit Recommendations:

NGD Accounting, AP, NGD Construction Services, NGD Field Operations, and the Integration Center should continue to collaborate to ensure that all employees are educated on how to process invoices timely using the various systems available to ensure accurate financial reporting records.

- Management should consider the following to enhance or continue to execute on current processes:
  - Develop and communicate formal policies related to the processing of invoices and progress report data to ensure timely and accurate submission of expenses for accurate month-end financial reporting records;
  - Continuation of AP training offerings and attendance at Accounting Roadshows throughout the year.

# Background

## Accounts Payable (AP) Defined

- Balances owed to others for goods or services that are purchased on an open account.
- Arise due to the lag time between the receipt of services or the acquisition of title for goods received and the payment related to these items.

## Generally Accepted Accounting Principles (GAAP) Requirements

- In accordance with GAAP, NGD is required to record a liability at the time in which services have been rendered, or goods have been received.
  - If an invoice has not been received, NGD is required by GAAP to estimate and record the amount of the liability if the following conditions exist:
    - Amount can be reasonably estimated.
    - It is probable that the liability has been incurred.

## Background (Cont'd)

### ***Overview of NGD Construction and Field Operations Accrual Processes:***

#### **History of Query Developed to Record AP Expenses Processed through WMS**

- During 2012, it was noted that expenses ***entered*** into the Work Management System (WMS), but which ***remained unapproved*** within the system at period-end, did not meet the interface criteria to be fed over to the GL.
  - These unapproved expenses would not be accrued in the accounts payable balance at period-end.
- In June 2012, NGD Accounting enlisted NGD Business Intelligence to create a query to identify expenses in WMS related to the reportable period, but which were unapproved within those systems at period-end.
  - NGD Accounting records the total of the query run on the last day of the period via a manual entry (See **Slide 9**).
    - *The liability date is driven by the “Progress Report Date” field in WMS, which is designed to capture the date the work was performed or goods were delivered.*

## Background (Cont'd)

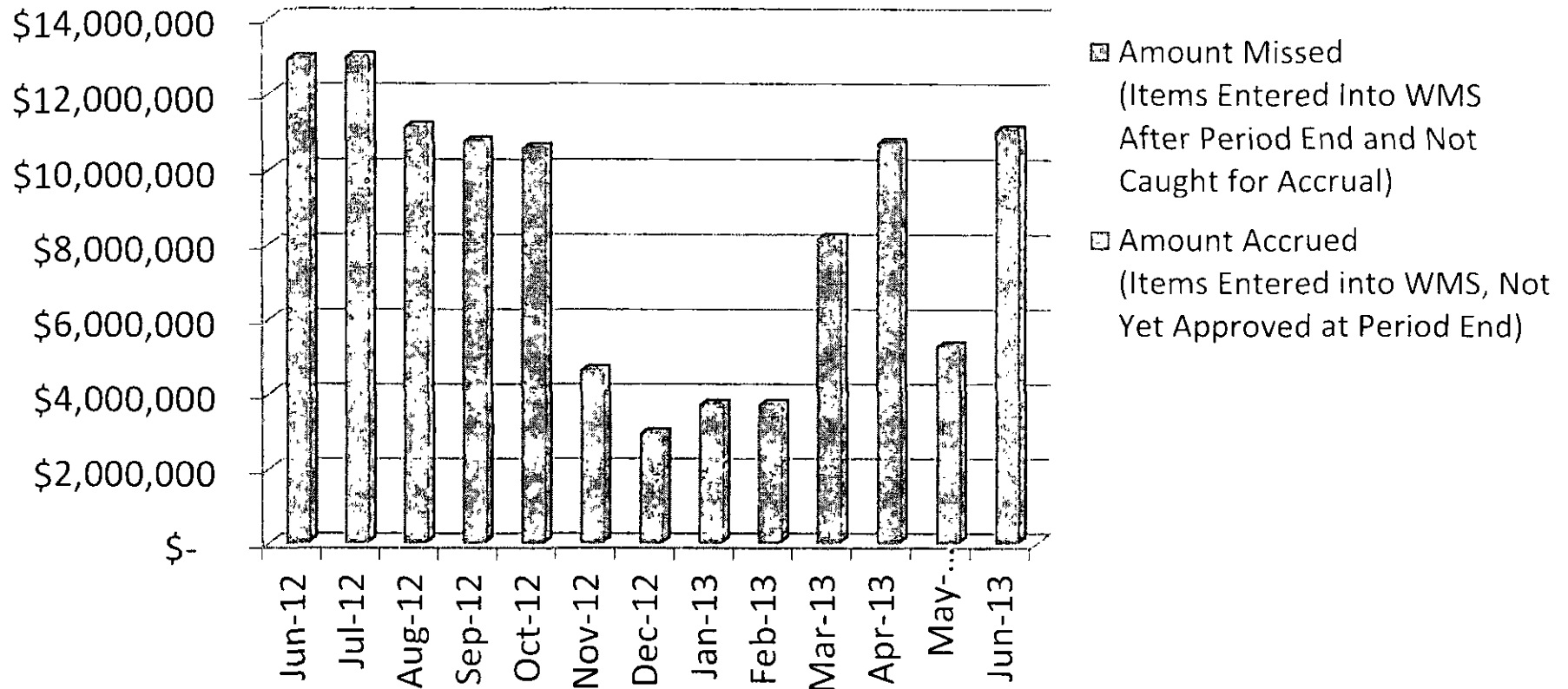
### *Overview of NGD Construction and Field Operations Accrual Processes (Cont'd):*

#### **History of Query Developed to Record AP Expenses Processed through WMS (Cont'd):**

- Through continuous monitoring of the monthly query results, NGD Accounting noted instances of expenses that had Progress Report Dates related to the reportable period, but were not input into the system until after the query was run for Accounting Close.
  - NGD Accounting monitors these “unrecorded” accruals each month and investigates any apparent trends or large fluctuations in the total “unrecorded” amount.
- Internal Audit compared the accrual amount captured by the WMS query developed by NGD Accounting referenced on **Slide 7** to the “unrecorded” accrual.
  - The “unrecorded” accrual is developed by running the same WMS query at the subsequent month-end date.
    - See **Slide 9** for a chart displaying the activity for each month during the period of January 1, 2013 through May 31, 2013.
    - Additional commentary and analysis is provided on **Slide 10**.

# Background (Cont'd)

## Recorded Accrual Versus Unrecorded Accrual by Month (WMS Related Expenses Only)



Internal Audit noted a significant improvement in the AP accrual year-over-year:

- **As of June 30, 2012:** The total reported NiSource AP balance was ~\$144 million; the “missed” WMS accrual was ~\$7.4 million, or ~5.1% of the total AP balance.
- **As of June 30, 2013:** The total reported NiSource AP balance was ~\$206 million; the “missed” WMS accrual was ~\$2.1 million, or ~1.0% of the total AP balance.





## Background (Cont'd)

### ***Overview of NGD Construction and Field Operations Accrual Processes (Cont'd):***

#### **Analytical Review of the Recorded Accrual versus the “Unrecorded” Accrual**

- When comparing the amount missed for accrual to the amount accrued, Internal Audit did not identify any consistent causal patterns to report.
  - However, Internal Audit noted the total capital budget has increased from 2012 to 2013, while the total outstanding liability (the total accrual plus the total missed accrual) has decreased from June 2012 to June 2013.
    - ***It appears that that work is being processed and approved in WMS more timely.***
- As outlined on **Slide 7**, NGD Accounting has recorded monthly WMS accruals based on the query ran on the last day of the period.
  - In June 2013, NGD Accounting booked an additional accrual entry of **~\$5.3** million to record transactions that were entered into WMS during the first four (4) days of July which related to the reportable period (June 2013).
    - This process change will occur for all quarter-end dates to capture as much of the missed accrual as possible for quarter-end reporting purposes.

# Audit Procedures, Results and Recommendations

**Audit Objective:** Identify potential business process improvements to expedite the input of job order expenses incurred by Construction Services and Field Operations into the AP feeder systems to ensure the proper accrual of outstanding liabilities.

- **Focus Area 1:** Review current processes and procedures followed by Construction Services and Field Operations to record job order expenses in the AP feeder systems (WMS and Catalyst) and determine the impact those processes and procedures have on NGD Accounting's ability to properly record the AP accrual; and
- **Focus Area 2:** Analyze monthly WMS expense data for the period January 1, 2013 through May 31, 2013 using criteria such as location, job type, contractor, and responsible employee to determine if any trends exist in regards to the timely input of job order data and communicate results to Management for assessment.

# Audit Procedures, Results and Recommendations (Cont.)

**Focus Area 1:** Review current processes and procedures followed by Construction Services and Field Operations to record job order expenses in the AP feeder systems (WMS and Catalyst), and determine the impact those processes and procedures have on NGD Accounting's ability to properly record the AP accrual

## ***Audit Results:***

- To gain an understanding of the processes followed by Construction Services and Field Operations to process job order expenses, Internal Audit created a web-based survey with questions addressing the following topics:
  - The frequency in which progress reports are input into WMS;
  - Use of manual invoices instead of progress reports;
  - Use of Catalyst rather than WMS to process expenses; and
  - Knowledge of accrual requirements for accounting purposes.
- Internal Audit distributed the survey to Construction Services and Field Operations Management and requested that employees of each group complete the survey.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 1 (Cont'd):***

- Internal Audit received responses from **170** NGD employees.
  - **90%** of the responses related to employees from Construction Services.
  - **10%** of the responses related to employees from Field Operations.

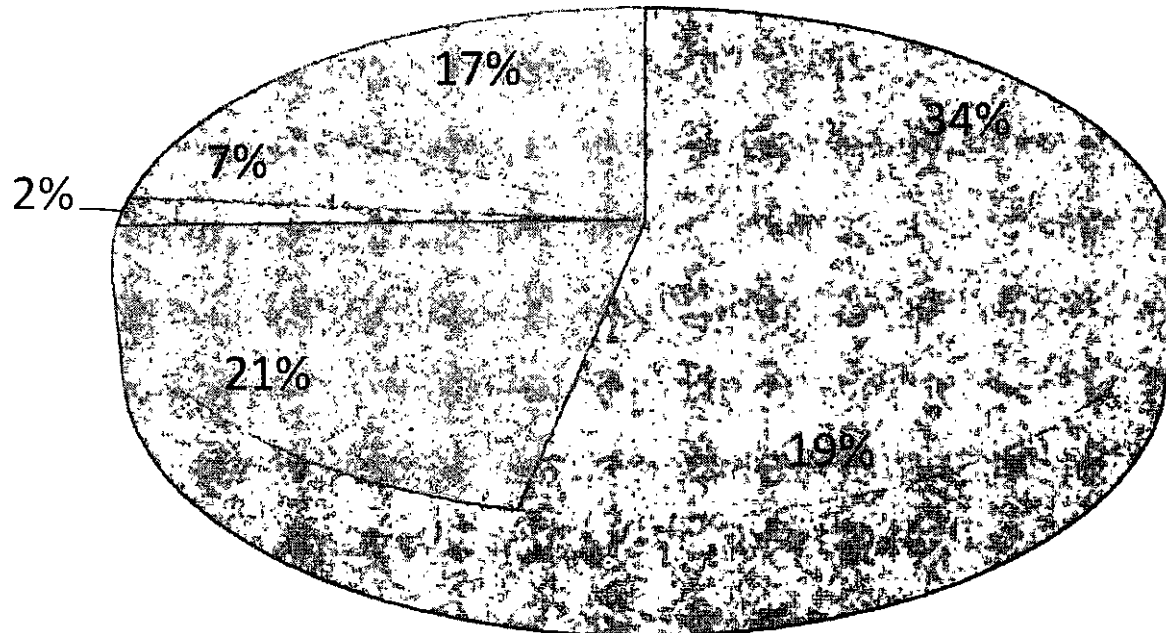
## **Survey Results:**

- ***Survey Question 1: In general, how often are progress reports entered into WMS for your respective projects?***
  - Internal Audit noted that there was not a response which held the majority of the respondents.
    - ***“Every Day”*** and ***“Once a Week”*** were the most common responses at **34%** and **21%**, respectively.
  - The majority of respondents noted within the survey that their processes did not differ at month-end or year-end.
  - See the chart at **Slide 14** for a complete breakdown of the responses for Survey Question 1.

# Audit Procedures, Results and Recommendations (Cont.)

## Frequency of Progress Reports Being Input Into WMS

- Every Day
- Twice a Week
- Once a Week
- Once a Month
- At the Completion of Project
- Other\*



# Audit Procedures, Results and Recommendations (Cont.)

## *Audit Results – Focus Area 1 (Cont'd):*

### – Survey Question 1 (Cont'd):

#### *Internal Audit Comments – Survey Question 1:*

- Based on the responses to **Question 1**, it does not appear that all employees identified consistent processes they follow regarding the timing of processing expenses in WMS.
  - While entering expenses into WMS on a daily basis is intensive from an operations perspective, there is a **risk** of not accruing for expenses incurred if items are not input daily.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 1 (Cont'd):***

- ***Survey Question 2: Are there instances when a progress report is not utilized and work is recorded solely based on the receipt of a manual invoice?***
  - **86%** of the respondents answered **NO** to this question.
  - **14%** of the respondents answered **YES** to this question.
    - Many of the respondents noted that these invoices were processed using Catalyst (See the results of **Question 3** below).
  
- ***Survey Question 3: Do you process any expenses through Catalyst?***
  - **74%** of the respondents answered **NO** to this question.
  - **26%** of the respondents answered **YES** to this question.
    - Respondents consistently noted that invoices from the following vendors were processed through Catalyst:
      - » ***McJunkin RedMan***
      - » ***Premier Utilities Services***
      - » ***ORR Safety***
      - » ***TD Williamson***



# Audit Procedures, Results and Recommendations (Cont.)

## *Audit Results – Focus Area 1 (Cont'd):*

### – Survey Question 3 (Cont'd):

- Survey respondents also noted that expenses for certain types of services such as welding, police details, permits, and plumbing services were also processed through Catalyst.

## *Internal Audit Comments – Survey Questions 2 & 3:*

- The processing of **manual invoices** through WMS or Catalyst poses a **greater risk for missed accruals** as employees must wait to receive an invoice from the contractor before recording the expense in an AP feeder system.
  - If work is performed, or goods are received during one period, and the vendor does not send the invoice until the following period, the associated expenses will not be accrued by NGD Accounting unless the party with knowledge of the liability incurred makes NGD Accounting aware of the amount to be accrued.



# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 1 (Cont'd):***

- ***Survey Question 4: Have invoices been routed to you for approval in WMS which you do not believe fall under your location/job responsibility?***
  - **86%** of the respondents noted **NO** to this question.
  - **14%** of the respondents noted **YES** to this question.

## ***Internal Audit Comments – Survey Question 4:***

- Internal Audit further discussed instances where invoices were routed to the incorrect employees for approval with members of the Engineering and Construction Department (**See Slide 31**).

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 1 (Cont'd):***

- ***Survey Question 5: Are you aware of available training sessions offered by NiSource regarding processing accounts payable or accrual/accounting issues?***
  - **74%** of the respondents noted **NO** to this question.
  - **26%** of the respondents noted **YES** to this question.

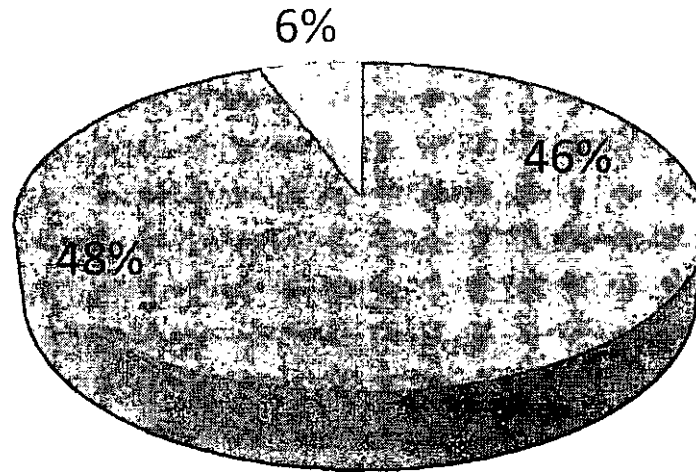
## ***Internal Audit Comments – Survey Question 5:***

- NGD Accounting and Financial Reporting complete annual “Accrual Roadshows” to educate NGD employees on proper accrual accounting and reporting of AP liabilities.

# Audit Procedures, Results and Recommendations (Cont.)

## **Audit Results – Focus Area 1 (Cont'd):**

**Survey Question 6:** An accrual is required for accounting purposes when:



- Work has been APPROVED in WMS
- Work has been COMPLETED
- Work has been INSPECTED

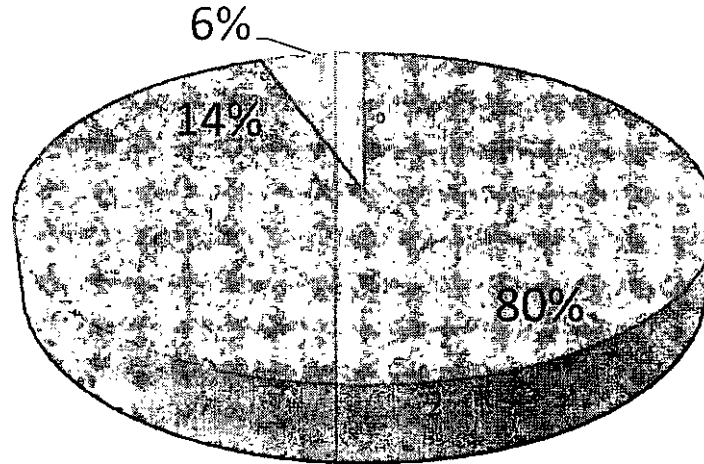
## **Internal Audit Comments – Survey Question 6:**

- **48%** of the respondents answered that an accrual is required for accounting purposes when work has been completed.
  - Internal Audit believes that is the correct response.
- Construction and Field Operations may benefit from additional education of the accrual requirements so that they can understand how the processes they follow impact the financial statements.

# Audit Procedures, Results and Recommendations (Cont.)

## Audit Results – Focus Area 1 (Cont'd):

**Survey Question 7:** Accounting is able to use data in WMS to record an accrual when:



- The item is APPROVED in WMS
- The item is ENTERED in WMS
- Neither

## Internal Audit Comments – Survey Question 7:

- There appears to be a misconception that expense items must be approved within WMS in order for accounting to be able to gather the expense information for accrual; Accounting can capture the accrual as long as the expense is entered into WMS at period-end.
- Construction and Field Operations may benefit from additional education of the accrual requirements so that they can understand how the processes they follow impact the financial statements.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 1 (Cont'd):***

### ***Internal Audit Recommendation:***

- NGD Accounting, AP, NGD Construction Services, NGD Field Operations, and the Integration Center should continue to collaborate to ensure that all employees are educated on how to process invoices timely using the various systems available to ensure accurate financial reporting records.
  - Management should consider the following to enhance or continue to execute on current processes:
    - Develop and communicate formal policies related to the processing of invoices and progress report data to ensure timely and accurate submission of expenses and related credit memo transactions for accurate month-end financial reporting records; and
    - Continuation of AP training offerings and attendance at Accounting Roadshows throughout the year.

## Audit Procedures, Results and Recommendations (Cont.)

**Focus Area 2:** Analyze monthly WMS expense data for the period January 1, 2013 through May 31, 2013 using criteria such as location, job type, contractor, and responsible employee to determine if any trends exist in regards to the timely input of job order data and communicate results to Management for assessment.

### ***Audit Results:***

#### ***COGNOS Query***

- For each month for the period January 1, 2013 through May 31, 2013, Internal Audit requested a COGNOS query listing all charges posted to WMS with the following criteria:
  - Progress Report Date is greater than or equal to January 1, 2013,  
**OR**
  - Progress Report Date is less than January 1, 2013 **AND** Entered Date\*\* is greater than January 1, 2013.
- The resulting query provided a listing of all transactions that were **entered** into the WMS system during the first five months of 2013.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 2 (Cont'd):***

### ***Entered Date Field***

- The ***Entered Date*** should represent the date the transaction was entered into the system (i.e. applied to the job order in WMS) - this would be the most accurate reflection of when the expense information is available to Accounting for purposes of determining the monthly accrual.
  - After reviewing several months of data, Internal Audit noted that other actions taken on the job order in the system can inadvertently cause the ***Entered Date*** to change, thus the ***Entered Date*** may not represent the date the progress report was entered into WMS.

***NOTE:*** Based on discussions with Management, the issue appears to be the result of an automated system response that may need to be investigated by IT.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 2 (Cont'd):***

### ***Entered Date Field (Cont'd):***

- Internal Audit notified NGD Accounting of the data integrity issue with the ***Entered Date*** field, as that particular field is utilized to filter the query they receive to record the monthly WMS accrual and to monitor the total “unrecorded” accrual.
  - NGD Accounting opted to add additional programming logic to the query to identify instances where the ***Entered Date*** may have been updated.
    - In these instances, a secondary field, the ***Create Contract Invoice Date (CCI) field\*\****, is used to determine the “entered date.”



# Audit Procedures, Results and Recommendations (Cont.)

## **Audit Results – Focus Area 2 (Cont'd):**

### **COGNOS Query Analysis**

- Due to the investigation into the data integrity issue with the **Entered Date** field (as noted on **Slides 24-25**), Internal Audit proceeded to analyze the WMS query data using the **CCI Date**, which represents the date of the first level of approval.
  - The **CCI Date** is the date field closest to the **Entered Date**.
    - Of the transactions entered into WMS from January 2013 – May 2013:
      - » **42%** had the same date in the **Entered Date** and **CCI** date fields.
      - » **97%** had a **CCI Date** that was 7 days or less from the **Entered Date**.
  - For each month for the period January 1, 2013 through May 31, 2013, Internal Audit aged the number of days between the **Progress Report Date** and the **CCI Date** to determine the period of time before information related to the liability incurred was available in the WMS system.
    - See the graph on **Slide 27** which groups the expenses by the following periods:
      - *0-29 days*
      - *30-89 days*
      - *90-364 days*
      - *Over 1 year*

# Audit Procedures, Results and Recommendations (Cont.)

## Audit Results – Focus Area 2 (Cont'd): COGNOS Query Analysis

Difference (in Days) Between the Progress Report Date field and the CCI Date field in WMS

	Over 1 year		364 - 90 days		89 - 30 days		29 - 0 days		TOTAL
	\$\$	% of Total	\$\$	% of Total	\$\$	% of Total	\$\$	% of Total	
Jan	\$49,314	0.40%	\$213,850	1.74%	\$1,040,499	8.46%	\$10,989,639	89.40%	\$12,293,302
Feb	\$12,490	0.08%	\$146,244	0.91%	\$724,159	4.53%	\$15,110,566	94.48%	\$15,993,459
Mar	\$12,569	0.06%	\$260,138	1.22%	\$724,630	3.39%	\$20,355,312	95.33%	\$21,352,648
Apr	\$17,971	0.06%	\$275,385	0.90%	\$456,600	1.49%	\$29,935,976	97.56%	\$30,685,932
May	\$750	0.00%	\$247,369	0.64%	\$930,542	2.42%	\$37,277,716	96.94%	\$38,456,376

### Internal Audit Comments:

- Items in the 0-29 day bucket could be missed for the month-end accrual depending on the timing of the job (i.e. work with a progress report of July 1<sup>st</sup> entered on July 30<sup>th</sup> would be picked up for accrual; work with a progress report of July 29<sup>th</sup> entered on August 5<sup>th</sup> would not be picked up for accrual).
- The total of items taking 30 days or more to be CCI'd in the system is a conservative estimate of those which would **definitely** be missed for accounting's month-end accrual (See **Slide 28-29** for further analysis).

# Audit Procedures, Results and Recommendations (Cont.)

## *Audit Results – Focus Area 2 (Cont'd):*

### **COGNOS Query Analysis**

- As expenses taking **30** days or more to be CCI'd from the Progress Report Date in WMS would be missed for accrual, Internal Audit identified the population of expenses meeting that criteria for analysis.
  - Internal Audit reviewed the Location field, Job Type field, and Vendor field, noting no apparent trends.
- To further analyze the population of expenses above, Internal Audit linked the CCI User field with a PeopleSoft HR table of all active employees to determine the employee who completed the CCI in the WMS system as well as the organizational department in which the employee reported.
  - See **Slide 29** for a chart displaying the results of the analysis performed.

# Audit Procedures, Results and Recommendations (Cont.)

## Audit Results – Focus Area 2 (Cont'd):

### COGNOS Query Analysis

	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Organizational Department of CCI UserID	Charge_Amt	Charge_Amt	Charge_Amt	Charge_Amt	Charge_Amt
Engineering/Construction	\$ 1,133,415	\$ 625,177	\$ 529,007	\$ 459,273	\$ 602,127
Integration Center	\$ 82,936	\$ 192,464	\$ 394,816	\$ 99,029	\$ 422,491
CPA/CMD Field Operations	\$ 77,648	\$ 7,501	\$ 23,225	\$ 117,932	\$ 104,302
COH/CKY Field Operations	\$ 9,663	\$ 20,444	\$ 49,592	\$ 50,312	\$ 17,674
CMA Field Operations	\$ -	\$ 693	\$ -	\$ -	\$ 20,963
CGV Field Operations	\$ -	\$ -	\$ -	\$ -	\$ 1,937
UNKNOWN*	\$ -	\$ 36,614	\$ 696	\$ 23,410	\$ 9,166
<b>Totals</b>	<b>\$ 1,303,663</b>	<b>\$ 882,893</b>	<b>\$ 997,336</b>	<b>\$ 749,956</b>	<b>\$ 1,178,660</b>

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 2 (Cont'd):***

### ***Department Discussions***

- As the Engineering/Construction Department and the Integration Center consisted of approximately **89%** of the total expense items taking 30 days or more to be CCI'd in WMS (**66%** and **23%**, respectively), Internal Audit reviewed a sample of the expenses with members of each department.
- The following was noted through discussions with employees of the following departments for the expense samples reviewed:
  - ***Engineering/Construction***
    - When a job order takes several days to complete, the date entered as the Progress Report Date in the WMS system is the last day of the job; all costs related to the job will be accrued in the month of the Progress Report Date.
      - » For example, if work is completed over 4 days in June and 1 day in July, the job order will show a progress report date in July and all of the work performed will be attributed to July's business, even though the majority of the work was performed in June.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 2 (Cont'd):***

### ***Department Discussions***

- ***Engineering/Construction (Cont'd)***

- » This has the potential to create inaccuracies in the month-end accrual if the work period crosses over an Accounting period-end.
  - These scenarios will not be caught by the query Accounting generates and the dollar value associated cannot be quantified.
- Per discussion with several Construction employees, Internal Audit noted that employees were approving expenses in WMS for work which did not fall under their responsibility to ensure the contractor was paid timely.
  - In the examples discussed, the employee was *incorrectly* selected as the responsible supervisor at the origination of the job order.
  - Due to difficulties in trying to identify the proper approver and forward the invoice within the system, the employee believed it would be more efficient to approve the expense.
    - » Employees approving expenses that do not fall within their area of responsibility creates a risk of the Company paying charges that are not in accordance with contract terms.

# Audit Procedures, Results and Recommendations (Cont.)

## **Audit Results – Focus Area 2 (Cont'd):**

### **Department Discussions**

- **Integration Center**

- Employees are entering various dates (i.e. the date the work was performed versus the contractor invoice date versus the date the contractor invoice was received) in the Progress Report Date field.
  - » The **Progress Report Date** field should represent the date the work was performed.
  - » Inconsistent and inaccurate entry of this date field impacts the monthly accrual recorded as NGD Accounting uses the **Progress Report Date** to filter the WMS query generated at period-end.
- Instances of data entry errors were noted where the **Progress Report Date** was input with the wrong year, resulting in an inaccurate reflection of when the work was performed within the WMS system.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 2 (Cont'd): Department Discussions***

- ***Integration Center***

### **Management Response:**

- Entering the date the work was performed in the Progress Report date field would result in the need to change the terms currently stated in our agreements with contractors.
  - » Currently, the company is required to pay contractors “net thirty (30) days from the date of invoice.”
    - To comply with these terms, the Invoice Date is being input into the Progress Report Date to ensure timely payment, as checks are cut by AP based on the Progress Report Date field in WMS.



# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 2 (Cont'd):***

### ***Department Discussions***

- ***Integration Center (Cont'd)***

#### **Management Response (Cont'd):**

- » In addition, if a contractor sends one invoice for work performed on different days on multiple job orders, inputting the date the work was performed in the Progress Report date field for each progress report created in WMS would result in multiple checks being sent to the contractor for the same invoice.
  - This can cause confusion, as the contractor cannot easily tie payments to invoices, and could result in additional inquiries from the contractors which would have to be addressed by Integration Center personnel.
- » To allow for efficient and accurate billing, the Integration Center would need contractors to submit invoices more frequently and invoices would need to be separated by the date the work was performed.

# Audit Procedures, Results and Recommendations (Cont.)

## ***Audit Results – Focus Area 2 (Cont'd):***

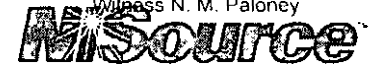
### ***Internal Audit Recommendations:***

- As was stated in Internal Audit's Recommendation for Focus Area 1 (See **Slide 22**), NGD Accounting, AP, NGD Construction Services, NGD Field Operations, and the Integration Center should continue to collaborate to ensure that all employees are educated on how to process invoices timely using the various systems available to ensure accurate financial reporting records.
  - Management should consider the following to enhance or continue to execute on current processes:
    - Develop and communicate formal policies related to the processing of invoices and progress report data to ensure timely and accurate submission of expenses and related credit memo transactions for accurate month-end financial reporting records;
    - Continuation of AP training offerings and Accounting Roadshows throughout the year; and
    - Continue to monitor employees' performance related to timely processing of invoices.

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**TO:** Heather Bauer, Vice President Commercial Operations  
Mike Watson, Vice President Supply and Optimization

**FROM:** Tanya Estice, Audit Senior *Tanya Estice*  
Jaclyn Callahan, Audit Manager *Jaclyn Callahan*  
Ryan Binkley, Audit Director *Ryan Binkley*

**DATE:** September 26, 2013

**SUBJECT:** Gas Procurement Audit – NiSource Gas Distribution Companies

Internal Audit has completed an audit of the established controls and processes associated with components of the gas procurement process, including certain related accounting activities, for the NiSource Gas Distribution (NGD) Companies as of July 31, 2013. Our review included an evaluation of the adequacy and effectiveness of the internal controls designed to mitigate primary business risks associated with various procurement and counterparty credit review processes.

Our audit procedures included a review of the validity of recorded gas purchases; the accounting for margins subject to the "sharing" provisions of the Columbia Gas of Ohio (COH) and Columbia Gas of Virginia (CGV) Stipulation Agreements; and the sufficiency of counterparty credit reviews.

### **Background**

Collaboratively, the Supply and Optimization and Commercial Operations departments are responsible for providing safe and reliable service to NGD customers and maintaining oversight of the NGD gas procurement function by managing the contractual and physical gas supply. These departments also facilitate the transportation, exchange and storage services for the NGD companies and strive to maximize shareholder value through the optimal use of pipeline and storage capacity assets.

The Credit Risk Management (CRM) department also plays an integral role in mitigating the risks pertaining to the gas procurement process; primarily due to the credit exposure involved with selling gas to counterparties. CRM is responsible for ensuring that effective procedures and internal controls for credit risk related activities are in effect for all commercial business functions of the Company. The CRM's primary responsibilities are as follows:

- Implement proactive credit risk management of respective Business Unit operations and related credit exposures;
- Provide detailed credit quality assessment and documentation supporting counterparty/third-party credit risk management decisions;
- Assign credit risk ratings to counterparties/customers and establish associated credit limits;
- Work with counterparties/customers to obtain credit for the Business Unit; and

- Coordinate issuance of NiSource guaranty agreements, provision of letters of credit, or other outgoing credit enhancements with the NiSource Treasury department.

### **Scope Summary**

The audit procedures performed during the audit were aligned with the primary operational business objectives of the NGD gas procurement process and the means by which the associated risks are managed.

The primary business risks associated with the selected processes reviewed within the scope of the audit are as follows:

- Gas purchases may not represent valid purchases or be recorded accurately and timely;
- Off-system sales (OSS), capacity releases, and applicable incentive program margins may not be accurately recorded (shared) between the core market customers of COH and CGV as defined by the sharing provisions of the respective Public Utility Commission Stipulation Agreements; and
- Gas purchasing may be conducted with counterparties who have insufficient credit resulting in non-performance of agreements.

In addition to the controls tested as part of this audit, Internal Audit also tested various energy supply controls as part of our 2013 Sarbanes Oxley (SOX) control tests. These controls included ensuring transaction confirmations exist for OSS and exchange transactions and ensuring data provided to the Accounting department for various types of transactions reconciles to supporting documentation, primarily maintained in the Gas Source system. Our audit results related to the SOX procedures noted no exceptions through interim testing as of August 2013.

### **Conclusion**

Based on testing performed, Internal Audit has determined that key controls over several processes within the scope of our audit procedures appear to be functioning appropriately during the period tested. We have reviewed the results of our audit with management.

Internal controls are effective in mitigating the risks specific to the achievement of business objectives in the following areas:

- Gas purchases are recorded in the General Ledger timely and accurately and represent valid purchases;
- Margins from OSS and capacity release activities for COH and CGV are properly allocated (split) to customers and recorded in the appropriate General Ledger accounts; and
- The CRM department has an effective credit risk assessment and monitoring process in place to ensure counterparties conducting "higher risk" business (such as suppliers that primarily purchase gas from NiSource, rather than sell gas to NiSource) have timely credit analysis/re-evaluations performed in accordance with policy to assist in reducing total company credit risk exposure.

## **Summary of Audit Objectives, Scope, Results, and Recommendations**

**Audit Objective 1:** Gas purchases are recorded to the General Ledger timely and accurately and represent valid purchases.

**Scope:** For a sample of gas purchases, perform the following:

- Verify that the purchase is recorded in the proper accounting period;
- Determine that the recorded purchase agrees to the third-party invoice and the invoice was approved for payment; and
- Verify the accuracy of the base rate charged.

**Results:** Internal Audit made a sample selection of 20 gas purchases (including commodity, incremental and transportation transactions) from monthly Gas Source reports for the period January 1, 2013 through August 31, 2013. For each selection, it was determined that the purchase was recorded in the proper accounting period based on the flow date of the transaction and review of the journal entry support from the G/P 02-001 vouchers obtained from Accounting. Internal Audit verified that the recorded gas purchase amount agreed to the third-party invoice and was properly approved for payment by the Manager of Supplier Services or the Team Leader of Supply Purchase Services based on approval thresholds defined by policy. In addition, on a test basis, Internal Audit verified the base rate used in determining the accuracy of the gas purchase through the review of supporting documentation in the form of tariffs, service agreements and transaction confirmations. No exceptions were noted during testing, thus Internal Audit has concluded that gas purchases appear to be accurately recorded in the proper accounting period and represent valid purchases.

**Recommendations:** None.

**Audit Objective 2:** Revenues are booked appropriately and profits are shared in accordance with the Stipulation Agreement set forth by the applicable State Commission.

**Scope:** Obtain a copy of the most recent Stipulation Agreement set forth by the Public Utility Commissions of Ohio and Virginia, the program year margin sharing calculations and related journal entries for OSS and capacity release transactions from Accounting and perform the following:

- Verify the margins for OSS and capacity releases for COH and CGV are properly allocated (split) with customers in accordance with each respective jurisdiction's Stipulation Agreement; and
- Ensure that customer sharing margin values are properly recorded.

**Results:** Based on the sample testing performed for the selected program years, Internal Audit determined that margins from OSS and capacity release transactions for COH and CGV are accurately shared (split) with customers, and are appropriately recorded to the General Ledger.

**Columbia Gas of Ohio:**

For testing purposes, Internal Audit selected the 2013 - 2014 program year, which operates from April 1, 2013 through March 31, 2014. Testing of the program year was performed as of July 31, 2013 due to timing of the audit procedures. Internal Audit obtained the Public Utilities Commission of Ohio (PUCO) Opinion and Order (Order) dated January 9, 2013, which defines the margin sharing provisions for COH effective April 1, 2013 through March 31, 2018.

Through review of the Order, Internal Audit concluded that the PUCO approved a tiered sharing mechanism whereby net proceeds from OSS and capacity releases will be passed back to customers as follows, with COH subject to a program year cap of \$14 million and total cap of \$55 million over the five year period:

<u>OSS and Capacity</u> <u>Release Revenue</u>	<u>Customer</u> <u>Share</u>	<u>COH</u> <u>Share</u>
\$0 to \$1 million	50%	50%
\$1 to \$2 million	-	100%
\$2 million to \$27 million	50%	50%
Over \$27 million	100%	-

Internal Audit reviewed the accounting support from April 2013 through July 2013 and concluded that the Company properly allocated the total net proceeds from OSS and capacity release transactions to customers through the appropriate General Ledger accounts. For the program year tested as of July 31, 2013, the Company recorded \$1.6 million in OSS and capacity release margins whereby \$500 thousand was properly passed back to the customer and the remaining \$1.1 million was retained by COH. Internal Audit also reconciled the OSS and capacity release data back to Gas Source system activity for the month of July 2013 to verify the accuracy of data utilized by the Accounting department in completing the sharing calculations and subsequent journal entries, noting no exceptions.

**Columbia Gas of Virginia:**

For testing procedures, Internal Audit selected the 2012 - 2013 program year, which operates from September 1, 2012 through August 31, 2013. Internal Audit obtained the Commonwealth of Virginia State Corporation Commission (Commission) Order (Order) dated December 21, 2007. Due to timing of the audit procedures, Internal Audit tested the period of September 1, 2012 through July 31, 2013 of the selected program year.

Through review of the Order, Internal Audit concluded that the Commission approved a tiered sharing mechanism whereby net proceeds from OSS and capacity releases will be passed back to customers at a variable rate, depending upon the amount of margin achieved through OSS and capacity release activity. Additionally, the margin required to be passed back is dependent upon the firm peak day delivery capability estimate for each program year as compared to the base year determined in the Order; as the firm peak day deliver capability increases the amount of the sharing provision increases. Per review of the Order, Internal Audit recalculated the sharing provisions sharing tiers for the selected program year as noted on the following page.

- Tier 1 - \$1,848,030** must be credited to the Actual Cost Adjustment (ACA) mechanism even if no OSS and capacity release margins are created in the program year;

- Tier 2 - \$3,449,656** of the first OSS and capacity release margins will be credited to the ACA for the program year;
- Tier 3 - \$1,149,885** of the next OSS and capacity release margins will be retained by the Company; and
- Tier 4 - OSS and capacity release margins over \$4,599,541** will be allocated to the ACA at a rate of 75% while the Company retains 25%.

Internal Audit reviewed the July 2013 accounting support and concluded that the Company properly allocated the total net proceeds from OSS and capacity release transactions to customers to the appropriate General Ledger accounts. For the program year tested as of July 31, 2013, the Company recorded \$11.2 million in OSS and capacity release margins whereby \$8.4 million and \$2.8 million was properly allocated to the ACA and the Company respectively. Internal Audit also reconciled the OSS and capacity release data back to Gas Source system activity to verify the accuracy of data utilized by the Accounting department in completing the sharing calculations and subsequent journal entries for the month of July 2013, noting no exceptions.

Internal Audit concluded that OSS and capacity release margins for COH and CGV are accurately shared (split) with customers and appropriately recorded to the General Ledger.

**Recommendations:** None.

**Audit Objective 3:** Counterparty Credit Risk Assessments are performed in accordance with the NiSource Credit Risk Management (CRM) Policy.

**Scope:** Obtain a listing of counterparties with active Base Purchase Agreements. Select a judgmental sample of counterparties with which NGD conducts business. Obtain the credit evaluation documentation from the CRM department and perform the following:

- Determine if credit evaluations are performed and documented in accordance with the CRM Policy; and
- Verify that a valid and enforceable Base Purchase Agreement is on file for each selection and that any applicable guaranty agreements are enforceable.

**Results:** Based on testing performed, the CRM department has established an effective credit risk assessment and monitoring process to ensure counterparties conducting "higher risk" business (i.e., purchasing gas rather than selling gas) with NiSource companies have a timely credit analysis and/or re-evaluation performed to reduce the total company credit risk exposure to NiSource.

Counterparties have been assigned a Credit Risk Relationship Manager to ensure that counterparty risk is addressed for counterparties executing business transactions across all NiSource Business Units. In accordance with the Credit Evaluation Procedures, credit reviews should be performed, at a minimum, as follows:

- If a counterparty or guarantor is rated A-/A3 or higher by Standard and Poor's or Moody's, respectively, a credit review does not need to be completed as long as the NiSource exposure is within the Credit Risk Management guidelines in the Credit Policy. However, if news or ratings indicate a potential shift in credit quality, a



review may be appropriate to assess any adverse change in the risk profile. Ratings are required to be reviewed and updated annually in iCredit, system utilized to summarize credit information for counterparties, in order to document the annual review standard. This does not apply to counterparties with implied ratings in this circumstance.

- If a counterparty has posted either a Letter of Credit or cash mitigating the existing or potential credit exposure, an annual credit review is not required. Credit risk personnel are responsible for updating iCredit and monitoring credit exposures to ensure any potential risk is 100% mitigated.
- All other counterparties require an annual credit review.

Internal Audit judgmentally selected 10 counterparty credit files for testing purposes. All of the files tested contained evidence of a credit risk analysis performed within the guidelines noted above. Internal Audit verified that all 10 counterparties selected had valid Base Purchase Agreements per review of the Gas Source system for each NiSource subsidiary with which the counterparty conducts business. Internal Audit concluded that all counterparties selected in our testing sample requiring Guaranty Agreements (per the most recently performed credit evaluation) maintained executed and enforceable guaranty agreements on file. Internal Audit also reviewed the established credit limits for the selected counterparties and concluded that CRM has not established credit exposure beyond the established credit limits, guaranty agreements, or cash deposits.

Based upon testing procedures performed, Internal Audit has concluded that the CRM department appears to perform credit reviews in accordance with the Credit Risk Management Policy and Credit Evaluation Procedures and maintains valid and enforceable Base Purchase Agreements and related guaranty agreements on file.

**Recommendations:** None.

As always, we appreciate the cooperation and assistance that your staff provided to the Audit Team during this review. Should you have any questions or require additional information, please do not hesitate to contact Ryan Binkley at (614) 460-5985, Jaclyn Callahan at (614) 460-5493 or Tanya Estice at (614) 460-4925.

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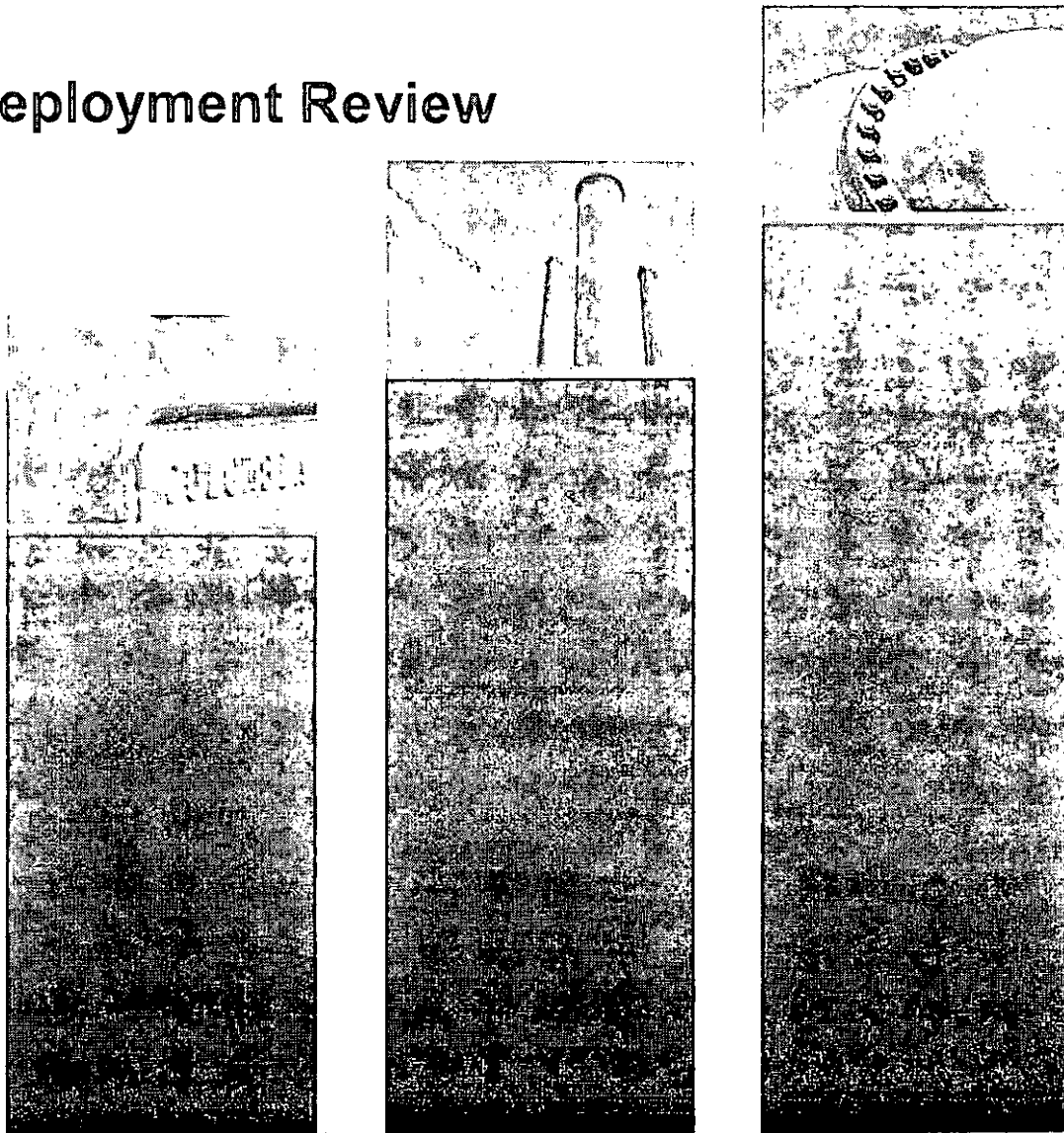
# NiFiT Deployment 1 - Post-Deployment Review

## NiSource IT Audit

October 04, 2013

To: Rick Fontaine, VP - Financial Transformation  
Russ Viater, VP - IT Service Delivery (NIPSCO/NCS)  
Jon Veurink, VP - Chief Accounting Officer  
Tim Tokish, VP - Financial Planning & Analysis

From: John Manfreda, Project Manager - IT Audit  
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# NiFiT Deployment 1 - Post-Deployment Review

# EXECUTIVE OVERVIEW

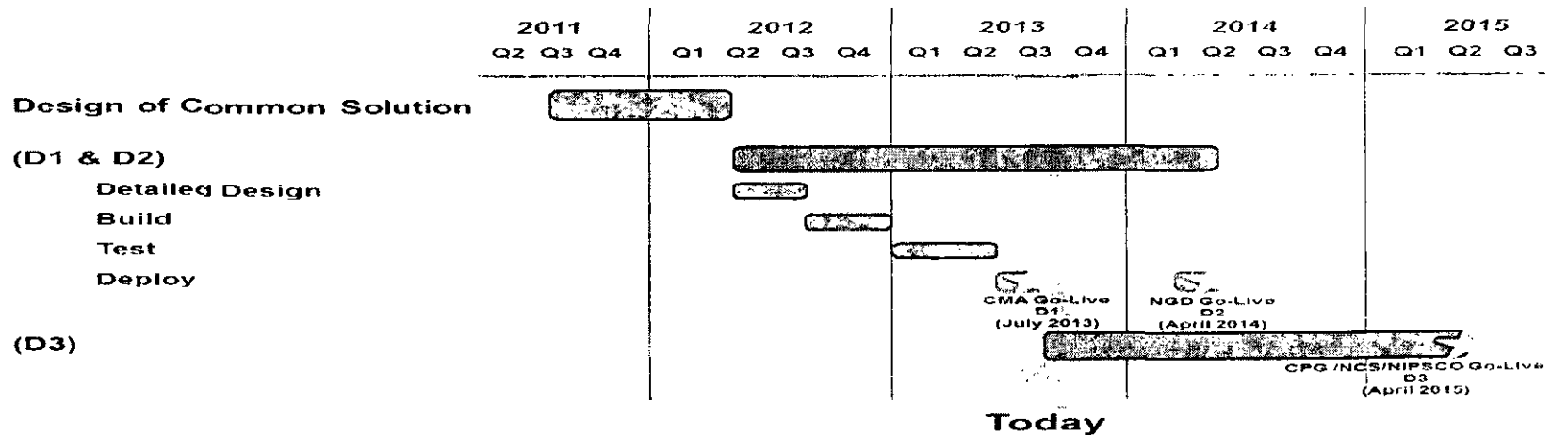
# NiFiT Deployment 1 - Post-Deployment Review

## Executive Overview

NiFiT Scope

The NiFiT project is currently the largest IT project being undertaken by NiSource IT and NiSource Corporate Business Services. NiFiT has an estimated budget of \$125MM over its projected four (4) year lifecycle and employs thirty-six (36) full-time NiSource personnel who are being assisted by their system integration partner, Accenture, and other partner firms (including IBM, HMB, PowerPlan, Navigator and Axia). The result is a full-time NiFiT Project peak team size of 147 people spanning nine (9) different partner companies participating from four (4) countries around the globe.

The following timeline depicts the phased approach being followed by the NiFiT Project team. The approach calls for three (3) deployments. Deployment 1 and 2 of NiFiT will include all of the NGD (NiSource Gas Distribution) companies (CMA, COH, CPA, CKY, CVA and CMD), with Deployment 1 focused on CMA in July 2013 and Deployment 2 encompassing the remaining Columbia Distribution Companies targeted for April 2014. Deployment 3 will include the Columbia Pipeline Group (CPG), NiSource Corporate Services (NCS) and Northern Indiana Public Service Company (NIPSCO) business units and is currently planned for April 2015.





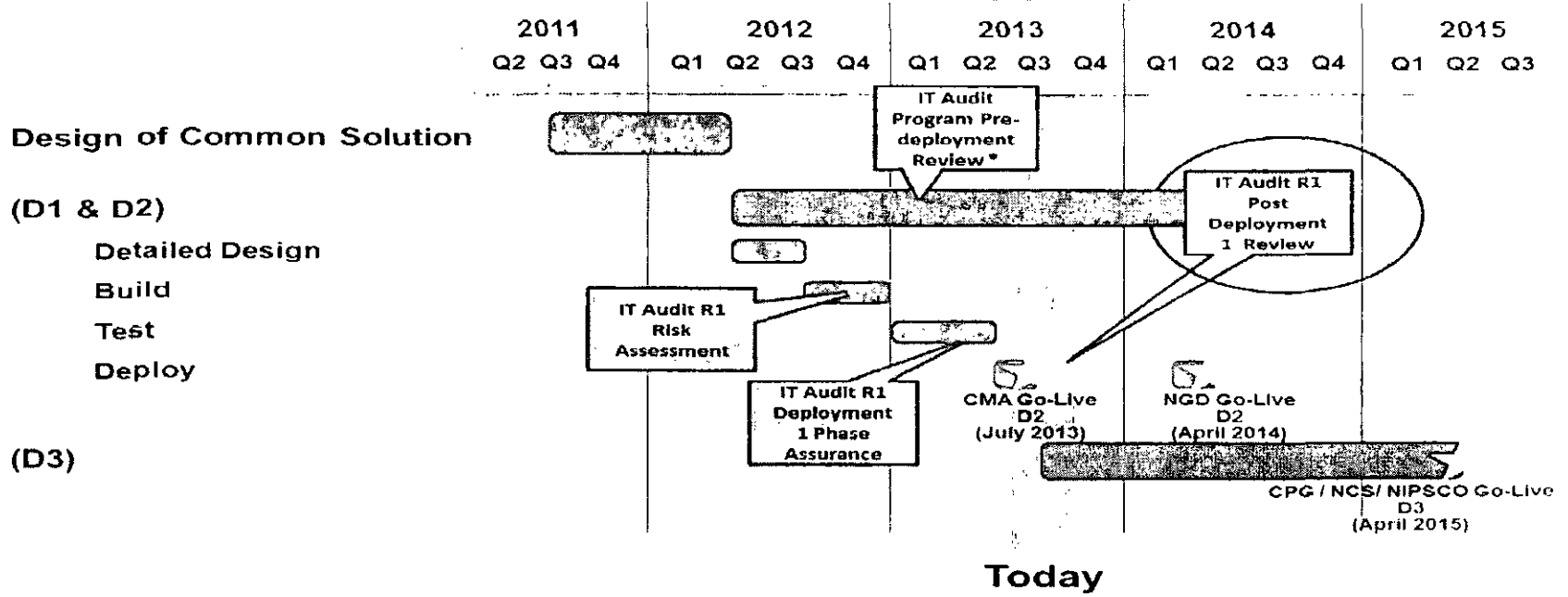
# NiFiT Deployment 1 - Post-Deployment Review

## Executive Overview

IT Audit has issued several reports throughout 2013 focused on the Deployment 1 phase for Columbia Gas of Massachusetts (CMA). Deployment 1 reports have included a Risk Assessment, Pre-Deployment Review, Phase Assurance Review and this Post-Deployment Review timed shortly after CMA go-live and including Hypercare support. The timing of these Deployment 1 reports have been determined to allow for adequate and timely feedback to NiFiT management.

The following graph depicts the reviews and reports that have been delivered by IT Audit in support of the Deployment 1 release. The highlighted item identifies where this report fits in the overall review plan.

NiFiT Audit Plan





# NiFiT Deployment 1 - Post-Deployment Review

## Executive Overview

NiFiT Approach

IT Audit continues to provide both advisory and assurance services during the current and future phases of NiFiT. These services will be divided between an overall Pre-Deployment Review, release specific Phase Assurance Review and a final phase Post-Deployment Review after go-live, which is this report. The purpose of each IT Audit review is as follows:

- Capture and report upon key information/data regarding NiFiT project delivery execution.
- Assess the effectiveness of adoption and usage of the system by NiSource.
- Conclude whether controls were considered and tested by relevant parties as part of NiFiT deployment.

The following terms are used to describe services provided by IT Audit throughout the duration of the NiFiT project:

### **Assurance Services:**

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusion regarding an entity, operation, function, process, system or other subject matter. (IIPF standards revised October 2010)

### **Advisory Services:**

Consulting services are advisory in nature and are performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. (IIPF standards revised October 2010)



# NiFiT Deployment 1 - Post-Deployment Review

## Executive Overview

### Post-Deployment Objectives

The objective of IT Audit's Post-Deployment Review was to provide management with an overall evaluation of the policies, procedures and processes used to manage activities associated with the Deployment and Turnover phases of NiFiT Deployment 1 for CMA, specifically focusing on the following areas:

**1) Project Management Controls**

Review project management controls in the areas of budget, schedule and scope to ensure that NiSource corporate policy and NiFiT standards are followed.

**2) Deliverable Acceptance and Quality Controls**

Review phase deliverable acceptance and quality assurance practices and key deliverables by the NiFiT Project team to provide an independent perspective on quality measures.

**3) Business Process Controls**

Review automated and manual business process control test status to provide an opinion on the adequacy of management's inclusion and testing. Also independently test the effectiveness of both automated and manual business process controls post go-live.

**4) IT General Controls**

Review IT general controls in the areas of systems change management, systems operation, data validation, systems security, and backup and recovery to assess whether NiSource corporate policy is followed.

**5) Program Conduct Controls**

Review conduct of the NiFiT Project team in its achievement of program objectives.





# NiFiT Deployment 1 - Post-Deployment Review

## Executive Overview

Post-Deployment Background

The NiFiT Post-Deployment Review covers activities supporting the Deployment and Turnover phases of NiSource's IT Project Management Methodology (PMM) as conducted between June 2013 and September 2013 by the NiFiT Controls team, NiFiT Project team, and NiSource IT/SOX Compliance, post IT Audit's issuance of the Deployment 1 Phase Assurance Review in June 2013.

NiFiT Project team activities occurring during the Deployment and Turnover phases of Deployment 1 for CMA centered around both the decision process used to facilitate a go/no-go decision on the production release of the NiFiT solution, as well as steps planned and executed to help ensure the deployed NiFiT solution was functioning as intended and provided the benefits desired by NiSource management.

During the Deployment and Turnover phases, NiFiT Project team leadership continued its practice of requiring a Project Change Request (PCR) for any modification related to Deployment 1 requirements and deliverables. This ongoing effort allowed NiFiT to continue oversight and reporting diligence associated with project scope, schedule and financial costing controls for alignment with NiSource corporate policy and documented NiFiT project standards.

The NiFiT Project team also leveraged NiSource's Organizational Change Management (OCM) methodology to guide practices related to change readiness, end-user training and adoption of the Deployment 1 solution. The utilization of these existing practices allowed the NiFiT Project team to engage both the end-user community and supporting management to help ensure the system provided, and end-users realized, the benefits that NiFiT is intended to provide.

As with previous project phases, the effective operation of manual and automated controls associated with Deployment 1 is of primary concern for the NiFiT Project team. As such, the NiFiT Project team continues to be engaged with the various parties who play a role in the definition, execution and independent evaluation of risk and controls associated with the NiFiT solution.

In order to provide ongoing engagement post the go-live of Deployment 1, NiFiT management created a Hypercare team to manage issues and questions associated with go-live and prior to transition to steady-state support.





# NiFiT Deployment 1 - Post-Deployment Review

## Executive Overview

### Post-Deployment Findings

IT Audit noted the NiFiT Project team continued to use positive practices and consistent control reviews to manage the Deployment and Turnover phases of Deployment 1. IT Audit found the Project Change Request process continued to be used to initiate and approve changes to key project deliverables, scope and schedule adjustments, including modifications within the NiFiT scheduling system and variances observed between actual, estimated and forecasted project hours as calculated in the NiFiT Financial Tracking Model. IT Audit has recommended the project team consider having approved Project Change Requests updated within the HPQC testing to ensure status alignment.

As part of NiFiT Deployment 1, IT Audit noted the NiFiT Project team enacted a Hypercare process to facilitate production turnover and to help end-users both absorb usage of the new solution and assist with any business process or technical incidents arising. IT Audit found that along with daily Hypercare meetings and Hypercare Status Report updates performed by the NiFiT Project team, 523 of the 538 Hypercare tickets associated with Hypercare were "closed" or "resolved" as of Hypercare process decommission on September 10, 2013. IT Audit also noted that the fifteen (15) "open" tickets remaining were successfully transition to the IBM Steady-State Support and NiSource Business Application Support teams to be managed for final closure.

IT Audit noted the NiFiT Project team provided a select group of approved NiSource employees, contractors and subcontractors elevated security access to the NiFiT solution for post go-live support of Deployment 1. These approved individuals, referred to as the Hypercare Support team, were granted heightened PeopleSoft access on a temporary basis, with the NiFiT Project team planning for the timely removal of this elevated access post Hypercare closure in September 2013. Based on PeopleSoft security extract reviews performed at the beginning of Hypercare and independent analysis by the NiFiT Controls team and Deloitte, IT Audit found Hypercare Support team members were given excessive production access and recommended the NiFiT Project team remove Hypercare Support team access immediately following Hypercare conclusion. As of September 2013, a secondary PeopleSoft security extract was run by the NiFiT Controls team which displayed heightened access was appropriately reduced to only required IBM PeopleSoft administrators and select members of the NiSource Business Applications Support team as part of Steady-State Support transition. IT Audit recommends the NiFiT Project team limit the level of access provided to the Hypercare Support team in future NiFiT deployments.





# NiFiT Deployment 1 - Post-Deployment Review

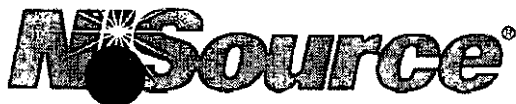
## Executive Overview

Post-Deployment Findings (Cont.)

IT Audit found the NiFiT Project team is complying with NiSource Organizational Change Management (OCM) guidelines to facilitate communication, training and change management activities associated with Deployment 1. IT Audit also noted that various communications events and pre-planned meetings were conducted through the Deployment and Turnover phases to ensure timely notification of key Deployment 1 events were disseminated among relevant parties.

IT Audit and Internal Audit also reviewed selected high-risk automated and manual SOX controls impacted by NiFiT Deployment 1 and found controls appeared to be operating effectively post production release of the Deployment 1 solution. IT Audit subsequently reviewed automated Deployment 1 interface testing results and found ten (10) of seventeen (17) interfaces associated with automated controls identified by the NiSource Controls team subsequent to testing had inadequate documentation to support the "passing" conclusion of a controls-related script. Although the level of documentation of the ten (10) interface test scripts met management requirements, it creates a potential issue for third party evidence review. For future NiFiT Deployments, the NiSource Controls team should align with the NiFiT Project team to identify interfaces and their associated controls in a timely fashion to ensure the NiFiT Project team can include detailed evidence to substantiate interface testing conclusions performed within HPQC.

IT Audit noted final management reviews and sign-offs were obtained by appropriate business unit personnel for the four (4) NGD CMA data conversion streams included as part of Deployment 1. These review and approvals provided oversight that data converted from legacy NiSource applications into the NiFiT solution were migrated in a complete and accurate manner.





# NiFiT Deployment 1 - Post-Deployment Review

## Executive Overview

Post-Deployment Findings (Cont.)

IT Audit found NiFiT production infrastructure has been appropriately documented and is operating to support the new PeopleSoft Financials 9.1 and PeopleSoft Financial Data Warehouse (FDW) application instances associated with Deployment 1. IT Audit also noted that although formal IT SOX testing has yet to occur for the Deployment 1 solution at the time of this audit, the corresponding production infrastructure supporting Deployment 1 was successfully added to the NiSource IT SOX control population for IT general control test inclusion starting in Q3 2013 and communicated to associated parties. IT Audit additionally performed an independent assessment of the PeopleSoft application change management process instituted for NiFiT Deployment 1 using Phire software and found the NiFiT Project team is following documented control standards as defined within the NiSource enterprise change management policy.

Upon review of key project deliverables and artifacts, IT Audit noted NiFiT is following sound practice in the areas of project management, deployment and turnover strategy. IT Audit also found good execution for delivered function user acceptance and change management, with feedback being gained from business stakeholders and documented for future use.

Finally, IT Audit found the NiFiT Project team is using an Operational Measures scorecard to track improvement and value realization metrics for the NiFiT solution. IT Audit noted benchmark metrics are being used along with relevant NiSource quantitative measures to provide feedback regarding project progression to date. IT Audit also found these scorecards are being actively shared, reviewed and updated on a monthly basis by the NiFiT Project team in order to drive improvement efforts as the project moves into Deployment 2.





NiFiT Deployment 1 - Post-Deployment Review  
Assurance Objectives

# REVIEW RESULTS



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1

Review on-going project management controls in the areas of scope, schedule and budget to ensure NiSource corporate policy, good practice and NiFiT standards are followed.

#### Results:

IT Audit reviewed three (3) key project management control areas as part of the initial Post-Deployment Review for NiFiT:

- Scope Controls - Is the NiFiT Project team managing what it delivers is appropriate and approved?
- Schedule Controls - Is the NiFiT Project team managing a schedule to ensure on-time project delivery?
- Cost Controls - Is the NiFiT Project team managing costs to ensure delivery occurs within a defined and approved cost structure?

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

#### **Scope Controls:**

The NiFiT Project team has continued its usage of the Project Change Request (PCR) process as the primary means to manage NiFiT scope control, with alterations in project requirements and deliverables requiring review and approval by appropriate parties. IT Audit reviewed a sample of Deployment 1 project changes documented within NiFiT weekly Status Reports and found deliverable changes are being approved by appropriate parties using the related PCR process. IT Audit also noted project requirement changes are being approved through the PCR process, however not all requirement modifications are subsequently being updated in the Hewlett Packard Quality Center (HPQC) system used by the NiFiT Project team for test planning and tracking. This condition was found on a subset of Deployment 1 requirements that were taken out of project scope with the corresponding requirement change having yet to be made to Deployment 2 requirements in HPQC.

**Recommendation:** IT Audit recommends a review be conducted between project requirement changes documented in the Project Change Request process and the corresponding project requirements in HPQC to make sure the requirement status are aligned. IT Audit further recommends the process of managing project requirements be assigned to NiFiT Deployment Leads, formally documented and clearly communicated to affected parties.

**Management Response:** The PCR process has been enhanced as of July 2013. In the current process, PCRs are not closed until updates to the HPQC tool are confirmed by the NiFiT PMO.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

#### Schedule Controls:

IT Audit found NiFiT continues to use the NiSource PWA system as its primary schedule control system. The project schedule is updated during planning activities for each NiFiT phase and tracks all work performed to both planned and actual hours. NiFiT project personnel are required to enter their time in the PWA system in order for the NiFiT Project Management Office (PMO) to perform the following:

- Weekly variance analysis between planned and actual hours for performance tracking.
- Weekly comparison of scheduled hours to the overall project staffing model.

Once the NiFiT PMO has completed their weekly activities and aligned with NiFiT Project team leads on both missing hours in the PWA system and staffing plan adjustments, the NiFiT PMO reports this information in the weekly NiFiT PMO Status Report and approves the project schedule. IT Audit noted that once the project schedule is approved, subsequent changes are also required to follow the Project Change Request (PCR) process.

For testing purposes, IT Audit reviewed a sample of Deployment and Turnover phase project schedule changes as reported in weekly NiFiT Status Reports and found that each selected change was reviewed and approved on a corresponding PCR form. IT Audit also reviewed a sample of both weekly variance analysis and comparison reports conducted by the NiFiT PMO out of the NiSource PWA system for the Deployment and Turnover phases and noted differences observed were appropriately communicated to NiFiT Project leads with corresponding information required either for correction or detailed explanation.





# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

#### **Cost Controls:**

The NiFiT project has an approved budget used as the primary control for project costing. Project costing is performed by the NiFiT PMO using the NiFiT Financial Tracking Model. Categories of project costs captured on the NiFiT Financial Tracking Model and reported on the weekly NiFiT Status Report are as follows:

#### Items:

- Actuals – Actual costs incurred for the NiFiT project as reported by NiSource Accounting (updated monthly).
- Estimate - Budgeted costs for the project.
- Forecast – Forecast for current and future periods combined with actual costs from past periods (updated weekly).
- Variance – Reported differences between Budget-to-Actuals and/or Budget-to-Forecast information.

#### Types:

- Internal Labor- NiSource employees engaged on the NiFiT project.
- IBM - Specific NiFiT project vendor costs.
- External Labor- Consultants and contractors engaged on the NiFiT project.
- Non-Labor - Associated hardware and software costs for the NiFiT project.

#### Categories:

- Capital
- O&M (Operations & Maintenance)
- Total (combined Capital + O&M)

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

On a monthly basis, the NiFiT PMO uses the Financial Tracking Model to perform the following activities:

- Project actual costs are collected from various sources by the NiFiT PMO at month end.
- Actual O&M and Capital costs are updated for the previous month.
- Based on the project budget, a variance analysis is produced against actuals for the month.
- Variance analysis of budget-to-actuals is used by management to enable subsequent changes to forecast.
- Previous period forecast amount is updated with previous month actuals.
- Future period forecast amounts are subject to, and include, approved Project Change Requests (PCRs).
- Variance analysis budget-to-forecast is used by management to determine project health and support corrective actions.

IT Audit reviewed a sample of project cost-related changes as reported in weekly NiFiT Status Reports and found each selected cost change was reviewed and approved on a corresponding PCR by appropriate personnel, along with the PCR containing the appropriate support material used for cost estimation. IT Audit also reviewed select weekly NiFiT Status Reports and noted reported project costing information was aligned with costing data reported in the Financial Tracking Model. In support of IT Audit's conclusion that current NiFiT project cost controls in use by the NiFiT PMO appear to be operating effectively, Internal Audit is currently conducting a NiFiT Financial Review to provide further assurance in this area.



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

**Recommendation:** IT Audit sees an opportunity for NiFiT weekly Status Report synchronization with the Financial Tracking Model. The current process for weekly Status Report development relies on manual data entry from the Financial Tracking Model at a point in time. Though this process is effective for internal cost monitoring, reviews by external entities rely on Sharepoint versions of the Financial Tracking Model from different time periods to provide supporting detail for past Status Reports. Saving a copy of the Financial Tracking Model with each weekly Status Report would further ensure timing alignment and supporting detail for external review purposes.

**Management Response:** A copy of the NiFiT Financial Tracking Models used in the Status Report will be saved in a Sharepoint folder. The NiFiT PMO will ensure a copy has been saved that reconciles to the Status Report prior to its release.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2

**Review identified exceptions to corporate policy and whether the exception process/steps were communicated and reviewed with the IT PMO and NiFiT Project team management.**

#### **Results:**

#### **Deployment Phase (Required Documentation):**

IT Audit noted the following IT PMM/Sabanes-Oxley documentation required for the Deployment phase gate was created, authorized and retained prior to moving to the Turnover Phase:

- User Documentation (Deployment Phase) – created for NiFiT Deployment 1 to include user training guides and information on how to use the solution.
- Technical Documentation (Deployment Phase) – included corresponding details associated with technical support information and requirements for NiFiT Deployment 1.
- Deployment Completion Approval (Deployment Phase) – included overall phase approval and training plan inclusion for NiFiT Deployment 1.

#### **Turnover Phase (Required Documentation):**

IT Audit noted the following IT PMM/Sabanes-Oxley documentation required for the Turnover phase gate is created and being finalized. IT Audit will review the completed documentation when available:

- Lessons Learned (Turnover Phase) – included information on lessons learned during phase lifecycles of NiFiT Deployment 1.
- Turnover Stage Completion (Turnover Phase) – included the approval and authorization of Deployment 1 transition to steady state solution servicing.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2 (Cont.)

#### **Turnover Phase (Hypercare Reporting):**

IT Audit also reviewed NiFiT Hypercare delivery by attending daily Hypercare status meetings and both inspecting Hypercare Daily Status Reports along with Hypercare ticket information to gauge standards compliance by NiFiT. IT Audit noted the NiFiT Project team reported comprehensive status of the following Hypercare delivery attributes within the Hypercare Daily Status Report :

- Batch processing status
- Incidents reported and handled
- Function status by solution areas
- Monthly accounting close status

IT Audit also found that as of Hypercare closure on September 10, 2013, the Hypercare team reported 523 of the 538 total Hypercare incidents raised were either "closed" or "resolved", with only fifteen (15) incidents remaining in "open" status. IT Audit noted these fifteen (15) "open" tickets were approved for transition from the NiFiT Project team over to both the NiSource Business Applications Support and IBM Steady-State Support teams for continued monitoring and closure progression. Post secondary review on September 24, 2013, IT Audit found the NiSource Business Applications Support and IBM Steady-State Support teams closed four (4) of the fifteen (15) open incidents and reported a total of eleven (11) "open" incidents remaining in relation to Hypercare – four (4) being high severity and seven (7) being low severity. IT Audit noted all eleven (11) "open" tickets are consistently being worked by both NiSource Business Applications Support and IBM Steady-State Support with two (2) high severity tickets targeted for closure by September 30, 2013 and the remaining nine (9) tickets being actively managed for updates prior to eventual closure.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2 (Cont.)

#### **Turnover Phase (Hypercare Elevated Access):**

The NiFiT Project team provided a select group of approved NiSource employees, contractors and subcontractors elevated security access to the NiFiT solution in order to address end-user and technical challenges experienced post go-live. These approved individuals, referred to as the Hypercare Support team, were granted Update, Add and/or Correction access to specific pages within the newly deployed PeopleSoft environment on a temporary basis, with the NiFiT Project team planning for the timely removal of this elevated access post Hypercare closure in September 2013.

For communication efforts regarding potential segregation of duties, the NiFiT Controls team aligned with Deloitte to run independent PeopleSoft security extracts for comparison purposes both at Hypercare commencement (July 2013) and post Hypercare close (September 2013). IT Audit noted the security extracts, which were obtained from the July 2013 Hypercare start period and run by both the NiFiT Controls team and Deloitte post go-live of Deployment 1, identified a high number of Hypercare Support team members who possessed Update, Add and/or Correction access to specified PeopleSoft pages. Though this access was approved, it was collectively determined amongst both the NiFiT Controls team and Deloitte, and post discussion with NiFiT Project team management, that Hypercare Support team access was excessive for the temporary period. For planned remediation purposes, it was agreed that the NiFiT Project team should remove the excessive access in early September 2013 as part of Hypercare shutdown and limit administrative access during Steady-State support to only select users of IBM (as approved administrators of PeopleSoft) and the NiSource Business Applications Support team (as approved PeopleSoft business support personnel).



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2 (Cont.)

In order to ensure the timely removal of Update, Add and/or Correction access, the NiFiT Controls team ran a secondary PeopleSoft security extract as of September 19, 2013 and found the Update, Add and Correction access for NiFiT Hypercare Support team users was removed and members of the IBM PeopleSoft administration and NiSource Business Applications Support were reduced to appropriate production level support access. IT Audit additionally reviewed corresponding documentation retained by the NiFiT Controls team and subsequently found the same reduction of access post Hypercare completion.

**Recommendation:** IT Audit recommends the NiFiT Project team ensure that Hypercare Support team access be limited to the appropriate level of Update, Add and/or Correction access into the production PeopleSoft environment for future deployments of NiFiT. By limiting the access given to this limited user base with heightened access, even temporarily, the NiFiT Project team significantly lessens the risk of elevated access leading to improper activity within the production NiFiT environment.

**Management Response:** As part of the NiFiT Deployment 2 Deploy Phase, the NiFiT Project team will plan to identify the Hypercare resources who will require access to the NiFiT production PeopleSoft environments in support of the Go-Live activities and subsequent financial close efforts. All requests for Hypercare resource access to NiFiT production PeopleSoft environments will be submitted as a standard security request through AccessIT. These requests will follow the appropriate triage, review and approval processes through the Business Application Support and IT Support teams. At the conclusion of Hypercare, the access provisioned will be revoked via a secondary AccessIT security request.



# NiFiT Deployment 1 - Post-Deployment Review



## REVIEW / RESULTS

### Project Management Controls – Objective 3

Determine whether adequate alignment exists on project management control activities implemented by NiFiT across the NiFiT Project team, Process Owners, NiSource SOX Compliance, KPMG Controls team and Deloitte & Touche Audit personnel.

#### Results:

IT Audit regularly attended the following NiFiT project meetings between June 2013 and September 2013. Covered topics associated with project management control activities included current project status (based upon relevant project management control metrics), project change request status, issue/risk identification and project updates.

- **NiFiT Project Leadership (Wednesday 10:00am EST)**

*Type:* Weekly Project Leadership team meeting regarding NiFiT project progress, project status updates by the NiFiT PMO and agenda presentations by NiFiT Project team leads and subject matter experts.

*Attendees:* NiFiT Project Leadership and IT Audit.

- **NiFiT Weekly Organizational Change Management/Business Unit Representative Status (Tuesday 1:00pm EST)**

*Type:* Weekly status meeting covering project work accomplished, deliverable(s) status, staffing updates and issue/risk metric reporting.

*Attendees:* NiFiT PMO, NiFiT Project team leads and IT Audit.



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 3 (Cont.)

- **NiFiT Weekly Technology/Deployment 1 Status (Tuesday 1:00pm EST)**  
*Type:* Weekly team status meeting covering technical updates established/accomplished during the period along with current Deployment 1 status reporting.  
*Attendees:* NiFiT PMO, NiFiT Project team leads and IT Audit
- **NiFiT Weekly Deployment 2 Status (Tuesday 2:30pm EST)**  
*Type:* Weekly team status meeting covering technical updates established/accomplished during the period along with current Deployment 2 status reporting.  
*Attendees:* NiFiT PMO, NiFiT Project team leads and IT Audit
- **NiFiT Controls Status (Monday 10:30am EST)**  
*Type:* Weekly status discussion regarding updates to both NiSource's SOX Risk Navigator database for impacted Deployment 1 controls and security controls associated with elevated Hypercare access.  
*Attendees:* NiFiT Project team, NiFiT Controls team and IT Audit.
- **Deloitte NiFiT Status (Thursday 10:00am EST)**  
*Type:* Bi-weekly status discussion supporting Segregation of Duties tool execution (timing and remediation coordination), Hypercare security support and data conversion deployment activities.  
*Attendees:* NiFiT Project team, NiFiT Controls team, IT Audit and Deloitte

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 3 (Cont.)

IT Audit also engaged with key NiFiT Project team personnel on a one-on-one basis to facilitate project management alignment. Project management controls were discussed, as needed by IT Audit, as part of the following reoccurring weekly meetings:

- IT Audit and NiFiT Program Manager (Tuesday 9:00am EST)
- IT Audit and NiFiT Technology Director (Tuesday 9:30am EST)

Based on routine NiFiT project status meeting attendance throughout the Deployment and Turnover phases, coupled with one-on-one IT Audit weekly engagement with NiFiT Project team leadership and coordination facilitation between the NiFiT Project team and Deloitte, IT Audit found adequate alignment exists on project management control activities implemented by NiFiT amongst relevant parties.

**Recommendation:** None.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 1

**Review NiFiT training, change management and communications practices to provide reasonable assurance NiSource corporate policy and/or NiFiT project standards are followed.**

#### **Results:**

Major portions of the Deployment and Turnover phases of NiFiT are focused on ensuring users of the solution know how to properly use the related systems and how the solution changes processes that users support. Accomplishing these tasks involves training, change management and communications created by the NiFiT Project team as part of NiSource's Organizational Change Management (OCM) methodology for IT projects. IT Audit noted NiFiT has a dedicated OCM team that is responsible for communication, change management and training coordination associated with the NiFiT project.

IT Audit reviewed the NiSource OCM playbook and interviewed the NiSource OCM unit lead in order to understand NiSource's OCM guidelines. IT Audit then reviewed documented evidence of NiFiT's OCM related plans and requirements noting the following Deployment 1 phase related deliverables were consistent with NiSource OCM guidelines and were created, updated, reviewed and approved by appropriate parties:

- Change Readiness Assessment – Survey of users to gauge organizational readiness for project changes.
- Deployment Campaign - Coordinated communications activities for the project deployment phase.
- End-User Training – Delivery of training to impacted users and personnel.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 1 (Cont.)

As of this Post-Deployment report date, IT Audit noted the following status of OCM deliverables for the Deployment 1 Turnover phase:

- Lessons Learned – Survey and session-based reviews gathering good practices and improvement items for future phases. Results are currently being reviewed by NiFiT leadership for future deployments.
- Change Adoption Assessment – Survey-based approach to identify any remaining barriers to change adoption. The survey has been administered with results scheduled to be finalized by September 30, 2013 after the second month-end close is completed for CMA.

Based on review, IT Audit concludes NiFiT is following the NiSource OCM methodology with deliverables being reviewed and approved by appropriate project-related parties.

**Recommendation:** None.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 2

Review NiFiT delivered function user acceptance approval activities to provide reasonable assurance NiSource corporate policy or project standards are followed.

#### Results:

IT Audit found the NiFiT Project team followed a structured approach to user acceptance activities. As preparation for Deployment phase entry, the NiFiT Project team engaged supporting team members, executive advisors, sponsors and constituent groups as part of the Deployment 1 go-live decision process. IT Audit also noted a three (3) checkpoint approach was created and adhered to for go-live decision activity, which also included a readiness scorecard based upon key project indicators with allowance for review and input at the various checkpoint levels. Checkpoints were defined by the NiFiT Project Team as follows:

- Deployment Initiation (Checkpoint 1) – Occurring June 5, 2013.
- Pre-Deployment (Checkpoint 2) - Occurring June 15, 2013.
- Go-Live Commitment (Checkpoint 3) - Occurring June 25, 2013.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 2 (Cont.)

IT Audit found the NiFiT Project team also used the following categories of readiness information and corresponding criteria to gauge Deployment 1 go/no-go decision activity:

- Project Readiness (Issues , Risks and Schedule)
- Business Solution Readiness (Requirements, Testing and Security)
- Data Conversion Readiness (Conversion status)
- Legacy Readiness (Interfacing system components readiness)
- 3<sup>rd</sup> Party Readiness (Banks and other 3<sup>rd</sup> party readiness)
- Infrastructure Readiness (Hardware and software is available and ready)
- User Readiness (Training readiness)
- Deployment Readiness ( Deployment tests completed with plans and communications in place)
- Production Support Readiness (Production support teams, processes and tools ready)

Based on the categories of readiness information listed above and input from the NiFiT Project team, advisors and selected stakeholders as part of the checkpoint review process, the NiFiT Project team gained agreement to proceed with go-live deployment. IT Audit noted the category readiness list and corresponding review process to be a good practice for this type of production deployment effort.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 2 (Cont.)

Upon Deployment phase entry, the NiFiT Project team executed it's step-based, go-live strategy to activate the NiFiT solution within production environments. As each system and/or system component was activated in production, the NiFiT Project team partnered with Steady-State Support personnel to coordinate and orchestrate Hypercare activities, with Hypercare being a NiSource IT required set of activities to provide extended IT project team support for a period of time immediately following solution deployment. In NiFiT's case, Hypercare activities were conducted for each system between July 2013 and September 2013 with a total of 538 items handled by the Hypercare team.

IT Audit noted the Hypercare team for Deployment 1 included relevant personnel from both the NiFiT Project and Steady-State Support teams. As part of Hypercare conclusion, IT Audit also found the NiFiT Project team received approval from appropriate business and system support personnel for transition to steady-state support. IT Audit additionally interviewed selected business stakeholders to gauge the level of engagement with business teams receiving the NiFiT solution. Overall results from the interviews were positive with business stakeholders rating the level of engagement by NiFiT to be very good and commenting that support activities provided by the NiFiT Project team were helpful and performed in a timely manner. IT Audit also noted the NiSource Accounts Payable team raised questions associated with the Vendor Form Solution and found the NiFiT Project team is in communications with Accounts Payable on this topic.

Based on review of relevant documentation, attendance at key meetings and stakeholder interview engagement, IT Audit concludes NiFiT has followed both NiSource Corporate and project standards for delivered function user acceptance approval activities.

**Recommendation:** None.



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 3

In cases where exceptions to NiSource corporate policy and/or NiFiT project standards are encountered in user acceptance, IT Audit will validate that proper review, sign-off and documentation are obtained by NiFiT Project team.

Based on relevant documentation review and interviews with key personnel, IT Audit concludes no exceptions were noted to corporate policy or project standards as part of delivered function user acceptance activities for Deployment 1.

**Recommendation:** None.





# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW/RESULTS

### Delivered Function User Acceptance - Objective 4

**Determine whether adequate alignment exists between the NiFiT Project team and NiFiT Process Owners, SOX Compliance, the KPMG Controls team, NiSource Finance, CMA Management and Deloitte & Touche Audit on user acceptance control activities associated with the Deployment and Turnover project phases.**

IT Audit attended the following meetings and/or planned communications where user acceptance activities and related controls were discussed and noted adequate alignment exists between the parties involved on user acceptance.

- **NiFiT Project Leadership (Wednesday 10:00am EST)**

*Type:* Weekly Project Leadership team meeting regarding NiFiT project progress, project status updates by the NiFiT PMO and agenda presentations by NiFiT Project team leads and subject matter experts.

*Attendees:* NiFiT Project Leadership and IT Audit.

- **NiFiT Weekly Organizational Change Management/Business Unit Representative Status (Tuesday 1:00pm EST)**

*Type:* Weekly status meeting covering project work accomplished, deliverable(s) status, staffing updates and issue/risk metric reporting. Included items regarding change management and user acceptance.

*Attendees:* NiFiT PMO, NiFiT Project team leads and IT Audit.

- **Planned communications with CMA by NiFiT**

*Type:* E-mail, site visits and Change Champion communications.

*Audience/Participants:* NiFiT Project team leads, Change Champion members and CMA management.

**Recommendation:** None

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls - Objective 1

Review automated and manual business process controls status within the Deployment and Turnover phases to provide an opinion on the adequacy of management's inclusion and testing of the automated and manual business process controls.

Starting in August 2012, NiSource partnered with KPMG to provide controls expertise targeted to the NiFiT solution. The KPMG team became the primary resource on a newly created NiFiT Controls team with responsibility for ensuring controls impacted by the NiFiT solution are appropriately documented, tested, approved and ready for operation prior to NiFiT go-live.

This section covers both automated and manual business process control activities conducted by the NiFiT Controls team, NiSource IT/SOX Compliance and the NiFiT Project team for the NiFiT Deployment and Turnover phases taking place between July 2013 and September 2013 and post IT Audit issuance of the NiFiT Deployment 1 Phase Assurance Report.

#### **Automated Controls:**

To provide additional assurance that CMA automated controls enabled by NiFiT operated effectively as part of post-deployment activity, IT Audit selected primary automated SOX controls appearing within the locked NiFiT Deployment 1 Risk and Control Matrixes previously tested by IT Audit as part of the NiFiT Deployment 1 Phase Assurance Review.

For each selection, IT Audit reviewed documentation supporting the execution of the automated control or visibly observed operation of the control in production. IT Audit noted all automated controls selected for post-deployment review appeared to be operating effectively.



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 1 (Cont.)

#### **Manual Controls:**

To verify manual controls operated effectively as part of the July 2013 Accounting close for Columbia Gas of Massachusetts (CMA), Internal Audit made a selection of twenty (20) CMA-focused primary manual SOX controls out of the total population of eighty-five (85) NGD SOX-related manual controls from the locked NiFiT Deployment 1 Risk and Control Matrixes. The manual controls tested by Internal Audit were controls determined to be most impacted by NiFiT. Additionally, only monthly controls impacted by NiFiT Deployment 1 could be reviewed per Internal Audit's testing procedures as July is not a quarter or year-end timeframe for NiSource. For each of the twenty (20) manual controls selected, Internal Audit reviewed documentation supporting the execution of the SOX control for the month of July 2013, noting all selected CMA controls appeared to be operating effectively.

**Recommendation:** None.



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 2

**Review NiFiT interfaces to provide a perspective on considerations taken for test planning, execution and documentation, and process owner sign-off on the interface operation.**

#### **Results:**

As part of the NiFiT solution, interfaces exist for data transfer between NiFiT and legacy applications. These interfaces, defined during the Plan and Build phases by the NiFiT Project team, provide a platform for helping to ensure data is “completely” and “accurately” migrated from one system to another and that any errors/exceptions experienced are rectified by responsible parties in a timely manner.

As part of the NiFiT Deployment 1 solution for CMA, IT Audit noted a total of eighty-seven (87) interfaces identified by the NiFiT Project team as part of the RICEFW (Reports, Interfaces, Conversions, Extensions, Forms and Workflow) project exercise performed during initial NiFiT business process development. Of the eighty-seven (87) interfaces, IT Audit reviewed seventeen (17) interfaces associated with automated controls as determined by the NiSource Controls team post NiFiT testing. For the seventeen (17) automated controls, IT Audit reviewed corresponding HPQC test script information to ensure the automated controls were tested prior to production deployment. Through this review of test script documentation, IT Audit determined all seventeen (17) automated controls were tested and labeled as “passed” by the NiFiT Project team prior to deployment; however, ten (10) of seventeen (17) HPQC test scripts provided inadequate documentation of the actual results to support a “pass” conclusion of a controls-related script (i.e. screen prints, reconciliation/error reports, etc.). The level of documentation of the ten (10) HPQC test scripts identified, although meeting the requirements set forth by management, creates a potential issue for controls testing related to evidence review and validation by a third-party.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 2 (Cont.)

**Recommendation:** For future NiFiT Deployments, the NiSource Controls team should align with the NiFiT Project team to identify interfaces and their associated automated controls in a timely fashion. This will ensure the NiFiT Project team can include detailed testing evidence for identified critical automated interfaces to substantiate interface testing conclusions performed within HPQC.

**Management Response:** As noted in the review results ten (10) of the interface scripts did not meet the actual results documentation requirements of a controls-related script as they were not identified as such by the NiSource Controls team review process before the completion of NiFiT Deployment 1 System Testing. The NiFiT Project team will work with the SOX Controls team to ensure the interfaces associated with automated controls are identified before the completion of NiFiT Deployment 2 System Testing. System Test scripts will be mapped to these controls and categorized as controls-related scripts by the NiFiT Testing Team. NiFiT testing process requires the appropriate level of evidence be collected for controls testing, as established by the Controls Team. This evidence will then be made available for validation by the Controls Team before the closure of the NiFiT Deployment 2 Test Phase. Furthermore, the NiFiT Project team will work with the SOX Controls team to ensure the Deployment 3 interfaces associated with automated controls are identified before the start of the Deployment 3 Test Phase.

# NiFiT Deployment - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 3

Review NiFiT data conversion controls for activities executed since IT Audit's NiFiT Deployment 1 Phase Assurance Review to provide a perspective on conversion planning, execution, documentation and process owner review and sign-off on conversion results.

#### Results:

The NiFiT Project team executed the following four (4) data conversion efforts as part of NiFiT Deployment 1:

- Chart of accounts conversion (general ledger) - Lawson to PeopleSoft Financials 9.1.
- Vendor conversion (accounts payable) - Lawson to PeopleSoft Financials 9.1.
- Cost repository account code conversion (asset management) – PowerPlant.
- Work order number conversion (asset management) – PowerPlant.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 3 (Cont.)

IT Audit noted final review and sign-off for the following Deployment 1 data conversion streams were obtained by NiFiT:

- Chart of accounts conversion (general ledger) - Lawson to PeopleSoft Financials 9.1.
  - Final sign-off obtained June 15, 2013 prior to the July 26, 2013 general ledger deployment date.
- Vendor conversion (accounts payable) - Lawson to PeopleSoft Financials 9.1.
  - Final sign-off obtained June 16, 2013 prior to the June 30, 2013 accounts payable deployment date.
- Cost repository account code conversion (asset management) – PowerPlant. (Refer to **Note** below)
  - Final review obtained July 23, 2013 post the July 15, 2013 asset management deployment date.
- Work order number conversion (asset management) – PowerPlant. (Refer to **Note** below)
  - Final review obtained July 23, 2013 post the July 15, 2013 asset management deployment date.

**Note:** Cost repository and work order number conversion review was obtained post PowerPlant deployment due to the conversions being executed during the weekend and final results dependent on deployment execution. Obtaining conversion reviews a week after deployment allowed the NiSource Asset Management team to review and validate the conversion results in production.

**Leading Practice Opportunity:** IT Audit noted business review and sign-off documentation was not consistent between the General Ledger, Vendor, Cost Repository and Work Order Number data conversions for Deployment 1 and believes an opportunity for conversion review and sign-off requirements to be documented consistently in future NiFiT deployment efforts.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 4

**Review alignment efforts on post go-live automated and manual business process control testing activities between NiFiT Process Owners, SOX Compliance, the KPMG Controls team and Deloitte & Touche Audit.**

IT Audit observed various communication points and pre-scheduled reporting meetings occurring between the NiFiT Project and Controls teams, NiFiT Process Owners, NiSource's IT and Columbus Internal Audit teams and Deloitte regarding assessment activities associated with the design/effectiveness testing of both automated and manual controls impacted by NiFiT. Besides being an active participant in discussion coordination between the multiple parties listed above, IT Audit noted the following regularly scheduled communication streams throughout duration of the CMA Deployment and Turnover phases:

- **NiFiT Controls Status (Monday 10:30am EST)**  
*Type:* Weekly status discussion regarding automated and manual controls inclusion within the NiFiT RCMs and Segregation of Duties evaluation status between the NiFiT Project and Control teams.  
*Attendees:* NiFiT Project team, NiFiT Controls team and IT Audit.
- **Deloitte NiFiT Status (Thursday 10:00am EST)**  
*Type:* Weekly status discussion supporting automated and manual control testing efforts (planning, execution and reporting), Segregation of Duties tool execution (timing and remediation coordination), NiFiT Phire software deployment evaluation efforts and data conversion/interface testing.  
*Attendees:* NiFiT Project team, NiFiT Controls team, IT Audit and Deloitte







# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 4 (Cont.)

Along with scheduled, weekly NiFiT Controls and Deloitte NiFiT status discussions, numerous ad hoc conversations also took place during both the Deployment and Turnover phases of NiFiT to align Deployment 1 controls included in NiFiT Risk and Control Matrixes (RCMs) to controls present within NiSource's global SOX Risk Navigator database. Based on the locked versions of Deployment 1 RCMs as of September 2013, the NiSource SOX Controls team performed a controls reconciliation between the RCMs and Risk Navigator and noted all 505 controls appearing in the NiFiT RCMs were also listed within Risk Navigator.

For testing purposes, IT Audit performed an independent reconciliation exercise between the same September 2013 NiFiT Deployment 1 RCMs and the SOX Risk Navigator controls database and obtained the same results as the NiSource SOX Controls team, with 505 aggregate controls appearing in the NiFiT RCMs and also documented within Risk Navigator for alignment purposes.

**Recommendation:** None.



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 1

**Review procedures planned and executed by the NiSource IT Compliance and SOX Compliance teams to validate production infrastructure supporting Deployment 1 of NiFiT is completely and accurately absorbed into the NiSource IT SOX testing framework.**

#### **Results:**

Through inspection of relevant NiFiT Project team documentation and inquiry with both the NiSource IT Compliance and SOX Compliance teams, IT Audit noted a defined set of NiFiT production infrastructure components have been identified and are in place to support the PeopleSoft Financials 9.1 and PeopleSoft Financial Data Warehouse (FDW) applications associated with NiFiT Deployment 1. IT Audit also found these production infrastructure components have been documented on a named server basis by the NiFiT Project team and were provided to both NiSource IT Compliance and SOX Compliance as part of Deployment phase activities for ensuring inclusion into the NiSource IT SOX testing framework for post go-live testing starting in Q3 FY13.

For testing purposes, IT Audit obtained the current NiSource IT SOX testing framework and noted production server infrastructure supporting the PeopleSoft Financials 9.1 and Financial Data Warehouse (FDW) applications has been included for subsequent Q3 FY13 audit testing by both the NiSource IT Compliance and SOX Compliance teams post go-live of Deployment 1.

**Recommendation: None.**

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 2

**Review available testing completion metrics for NiFiT-associated IT general computer controls to determine whether these controls are being included in quarterly IT Compliance and SOX Compliance testing efforts.**

**Results:**

IT Audit noted that as of September 20, 2013, Q3 FY13 IT SOX testing was in the process of commencing post go-live of NiFiT Deployment 1 and we could not ensure IT general controls associated with the PeopleSoft Financials 9.1 and PeopleSoft Financial Data Warehouse applications were operating as designed. With primary IT SOX testing for NiFiT-related applications in process at the time of this audit report, IT Audit did not have testing completion metrics available to determine whether NiSource IT Compliance and/or SOX Compliance noted any relevant IT SOX testing exceptions for IT general controls associated with NiFiT Deployment 1.

**Recommendation:** None.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 3

Determine whether adequate alignment exists on IT general computer control activities implemented by the NiFiT Project team with IT Compliance, SOX Compliance and Deloitte & Touche Audit.

#### Results:

IT Audit observed various communication points and pre-scheduled meetings occurring between the NiFiT Project team, NiSource's IT Compliance and SOX Compliance teams, IT Audit and Deloitte regarding assessment activities associated with the design/effectiveness testing of IT general controls impacted by NiFiT. Besides being an active participant in discussion coordination between the multiple parties listed above, IT Audit noted the following regularly scheduled communication stream occurred throughout duration of the CMA Deployment and Turnover phases:

- **Deloitte IT General Controls Status (Friday 11:00am EST)**

*Type:* Bi-weekly status discussion regarding IT general controls, test timing between Deloitte and both NiSource IT Compliance and SOX Compliance, IT SOX exceptions realized to date and IT general controls reporting alignment between all parties.

*Attendees:* NiFiT Project team (where needed), NiSource IT Compliance, SOX Compliance, IT Audit and Deloitte.

**Recommendation:** None.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 4

**Perform independent effectiveness testing over select IT general computing controls presenting a heightened risk to NiFiT post go-live of Deployment 1.**

#### **Results:**

As part of the NiFiT Peoplesoft 9.1 deployment, the NiFiT Project team implemented a software control tool called Phire for object versioning and migration of modified PeopleSoft application code into production. Through both inquiry with NiFiT Project team members and review of a Phire change population from June 1, 2013 to August 15, 2013, IT Audit noted the Phire tool monitors all PeopleSoft application code changes, as well as specific operating system level changes (i.e. Crystal Reports, SQR objects, etc.) which impact the application.

As part of the NiFiT Post-Deployment review, IT Audit performed independent testing of the PeopleSoft change management process by randomly sampling fifteen (15) changed Phire objects from a total population of 175 Phire changes systematically obtained from the NiFiT Project team. IT Audit noted the NiSource enterprise change management process requires IT personnel to document the tracking number (i.e. incident ticket, defect number or change request number) which initiated the change, corresponding business approval, change description and follow the automated Phire ticket workflow built-in the tool. Upon review, IT Audit determined that while the NiFiT Project team is following the NiSource enterprise change management process, eleven (11) of fifteen (15) changes sampled did not have attached evidence of ISM Change Ticket business approvals linked to the Phire change (which IT Audit subsequently was able to obtain via emails outside of the tool). Also, IT Audit found the eleven (11) changes were not adequately linked to the daily ISM change ticket which evidenced the PeopleSoft change deployment into production. Additionally, IT Audit noted fourteen (14) of the fifteen (15) changes were closed within the Phire tool greater than one (1) month after the change was promoted to production.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 4 (Cont.)

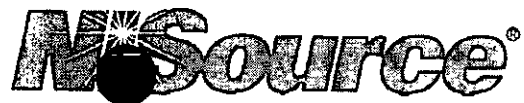
**Leading Practice Opportunity:** While IT Audit noted the NiFiT Project team is following the NiSource enterprise change management policy for PeopleSoft changes, the following opportunities exist for the NiFiT Project team around Phire change management:

- Ensuring all Phire change tickets are clearly linked to a corresponding ISM change ticket.
- Having required Phire change approvals documented and retained in a consistent fashion.
- Closing Phire change tickets in a timely manner after the PeopleSoft change management cycle is completed.



NiFiT Deployment 1 - Post-Deployment Review  
Advisory Objectives

# REVIEW RESULTS





# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 1

Review NiFiT project quality control, risk management, phase process and phase closure activities compared with industry practice and guidance to inform NiFiT Project team management of relevant improvement opportunities.

#### Results:

IT Audit found the NiFiT Project team continued to follow NiSource's IT Project Management Methodology (IT PMM) during both the Deployment and Turnover phases. As the IT PMM calls for standard risk and issue management, the NiFiT Project team developed, tested and utilized a structured plan to execute activities for production system development. The NiFiT Project team also followed a defined approach and coordinated plan for Hypercare execution. For testing purposes, IT Audit reviewed the following NiFiT Deployment 1 project documentation to determine whether any opportunities existed for either project conduct or deliverable quality:

- Project Risk and Issues Log.
- Related NiFiT weekly Status Reports.
- Hypercare execution documentation.
- Hypercare status meeting materials.
- Deployment plan and execution communications materials.

Post inspection of the above documentation, IT Audit noted the NiFiT Project team is using good practices in the areas of project/risk management as well as deployment planning and Hypercare execution.





# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 1 (Cont.)

**Recommendation:** Post extracting issues and risks from the NiFiT Project Risk and Issues Log, IT Audit found total issues and risks reported on historical NiFiT weekly Status Reports did not consistently align with issues and risks maintained within the Project Risk and Issues Log. As risk and issues population within NiFiT weekly Status Reports relies on manual data entry off the NiFiT Project Risk and Issues Log maintained on SharePoint, IT Audit sees an opportunity for the NiFiT PMO to save extract criteria from the Project Risk and Issues Log at the time of manual entry into the weekly Status Report. This action would help ensure issues and risks tracked within the NiFiT Project Risk and Issues Log are consistent with issue and risk totals reported on NiFiT weekly Status Reports.

**Management Response:** The NiFiT PMO will reconcile the Project Risk and Issues Log in Sharepoint to the weekly NiFiT Status Report prior to its release. NiFiT PMO will also assist Audit if discrepancies are identified in subsequent reviews.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 2

**Review the project's delivered functional solution acceptance activities (user acceptance) including training, change management and communications compared with industry practice and guidance to inform NiFiT Project team management of relevant improvement opportunities.**

#### **Results:**

NiFiT is using prescribed NiSource Organizational Change Management (OCM) tools and procedures to provide overall guidance for user training, change management and communications for Deployment 1. IT Audit reviewed relevant NiFiT OCM project documentation and, post comparison with OCM materials available from the Association of Change Management Professionals (ACMP) and experienced-based project knowledge, concluded the NiFiT Project team is following best practice in this area. NiFiT OCM project documentation inspected by IT Audit was as follows:

- NiFiT OCM Work-plan.
- NiFiT Communications Plan.
- NiFiT training schedules and attendance information.
- NiFiT Training Survey Feedback information.

**Leading Practice Opportunity:** During review of retained user training attendance documentation, IT Audit noted a consolidated attendance report for all training delivered (both by core solution and impacted systems) is not available. IT Audit sees an opportunity for the NiFiT OCM team to facilitate the creation of a NiFiT user training report with delivery metrics inclusive of data collected at the time of instructor-led training.

# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 3

**Review NiFiT user acceptance approval activities compared with industry practice and guidance to inform NiFiT Project team management of relevant improvement opportunities.**

#### **Results:**

IT Audit found the NiFiT Project team followed a structure approach to user acceptance approval activities. IT Audit reviewed the following documentation and compared to industry best practice to determine any opportunities for improvement:

- Deployment Go/No-Go materials
- Lessons Learned survey materials

IT Audit also conducted interviews with the following key business stakeholders of the NiFiT Deployment 1 solution to assess NiFiT Project team engagement in the deployment process:

- NGD Segment Controller
- Manager HR & Payroll Delivery
- Corporate Services – Segment Controller
- VP & General Manager CMA

Based upon documentation review and business stakeholder interview results, IT Audit found no user acceptance improvement items for the NiFiT Project team from a leading practice perspective and encourages continued use of similar user acceptance actions for future NiFiT deployments.

**Recommendation:** None.



# NiFiT Deployment 1 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 4

**Review NiFiT Project team activities and plans related to the criteria and metrics used to gauge adoption, usage and business value realization of the NiFiT Deployment 1 solution and compare with industry practice to inform NiFiT Project team management of relevant improvement opportunities.**

#### **Results:**

The NiFiT Project team is using an Operational Measures scorecard to track improvement and value realization metrics for the NiFiT solution. IT Audit noted NiFiT is using a total of twelve (12) operational metrics to gauge value realization from NiFiT and is following a defined approach for both metric type(s) and success criteria based upon input from the NiFiT Project team, related process owners and NiSource management.

For testing purposes, IT Audit reviewed improvement and value realization metrics as presented by NiFiT and found them to be relevant to impacted processes. IT Audit also noted these metrics identified NiFiT and related operational owners for reporting. IT Audit found four (4) of the twelve (12) operational metrics also had benchmark information included from 3<sup>rd</sup> party organizations to give management insight into NiSource performance amongst its peers for determining improvement and performance goals.

IT Audit did note metrics related to Annual SOX Control Audit Exceptions and Change Adoption Scores (for User Acceptance) were not reported during the Deployment and Turnover phases as the timeframe for both scorecard measurements were yet to be completed – with SOX Exceptions targeted post 3<sup>rd</sup> quarter FY13 close and Change Adoption Score results planned for September 30, 2013.

# NiFiT Deployment 1 - Post-Deployment Review






## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 4 (Cont.)

As of July 2013, the NiFiT Project team had reported the following metrics results after the first close of CMA resident on the NiFiT solution. IT Audit also noted the NiFiT Project team was/is consistently performing detailed review of these Operational Measures on a monthly basis for August and September 2013 and is adjusting actual metrics, as required.

### R1 D1 Operational Measures: July 2013 Actuals

Exceeds  
  Meets  
  Partially Meets  
  Not Met

Metric	Status	July 2013 Actuals	"Meets" Target
 Month-End Close Duration (Day 1 to Hyperion)	<input checked="" type="radio"/>	8/14/13 submission to Hyperion (Workday 10)	Workday 15 July, Workday 5 by Q3 Close
Avg # Business Unit Topside Entries (Hyperion)	<input type="radio"/>	0 Hyperion topside entries	< 6 lines July Close
Avg # Correcting JE Lines	<input type="radio"/>	797 lines, expected to decline with acclimation to new COA	=> 50% reduction at Go Live
% New Account Additions, Annual	<input checked="" type="radio"/>	0 Account additions	=<1% cumulative growth, annual
 # Supplier Master Values	<input type="radio"/>	33% reduction	=> 15% reduction at Go Live
% Vendor Invoices Paid On Time	<input checked="" type="radio"/>	38% by terms, 75% within 30 days of Invoice Date	= 41% by terms, 67% within 30 days of Invoice Date at Go Live
% Vendor Payments By ACH	<input checked="" type="radio"/>	10% ACH	=> 10% ACH at Go Live
 Avg # Hours Manual Time Entry Into Payroll System	<input type="radio"/>	96 hours entering shift premium hours, system fix in process	100% reduction at Go Live
 Avg # Cost Repository Reconciliation Entries	<input checked="" type="radio"/>	14 lines, root issues addressed for future	20 lines July, 0 Lines by Oct Close
 # System Customizations With Potential Upgrade Impact (PeopleSoft)	<input checked="" type="radio"/>	7 PeopleSoft Customizations	5-10 PeopleSoft Customizations
Annual SOX Control Audit Exceptions	<input type="radio"/>	NA Until Q3 Close	=< 8 Exceptions
Change Adoption Score (User Acceptance)	<input type="radio"/>	NA Until Q3 Close	=> 80% Agree or Strongly Agree

Recommendation: None

# NiFiT Deployment 1 - Post-Deployment Review

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**FOCUSED MANAGEMENT  
AND  
OPERATIONS AUDIT  
OF  
COLUMBIA GAS OF  
PENNSYLVANIA, INC.**

**PREPARED BY THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
BUREAU OF AUDITS  
ISSUED JUNE 2013**

**Docket No. D-2012-2290672**

**COLUMBIA GAS OF PENNSYLVANIA, INC.  
FOCUSED MANAGEMENT AND OPERATIONS AUDIT**

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**COLUMBIA GAS OF PENNSYLVANIA, INC.  
FOCUSED MANAGEMENT AND OPERATIONS AUDIT**

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## I. INTRODUCTION

In accordance with the Pennsylvania Public Utility Commission's (PUC or Commission) program to identify improvements in the management and operations of fixed utilities under its jurisdiction, it was determined that a focused management and operations audit should be conducted of Columbia Gas of Pennsylvania, Inc. (CPA or Company). Management and operational reviews, which are required of certain utility companies pursuant to 66 Pa. C.S. §516(a), come under the Commission's general administrative power and authority to supervise and regulate all public utilities in the Commonwealth, 66 Pa. C.S. §501(b). More specifically, the Commission can investigate and examine the condition and management of any public utility, 66 Pa. C.S. §331(a).

This report represents the written product of the focused management and operations audit and contains the resultant findings and recommendations for improvement in the management and operations of CPA. The findings presented in the report identify certain areas and aspects where weaknesses or deficiencies exist. In all cases, recommendations have been offered to improve, correct, or eliminate these conditions. The final and most important step in the management audit process is to initiate actions toward implementation of the recommendations.

### A. Objectives and Scope

The objectives of this focused management and operations audit were threefold:

- To provide the Commission, Company, and the public with an assessment of the economy, efficiency, and effectiveness of the Company's operations, management methods, organization, practices, and procedures.
- To identify opportunities for improvement and develop recommendations to address those opportunities.
- To provide an information base for future regulatory and other inquiries into the management and operations of CPA.

The scope of this audit was limited to certain areas of the Company as explained in Section B, Audit Approach.

## **B. Audit Approach**

This focused management and operations audit was performed by the Management Audit Staff of the PUC's Bureau of Audits (Audit Staff). The audit process began with a pre-field work analysis as outlined below:

- A five-year internal trend and ratio analysis (see Appendix A) was completed using financial and operational data obtained from the Company, Commission, and other available sources. This analysis, which focused on the period 2007-2011, was supplemented by comparisons to a panel of natural gas utilities for the period 2007-2011 (see Appendix B).
- Input was solicited from Commission Bureaus and Offices, certain external parties, and the Company regarding any concerns or issues they would like to have addressed during the course of our review.
- Prior management and operations audits, follow-up management efficiency investigations, implementation plans, implementation plan progress reports, other Commission conducted audits, annual diversity reports, and other available documents were reviewed.

Information from the above steps was used to initially focus the Audit Staff's work efforts in the field. Specifically, the following areas or functions were selected for an in-depth analysis and are included in this report:

- Corporate Governance
- Executive Management and Organizational Structure
- Affiliated Interests
- Financial Management
- Customer Service
- Gas Operations
- Emergency Preparedness
- Human Resources

The pre-field work analysis should not be construed as a comprehensive evaluation of the management or operations in the functional areas not selected for in-depth examination. Had we conducted a thorough review of those areas, weaknesses or deficiencies may have come to our attention that was not identified in the limited pre-field work review.

The actual fieldwork began on May 9, 2012 and continued intermittently through November 30, 2012. The principal components of the fact gathering process included:

- Interviews with Company personnel and other Commission Bureaus.
- Analysis of records, documents, and reports of a financial and operational nature. This analysis focused primarily on the period 2007-2011, and the year 2012, as available.
- Visits to CPA's main office in Canonsburg, Pennsylvania, the Customer Contact Center, a local service center, and the Columbus, Ohio offices for the gas control center and corporate office of NiSource Corporate Services Company, and observation of selected work practices.

**C. Functional Area Ratings**

For the functions or areas of the Company that were selected for in-depth examination, the Audit Staff rated the actual operating or performance level relative to the expected performance level at the time of the audit. This expected performance level is the state at which each area or function should be operating given the Company's resources and general operating environment. Expected performance is not a "cutting edge" operating condition; rather, it is management of an area or function such that it produces reasonably expected operating results.

Presented below are the evaluative categories utilized to rate each function or area's actual operating or performance level relative to its expected performance level:

- Meets Expected Performance Level
- Minor Improvement Necessary
- Moderate Improvement Necessary
- Significant Improvement Necessary
- Major Improvement Necessary

Our ratings for each function or area reviewed in-depth can be found in Exhibit I-1 on the next page.

**Exhibit I – 1**  
**Columbia Gas of Pennsylvania, Inc.**  
**Focused Management and Operations Audit**  
**Functional Rating Summary**

Functional Area	Meets Expected Performance Level	Minor Improvement Necessary	Moderate Improvement Necessary	Significant Improvement Necessary	Major Improvement Necessary
Corporate Governance		X			
Executive Management and Organizational Structure	X				
Affiliated Interests	X				
Financial Management		X			
Customer Service			X		
Gas Operations			X		
Emergency Preparedness	X				
Human Resources	X				

**D. Benefits**

Where possible, the Audit Staff attempts to quantify the potential savings that would be expected from effectively implementing the recommendations made in this report. However, for the majority of recommendations, it is not possible or practical to estimate quantitative benefits as their benefits are of a qualitative nature or there was insufficient data available to quantify the impact. For example, it is difficult to estimate the actual benefit where new management practices or procedures are recommended where such did not previously exist or was not fully functional. Similarly, changes in work flow processes or to implement good business practices will result in improved effectiveness and efficiency of a specific function but cannot be easily quantified.

The Company will have varying ways to implement the recommendations and as a result the Audit Staff has not estimated the cost of implementation for recommendations where no savings were quantified. However, it should be noted by the reader that the cost of implementing certain recommendations could be significant.

**E. Recommendation Summary**

Chapters III through X provide findings, conclusions, and recommendations for each function or area reviewed in-depth during this focused audit. Exhibit I-3 summarizes the recommendations with the following priority assessments for implementation:



- INITIATION TIME FRAME – Estimated time frame on how quickly the Company should be able to initiate its implementation efforts given the Company's resources and general operating environment. The time necessary to complete implementation is expected to vary depending on the nature of the recommendation and the scope of the efforts necessary and resources available to effectively implement the recommendation.
  
- BENEFITS – Net quantifiable benefits have been provided where they could be estimated as discussed in Section D - Benefits. Our estimated overall level of benefits rankings are not solely based on quantifiable dollars but rather the Audit Staff's assessment of the potential overall impact of the recommendation on the efficiency and/or effectiveness of the Company and/or the services it provides.
  - HIGH BENEFITS – Implementation of the recommendation would result in major service improvements, substantial improvements in management practices and performance, and/or significant cost savings.
  
  - MEDIUM BENEFITS – Implementation of the recommendation would result in important service improvements, meaningful improvements in management practices and performance, and/or meaningful cost savings.
  
  - LOW BENEFITS – Implementation of the recommendation is likely to result in service improvements, management practices and performances, and/or enhance cost controls.

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
<b>Chapter III – Corporate Governance</b>				
III-1	Rotate the external audit firm on a periodic basis or, at a minimum, ensure that the audit firm periodically rotates its audit manager and audit teams.	14	Within 1 year	Medium
<b>Chapter IV – Executive Management</b>				
IV-1	None.			
<b>Chapter V – Affiliated Interests</b>				
V-1	None.			
<b>Chapter VI – Financial Management</b>				
VI-1	Establish a formal dividend policy.	36	30 days	Medium
VI-2	Create a formal policy that documents the Company's operations and maintenance budgeting process.	36	30 days	Medium
VI-3	Fully and accurately complete all schedules in the Public Utility Commission Annual Report.	36	7 – 12 months	Medium
<b>Chapter VII – Customer Service</b>				
VII-1	Complete implementation of mobile automated meter reading and enact additional measures as necessary to minimize the number of meters not read within six months and twelve months and that, at a minimum, customer supplied reads are acquired every six months.	52	3 – 6 months	Medium
VII-2	Accelerate efforts to relocate inside meters sets or, at a minimum, the associated regulators outside the structure.	52	Within 1 year	Medium
VII-3	Strive to minimize write-offs of delinquent accounts receivable by exploring potential solutions to enhance the collection efforts.	52	3 – 6 months	Medium \$15,000 Annual Savings
VII-4	Ensure that delinquent account collection agencies are achieving their performance goals, and as necessary, replace poor performing agencies with new collection agencies.	52	3 – 6 months	Medium
<b>Chapter VIII – Gas Operations</b>				
VIII-1	Strive to maintain the expedited replacement schedule of first generation pipe.	72	30 days	High
VIII-2	Assess high levels of overtime by individual field operations employees and adjust overtime practices, call out procedures, shift work, and/or stand by procedures as needed.	72	3 – 6 months	High
VIII-3	Expedite hiring of vacant operations related positions and timely conduct a study to determine needed staffing in anticipation of expanded capital projects and field operations retirements.	72	Within 1 year	Medium

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
<b>Chapter VIII – Gas Operations (continued)</b>				
VIII-4	Improve dispatching methodologies to ensure that all emergency dispatches can be completed within 15 minutes of the emergency call receipt by implementing new or modifying existing procedures for call outs, stand by lists, shift work, and/or staffing levels.	72	3 – 6 Months	High
<b>Chapter IX – Emergency Preparedness</b>				
	None.	X		
<b>Chapter X – Human Resources</b>				
	None.	X		

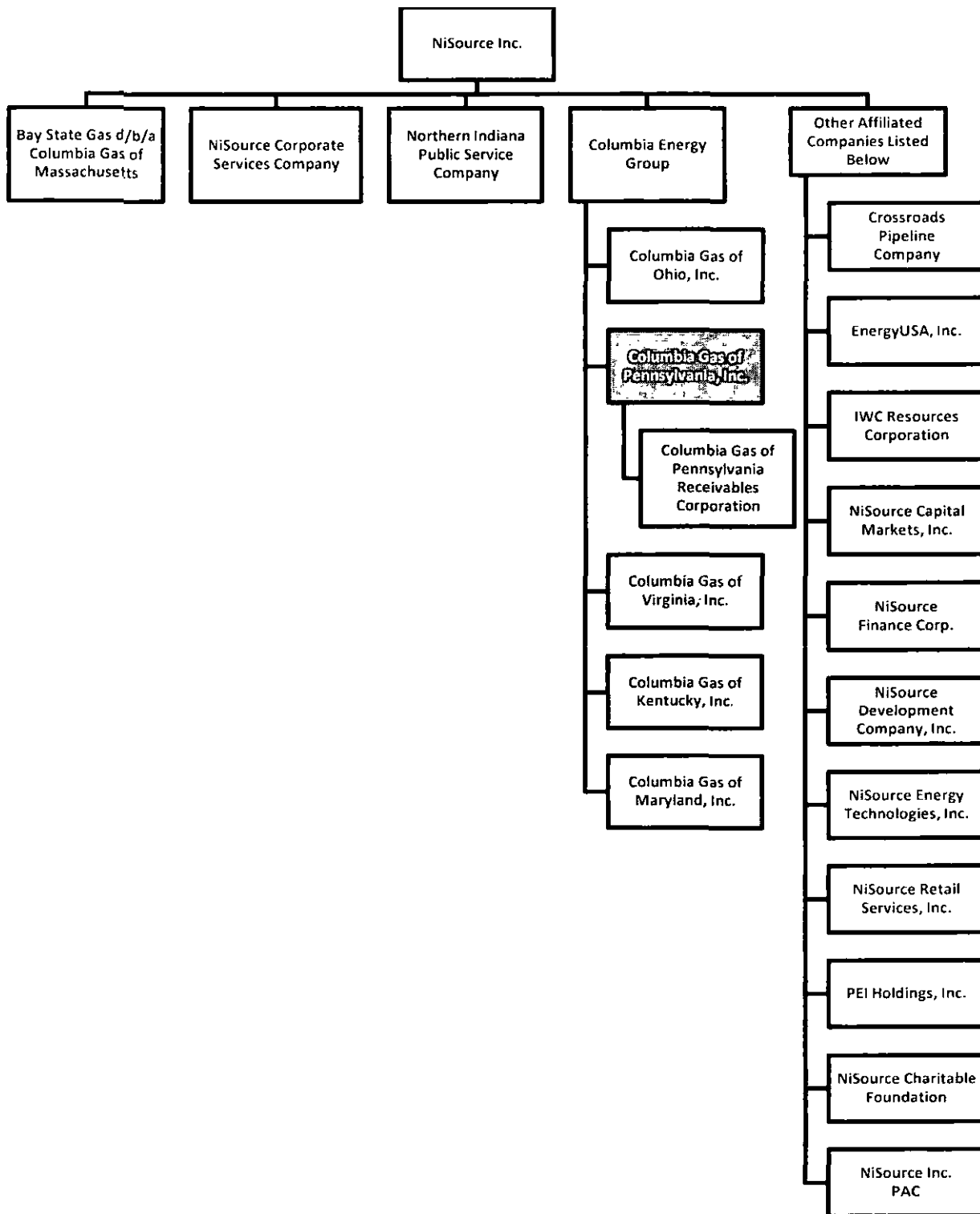
## II. BACKGROUND

Columbia Gas of Pennsylvania, Inc. (CPA or Company) is a natural gas distribution company (NGDC) headquartered in Canonsburg, Pennsylvania. CPA is a subsidiary of the Columbia Energy Group (Columbia) which is owned by NiSource Inc. (NiSource), an energy holding company whose subsidiaries provide natural gas, electricity, and other products and services to approximately 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. NiSource is the successor to an Indiana corporation organized in 1987 under the name of NIPSCO Industries, Inc., which changed its name to NiSource on April 14, 1999.

NiSource's natural gas distribution operations serve more than 3.3 million customers in seven states and operate approximately 58,000 miles of pipeline. NiSource's principal subsidiaries include Columbia, a vertically integrated natural gas distribution, transmission, and storage holding company whose subsidiaries provide service to customers in the Midwest, the Mid Atlantic, and the Northeast; Northern Indiana Public Service Company, a vertically integrated gas and electric company providing service to customers in northern Indiana; and Bay State Gas d/b/a Columbia Gas of Massachusetts, an NGDC serving customers in Massachusetts. Through its wholly owned subsidiary, Columbia, NiSource owns five distribution subsidiaries that provide natural gas to approximately 2.2 million residential, commercial, and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, and Maryland. NiSource also distributes natural gas to approximately 795,000 customers in northern Indiana. Additionally, NiSource's subsidiary, Columbia Gas of Massachusetts, distributes natural gas to approximately 298,000 customers in Massachusetts. NiSource's 2011 revenues totaled \$6.0 billion of which \$2.9 billion resulted from natural gas distribution operations. Of the \$2.9 billion in natural gas distribution, \$395.6 million was revenue from CPA. During 2011, CPA accounted for approximately 6.6% of NiSource's total revenues and 13.6% of its natural gas distribution revenues.

NiSource has 15 direct subsidiaries and these subsidiaries have a total of 63 additional subsidiaries for a total of 78 NiSource subsidiaries. NiSource's corporate structure and the affiliates relevant to CPA's operations are displayed in Exhibit II-1, including NiSource Corporate Services Company (Corporate Services). Corporate Services provides centralized services, such as accounting and legal services, etc., to NiSource Transmission Providers, Marketing and Energy Affiliates, and other direct or indirect subsidiaries of NiSource, see Chapter V – Affiliated Interests for more details. More specifically Corporate Services provides a significant amount of services to CPA. Also shown on Exhibit II-1 is Columbia Gas of Pennsylvania Receivables Corporation; a wholly owned subsidiary to which CPA sells accounts receivables. This company is also discussed further in Chapter V – Affiliated Interests.

Exhibit II – 1  
NiSource Inc.  
Corporate Structure  
As of October 2012



Due to the complexities of the reporting relationships used by CPA and its affiliates that perform various functions for the Company, the President of the Company and this position's subordinates are reviewed in more detail in Chapter IV – Executive Management and Organizational Structure. However, since the majority of CPA positions do report to the CPA President all other organizational structures relevant to this audit are displayed in the appropriate chapter that discusses that functional area. For example, the engineering, construction, and operations departments ultimately report to positions in Corporate Services but most of the employees within these departments are CPA employees (see Chapter VIII – Gas Operations). CPA's union employees, which are the employees from the Field Operations Department (e.g., equipment operators, plant and service specialists, corrosion testers, etc.), are represented by one of five different unions:

- PA North – Utility Workers Union of America, #475;
- PA Central – Bethel Park – Utility Workers Union of America, #479;
- PA Central – Washington – United Steelworkers of America, Local 7139-03;
- PA South – United Steelworkers of America, Local 13836;
- PA East – United Steelworkers of America, Local 1852

During the calendar year 2011, CPA had an average of 414,806 jurisdictional customers which was comprised of 377,317 residential customers, 37,204 commercial customers, and 285 industrial customers as displayed in Exhibit II-2. For calendar year 2011, CPA's gross operating revenue among residential, commercial, and industrial customers was approximately \$395.6 million. Residential customers accounted for approximately 91.0% of the customer base, 76.0% of the operating revenues, and 71.5% of the total deliveries. Commercial customers accounted for approximately 9.0% of the customer base, 23.4% of the operating revenues, and 27.8% of the total deliveries. Industrial customers accounted for less than 0.1% (0.07%) of the customer base, 0.6% of the operating revenues, and 0.7% of the total deliveries. As can be found in Appendix A, other key data and statistics for CPA's service area as of December 31, 2011 include: utility plant in service of \$1.1 billion; 7,363 total miles of main; 418,296 services; total gas operations and maintenance expense of \$417.5 million; unaccounted for gas of -1.5%; and 496 employees.

**Exhibit II – 2**  
**Columbia Gas of Pennsylvania, Inc.**  
**Jurisdictional Customer Statistics**  
**For the Year 2011**

Customer Class	# of Customers	% of Customers	MCF Sold	% of MCF Sold	Revenues	% of Revenues
Residential	377,317	91.0%	24,878,520	71.5%	\$300,666,299	76.0%
Commercial	37,204	9.0%	9,652,987	27.8%	\$92,600,560	23.4%
Industrial	285	<0.1%	242,632	0.7%	\$2,291,207	0.6%
Totals	414,806	100.0%	34,774,139	100.0%	\$395,558,066	100.0%

Source: 2011 PUC Annual Report

### III. CORPORATE GOVERNANCE

#### Background

As discussed in Chapter II – Background, Columbia Gas of Pennsylvania, Inc. (CPA or Company) is a subsidiary of the Columbia Energy Group (Columbia) which is owned by NiSource Inc. (NiSource), an energy holding company. NiSource is a publicly traded company listed on the New York Stock Exchange under the symbol NI. Therefore, NiSource is subject to the corporate governance requirements contained in both the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and the corporate governance rules of the New York Stock Exchange (NYSE).

As of October 2012, NiSource has a 12 member Board of Directors (Board) comprised of the President and Chief Executive Officer (CEO) of NiSource and 11 independent Board members (including the Chairman of the Board). NiSource's shareholders elect members of the Board for one-year terms at the annual shareholder meeting. As of 2012, the average tenure of the NiSource Directors was approximately seven years with one of the Directors having been appointed for the first time in 2012. The Board has adopted independence guidelines, as part of NiSource's Corporate Governance Guidelines, to assist the Board in determining director independence in accordance with NYSE and Securities and Exchange Commission (SEC) requirements. The Board has determined, based on its guidelines, that 11 of the 12 board members are independent. The Board conducts its business by using the following committees:

- Audit Committee is responsible for monitoring the integrity of the Company's financial statements, the independent auditors' qualifications and independence, performance of the Company's internal audit function and the independent auditors; and compliance by the Company with legal and regulatory requirements. The Audit Committee is comprised of six independent members and met 11 times during the 12 months ended October 2012.
- Corporate Governance Committee is responsible for recommending to the Board the compensation of directors, identifying individuals qualified to become Board members, recommending to the Board director nominees for election, developing and recommending to the Board a set of corporate governance principles applicable to the Company, and overseeing the evaluation of the performance of the Board, the CEO and the CEO's executive direct reports. The Corporate Governance Committee is comprised of all 11 independent members and met six times during the 12 months ended August 2012.
- Environmental, Safety and Sustainability Committee reviews the status of environmental compliance, environmental public policy issues and health and safety issues. The Environmental, Safety and Sustainability Committee is comprised of four independent members and met five times during the 12 months ended August 2012.

- Finance Committee oversees and monitors NiSource's financial plans, capital structure, and financial risk. The Finance Committee is comprised of seven independent members and met six times during the 12 months ended August 2012.
- Officer Nomination and Compensation Committee advises the Board with respect to nomination, evaluation, compensation and benefits of directors and officers. The Officer Nomination and Compensation Committee is comprised of five independent members and met six times during the 12 months ended August 2012.

Columbia's Board of Directors is composed of three NiSource Officers and therefore none of the members are independent. CPA's Board of Directors is comprised of three members who are employed by CPA or NiSource; therefore, none of the members of the CPA Board are independent. Neither the Columbia Board nor the CPA Board utilizes any committees (for more detailed information on the Columbia and CPA Boards' Directors see Chapter IV – Executive Management).

NiSource has a Code of Business Conduct (Code) that applies to all directors, officers, and employees of NiSource and its subsidiaries. NiSource's Vice President of Ethics and Compliance, is responsible for the administration of the Code. Employees can report improprieties to the Manager of Corporate Compliance, the Vice President of Ethics and Compliance or anonymously via an Ethics and Compliance Hotline.

Corporate governance guidelines and related documents are available for review by the shareholders and public at large on NiSource's website. Documents available on the website include:

- Charters for the Audit, Corporate Governance, Environmental Safety & Sustainability, Finance, and Officer Nomination and Compensation Committees;
- Code of Business Conduct; and
- Corporate Governance Guidelines.

The Internal Audit Department performs the internal audit function for all NiSource subsidiaries, including CPA. The Vice President of the Internal Audit Department is accountable to NiSource management and the Audit Committee. The Vice President of the Internal Audit Department reports functionally to the Audit Committee and administratively to the CEO. An Internal Audit Charter describes the Mission and Scope of Work, Accountability, Independence and Objectivity, Responsibility, Authority and Standards of the Internal Audit Department. All 12 staff members of the Internal Audit Department are members of the Institute of Internal Auditors. The Audit Committee oversees the Internal Audit Department and approves the Internal Audit Plan each year. The 2012 Internal Audit Plan was focused on conducting audits of NiSource's key risk areas of: Business Continuity, Business Support, Capital & Project Management Process, Commercial Contracts, Corporate



Governance, Customer Service, Electric Generation and Transmission & Distribution Maintenance, Employee Safety & Sustainability, Field Operations, Financial, Fuel & Gas Procurement, Information Technology (IT), Integrity Management Programs, IT Outsourcing Costs/Performance, Optimization/Risk Management, Regulatory Compliance and Risk Management.

The Audit Committee operates pursuant to a written charter consistent with the applicable standards of the SEC and the NYSE. As required by the SEC under its final rules issued January 2003, a public company must disclose in its annual report that it has or does not have at least one audit committee financial expert. Pursuant to Section 303A.07 of the NYSE's Listed Company Manual, each member of the Audit Committee must be financially literate, or must become financially literate, within a reasonable period of time after his or her appointment to the Audit Committee. In addition, at least one member of the Audit Committee must have accounting or related financial management expertise. All members of the Audit Committee are "financially literate" in accordance with NYSE rules. The Audit Committee Chairman has been designated as the "audit committee financial expert" per SEC rules. The Audit Committee makes regular reports to the board including an annual review of its own performance. The Audit Committee Charter was updated in 2010 based on recommendations of the Institute of Internal Auditors.

The Audit Committee has the sole authority to appoint, retain or replace the external auditor, which is presently Deloitte & Touche LLP. The Audit Committee is directly responsible for the compensation and oversight of the work of the external auditor. *The external auditor reports directly to the Audit Committee. Annually the NiSource shareholders vote whether or not to ratify the appointment of Deloitte & Touche LLP to continue as the external auditor.* The Audit Committee meets as often as it deems necessary, but no less than quarterly. The Vice President of the Internal Audit Department, the external auditor and NiSource management provide status reports during regularly scheduled Audit Committee meetings (i.e., at least three times a year). Time is provided for both open and private meetings as needed.

### **Findings and Conclusions**

Our examination of the Corporate Governance function included a review of NiSource, Columbia, and CPA Boards of Directors' organization including committee structure and charters; Director independence; business conduct and ethics codes; Internal Audit; relationship with the independent auditor; documents related to corporate governance; annual reports; etc. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and/or effectiveness of its Corporate Governance function by addressing the following:

**1. NiSource has used the same external audit firm for over 10 years.**

NiSource has used Deloitte & Touche LLP for its annual external audits since May 21, 2002 when the Board of Directors, upon recommendation of its Audit Committee, dismissed Arthur Andersen LLP as the external audit firm. We believe it is a best practice is to periodically rotate the external audit firm. When the same audit firm repeatedly develops the overall audit approach and performs the annual audit steps for an extended number of years, there is potential for auditors to become more and more complacent in the audit effort, thus lessening the objectivity of the audit. Therefore, it is a best practice to periodically rotate the external audit firm. This should be considered every five to ten years. There likely would be an increase in the cost of performing the annual audit in the first year or two as it will take a new firm more hours to develop familiarity with the accounting systems, policies and procedures as it goes through a learning curve and, therefore, rotation more frequently than every five years likely would not be cost beneficial. On the other hand, by using the same audit firm for more than ten years it is quite likely that familiarity will lead to complacency and the objectivity of the audit will be reduced to the point that a fresh perspective is worth the additional cost of changing firms.

An alternative to audit firm rotation that would help to maintain independence and reduce complacency would be for the external audit firm to follow a policy that assures the periodic rotation of the audit manager and entire audit team assigned to the audits. This would be in addition to the SEC requirement to rotate the engagement partner at least every five years.

**Recommendation**

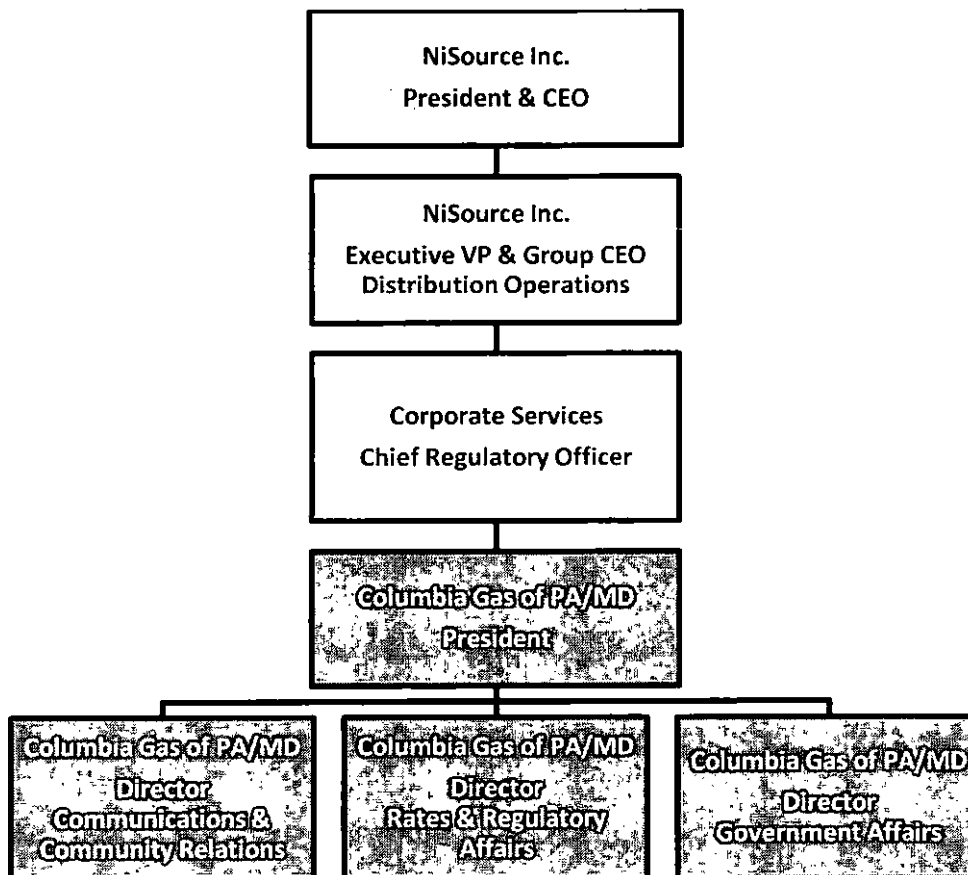
- 1. Rotate the external audit firm on a periodic basis or, at a minimum, ensure that the audit firm periodically rotates its audit manager and audit teams.**

## IV. EXECUTIVE MANAGEMENT & ORGANIZATIONAL STRUCTURE

### Background

As discussed in Chapter II – Background, Columbia Gas of Pennsylvania, Inc. (CPA or Company) is a subsidiary of the Columbia Energy Group (Columbia) which is owned by NiSource Inc. (NiSource), an energy holding company. In addition, NiSource Corporate Services Company (Corporate Services) is an affiliate of CPA that provides various corporate services to the Company. CPA and Columbia Gas of Maryland, Inc. (CMD) are managed by the same group of executives, and the headquarters of both companies is located in Canonsburg, Pennsylvania. The President of CPA/CMD is responsible for revenue, regulatory requirements and community relations, and reports to the Chief Regulatory Officer of Corporate Services. The organization under the direction of the President of CPA/CMD is shown in Exhibit IV-1.

**Exhibit IV – 1  
Columbia Gas of Pennsylvania, Inc.  
President's Organizational Structure  
As of October 2012**



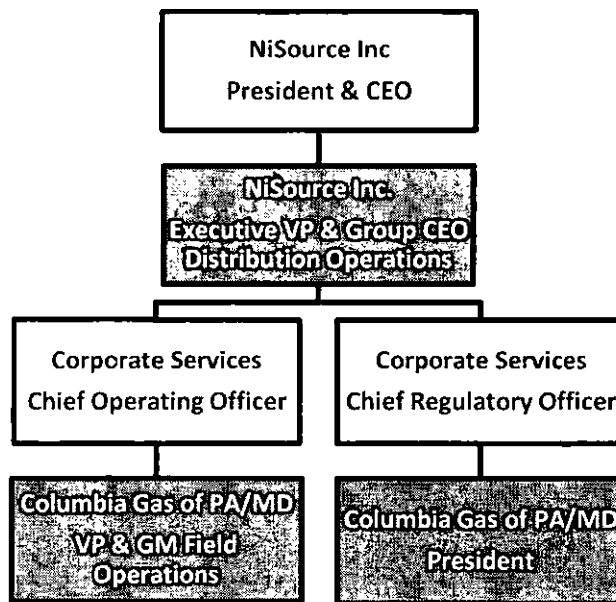
Source: Data Request 1


Unlike the organization structure found at most other natural gas distribution companies, the person responsible for CPA's field operations does not report directly to the President of the regulated utility. Instead, the Vice President and General Manager of Field Operations for CPA/CMD reports directly to Corporate Services' Chief Operating Officer. The organization and practices for CPA's field operations are detailed in Chapter VIII – Gas Operations. Likewise, there are certain customer service activities, such as the Customer Contact Center, customer interface programs, meter reading, billing, and collections that are under the direction of Corporate Services' Vice President of Customer Operations. The organization and practices for CPA's customer service activities are detailed in Chapter VII – Customer Service.

As of October 2012, CPA's Board of Directors (Board) is comprised of three corporate officers listed below and their reporting relationships within the organization are depicted in Exhibit IV-2:

- NiSource's Executive Vice President and Group Chief Executive Officer (CEO) of Distribution Operations who was named the CEO and became a Board Member on May 1, 2012.
- The President of CPA/CMD joined the Board on June 20, 2012 (note he was the acting President from March 27, 2012 – June 20, 2012).
- The CPA/CMD Vice President and General Manager of Field Operations joined the Board on June 20, 2012.

**Exhibit IV – 2  
 Columbia Gas of Pennsylvania, Inc.  
 Board of Directors  
 As of October 2012**



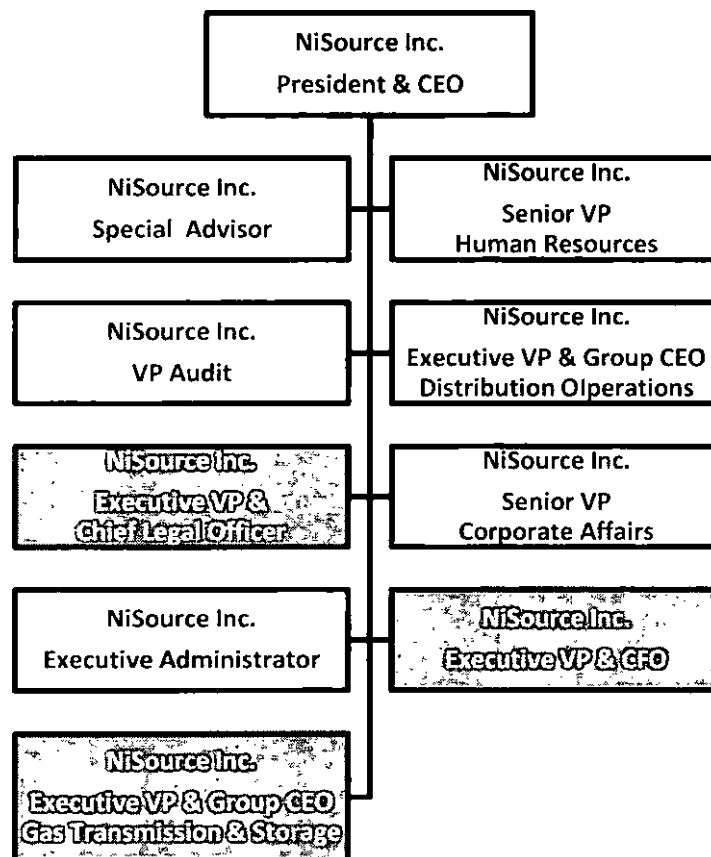
 Member of CPA Board

Source: Data Request 1

Similar to CPA, Columbia's Board also consists of three NiSource executives. As of October 2012, Columbia's three Board members and their reporting relationships within the organization are depicted in Exhibit IV-3:

- NiSource's Executive Vice President and Chief Legal Officer became a Board member on June 14, 2010; is responsible for all legal functions, ethics, compliance, and environmental, safety, and sustainability.
- NiSource's Executive Vice President and Chief Financial Officer (CFO) became a Board member on December 3, 2008; is responsible for finance and accounting functions, information technology, supply chain services, real estate and facilities.
- NiSource's Executive Vice President and Group Chief Executive Officer (CEO) became a Board member on June 14, 2010; is responsible for NiSource Gas Transmission and Storage and Northern Indiana Public Service Company.

**Exhibit IV – 3  
 Columbia Energy Group  
 Board of Directors  
 As of October 2012**



Member of Columbia Board  
 Source: Data Request 1

As of October 2012 neither the CPA Board nor the Columbia Board was utilizing any Board Committees. All Board members are employees of the Company or an affiliate and therefore are not considered as being independent under the standards established by the New York Stock Exchange and Securities and Exchange Commission. The CPA Board and Columbia Board meet as needed to discuss issues that impact CPA or the other Columbia affiliates. As previously mentioned in Chapter III – Corporate Governance, the NiSource Board is the uppermost board in the organization. Therefore financing and operational issues are generally forwarded to NiSource's Board for approval.

As part of the review of CPA's planning process, the Audit Staff reviewed NiSource's strategic planning. The areas of strategic planning applicable to CPA, among others, include: infrastructure replacement, integrity management systems, growth, shale opportunities, fully automated meter reading utilization and improved Occupational Safety and Health Administration (OSHA) recordable rates. Infrastructure replacement and integrity management are addressed in more detail in Chapter VIII – Gas Operations. Automated meter reading is detailed in Chapter VII – Customer Service. OSHA recordable rates are discussed in more detail in Chapter X – Human Resources. In order to fund the strategic plans, especially regarding infrastructure replacement, CPA indicated plans to both file annual rate cases and use the distribution system improvement charge (DSIC) for the foreseeable future. Many of these areas of strategic planning include involvement from Corporate Services (i.e., implementation of automated meters). The areas of responsibility for Corporate Services are detailed in Chapter V – Affiliated Interests.

Executive pay and benefits and descriptions of the pay and compensation programs are contained in Chapter X – Human Resources. The same benefits are offered universally to all employees regardless of position. Likewise executives and all other employees are included in the incentive pay program which is described in more detail in Chapter X – Human Resources.

The succession plan at CPA is based upon corporate wide (i.e., NiSource) succession plans for key leadership positions. All leaders of exempt employees are responsible for succession planning on an annual basis. Initially, business needs are identified late in the calendar year. Once this occurs, then the competencies required are reviewed and the business/function leaders are contacted near the end of the first quarter of the next year. The prospective candidates are then evaluated based on both potential and performance. Additional efforts are made to identify female and minority candidates where possible. This assessment occurs from March to early July. The review documents are submitted to Human Resources in July. The approach to ready candidates for opportunities is then created and executed through an action plan developed in August. Results are evaluated as needed. Also, as much as practical, and dependent upon the needs of the business unit, the Company offers cross business unit opportunities, temporary leadership opportunities, project and rotational assignments as well as significant development opportunities.

The spans of control for CPA related positions are displayed in Exhibit IV-4. Due to the complexity of the organizational structure and reporting relationships within CPA,

Corporate Services, and NiSource, there are several cases of: CPA employees reporting to a superior from either Corporate Services or another affiliate such as another natural gas distribution company (e.g., CMD); an employee who works for multiple affiliates (e.g., CPA and CMD); or a CPA superior who has employees who are working for another affiliate.. For the sake of our spans of control evaluation, supervisors and employees from other companies are included when they are a superior or a subordinate to a CPA employee.

**Exhibit IV – 4  
 Columbia Gas of Pennsylvania, Inc.  
 Spans of Control Analysis  
 As of October 2012**

Reporting Ratio	Reporting Relationships	
	Number	Percentage
1:1	4	6.2%
1:2	1	1.6%
1:3	1	1.6%
Sub Total	6	9.4%
1:4	5	7.8%
1:5	1	1.6%
1:6	7	10.9%
1:7	8	12.5%
1:8	1	1.6%
1:9	4	6.2%
Sub Total	26	40.6%
1:10	4	6.2%
1:11	2	3.1%
1:12	2	3.1%
1:13	1	1.6%
1:14	5	7.8%
1:15	3	4.7%
1:16	7	10.9%
1:17	2	3.1%
1:18	1	1.6%
1:19	1	1.6%
1:20	1	1.6%
1:21	2	3.1%
1:22	1	1.6%
Sub Total	32	50.0%
Total	64	100.0%

Source: Data Requests 1 and 290

In general, for maximum organizational efficiency and effectiveness, a company should aim for spans of control between 1:4 and 1:9. However, the majority of the positions in the CPA organization is in the operations, engineering, construction, and meter reading areas (over 95% of total CPA positions). These positions tend to have higher spans of control for their reporting relationships as their work is similar, generally repetitive and their productivity is quantifiable thereby requiring less direct supervision. This would justify having 50% of the reporting relationships with spans of control above 1:9. Likewise, for the reporting relationships with lower spans of control (i.e., less than 1:4), there are employees who manage a functional area where they work directly with external parties (i.e., contractors, etc.), have specialty areas or expertise, or have geographical constraints. These positions represent only 9.4% of the total reporting relationships in CPA. Also note that the spans of control were performed on the number of positions, not the number of employees. There are a significant number of open positions at CPA, the majority of which are in the operations, engineering, and construction areas. The analysis of open positions is discussed further in Chapter VIII - Gas Operations.

Employee surveys are conducted annually. These surveys have questions relevant to both the corporate (NiSource) structure and the local (CPA) structure. These surveys allow employees to give input and/or their perspectives on Company policies and efforts. Sample subject areas on the employee surveys include: communications to and from their superiors, communications of goals and objectives, how corporate goals apply to individual jobs, employee input and suggestions, job recognition, developing skills and building strengths for growth and development, safety issues, and teamwork and work group building.

### **Findings and Conclusions**

Our examination of the Executive Management function included a review of the Company's organization structure, planning, executive compensation, and succession planning. Based on our review of the Executive Management function, no evidence came to our attention that would lead the Audit Staff to conclude that the areas reviewed were not being addressed adequately.

### **Recommendation**

**None.**



## V. AFFILIATED INTERESTS

### Background

This chapter presents the results of the Audit Staff's review of the nature and extent of transactions between Columbia Gas of Pennsylvania, Inc. (CPA or Company) and its affiliates. As discussed in Chapter II – Background, CPA is a natural gas distribution company (NGDC) headquartered in Canonsburg, Pennsylvania that is wholly owned by the Columbia Energy Group (Columbia) that in turn is wholly owned by NiSource Inc. (NiSource), an energy holding company. An entity chart of NiSource and its subsidiaries is shown on Exhibit II-1. CPA is organized as shown on Exhibit IV-1.

CPA's various affiliated interests are detailed within its affiliated interest agreements (AIAs) as approved by the Pennsylvania Public Utility Commission (PUC or Commission). Each AIA includes a general description of the type of goods or services provided to or from each entity, and some AIAs describe the methodologies that are used to allocate costs. Most recently CPA submitted two AIAs and one amendment to one of these AIAs for Commission approval between January 1, 2009 and December 31, 2011. One of the AIAs was approved by the Commission on February 25, 2010, at A-2009-2143273, A-2009-2154634 and G-2009-2143275, for the sale of accounts receivable to newly created wholly-owned CPA subsidiary, Columbia Gas of Pennsylvania Receivables Corporation (CPRC). CPA stated that purpose for creating CPRC and in turn selling its accounts receivables to CPRC was to obtain access to a reliable alternative source of short term financing. An amendment to the AIA between CPA and CPRC was approved on January 13, 2012, at G-2011-2268697, which included the Receivables Purchase Agreement (RPA), to provide the parties flexibility to modify, as part of the annual contract renewal, the monthly maximum limits of receivables that may be sold, subject to the previously approved maximum limit of \$75 million. The second AIA received Commission approval on March 1, 2012, at G-2012-2285085, concerning the issuance of promissory notes between CPA and NiSource Finance Corporation and a securities certificate, at S-2012-2282635, for the issuance of promissory notes in an aggregate principal amount not to exceed \$185 million.

When feasible, NiSource affiliates directly charge for services provided to another affiliate. When it is impractical to charge an affiliate directly for services provided, allocation bases are utilized. As previously mentioned in Chapter II – Background, NiSource Corporate Services Company (Corporate Services) provides centralized services to a number of NiSource subsidiaries, including CPA. Corporate Services provides the following services to NiSource Transmission Providers, Marketing and Energy Affiliates, and other direct or indirect subsidiaries of NiSource:

- Accounting and budget,
- Human resources,
- Information technology,
- Legal,
- Tax,

- Corporate communications,
- Insurance procurement,
- Risk management,
- Corporate credit,
- Investor relations,
- Real estate services,
- Internal audit, and
- Supply chain non energy procurement.

Corporate Services uses a detailed NiSource Cost Allocation Manual (CAM) to distribute its costs among the affiliates it provides services. The CAM lists 13 different allocation bases for allocating charges among affiliates as follows:

- direct costs,
- gross fixed assets and operating expenses,
- gross fixed assets,
- gross depreciable property and total operating expense,
- gross depreciable property,
- automobile units,
- number of retail customers,
- number of regular employees,
- fixed allocation,
- number of transportation customers,
- number of commercial customers,
- number of residential customers, and
- number of high pressure customers.

The majority of the CPA's intercompany charges come from Corporate Services as it is the primary provider of the administrative services needed to operate. Corporate Services employees are encouraged to directly charge affiliates when possible. However, when it is necessary to allocate charges to more than one affiliate benefitting from the work being performed, Corporate Services uses the appropriate charge codes for the affiliates being billed. Corporate Services uses a job order system to collect costs that are applicable and billable to affiliates. Whenever a new job order is created, a decision is made cooperatively by the departmental head working with the operating company and Corporate Services personnel about how costs assigned to that job order will be allocated among participating affiliates. Costs are then assigned using one of the Basis of Allocation or direct company codes, as described in the CAM. The job order assigns a ten digit number to the project(s) involved and identifies the cost allocation method to be used to charge the costs of the project. Unless a change occurs in the identity of the affiliates participating in a specific job order, costs that are assigned to the job order are consistently billed by Corporate Services to its affiliate(s) from that point forward because the job order bases of allocation remain the same over time. The job orders are maintained by the Corporate Services Accounting Department; and therefore, only employees within Corporate Services Accounting can create or modify job orders. Each job order can be set up with only one Basis of Allocation and, in many cases, only one specific allocation code or direct company billing is set up for a

particular job order, depending on what affiliate(s) benefit from the services. In the CAM, general job order guidelines are department specific. If an employee would attempt to use an allocator that is different from that provided for in the job order the accounting systems would prompt an immediate error and not allow the data input to continue. In accordance with NiSource's Procurement Policy, when requesting a purchase order, the person initiating the purchase order works with the Corporate Services Supply Chain Department to ensure all information, including the allocation of how the goods or services cost will be charged to the receiving entity, is included on the purchase order.

There is no written policy or guidelines regarding which allocation factor is to be used to allocate particular types of costs between affiliates. However, the NiSource affiliates follow a policy whereby employees familiar with his/her department are responsible for appropriately allocating costs for services they provide. An employee's expenses may be charged to CPA by other affiliates if deemed appropriate by the employee's direct supervisor. The immediate supervisor of the employee who is requesting reimbursement must approve the employee's expenses, including any allocation of expenses. The immediate supervisor, or in their absence the next higher level management, must approve any expense advances issued in accordance with the Business Expense and Reimbursement Accounting Policy. All intercompany transactions are approved by the affiliate providing the service before the service is billed. The approvals are performed by an employee familiar with how the service should be charged (i.e., direct billed or allocated). Likewise, the costs are also reviewed for approval of payment by the employees of the affiliate receiving the intercompany invoice who are familiar with services being billed. In accordance with the AIAs, approved payments are generally made by the affiliate receiving the service within 30 days of receipt of the intercompany invoice. Additionally, a formal review of cost allocations is performed annually and cost allocation audits were performed each year from 2009 through 2011 by the Corporate Services Internal Audit Department.

A summary of CPA's intercompany receivables and payables for 2009 through November 2012 are shown in Exhibit V-1. The intercompany receivables and payables are categorized by affiliate and totaled by year. From 2009 through 2011, net annual payables to affiliates decreased by approximately 8%. Furthermore, after annualizing the net annual payables for 2012 at \$230,211,944 (based on 11 months actual), it appears that the net annual payables to affiliates decreased by approximately 17% from 2009 to 2012.

**Exhibit V-1**  
**Columbia Gas of Pennsylvania, Inc.**  
**Intercompany Receivables and Payables**  
**For the Years 2009 – 2011 and January – November 2012**

<b>Intercompany Receivables</b>				
<b>Company</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 YTD*</b>
Columbia Gas of Kentucky	\$152,128	\$58,302	\$112,743	\$403,692
Columbia Gas of Ohio	\$658,857	\$530,895	\$605,644	\$2,566,372
Columbia Gas of Maryland	\$1,123,547	\$837,963	\$1,038,835	\$967,237
Columbia Gas of Virginia	\$619,759	\$545,755	\$392,043	\$710,578
Columbia Gas Transmission	\$13,443,930	\$170,820	\$156,003	\$122,340
Columbia Gulf Transmission				\$331,408
Columbia Gas of Massachusetts		\$6,944		\$17
NiSource Corporate Services	\$521,421	\$505,887	\$660,300	\$511,848
NiSource Retail Services	\$26,539	\$4,295	\$4,143	\$10,083
Columbia of Pennsylvania Receivables		\$718,371	\$873,546	\$489,950
Energy USA		\$16,619		
NiSource Incorporated	\$1,524,000	\$36,740	\$211,730	\$117,221
NiSource Money Pool	\$288,186	\$432,812	\$1,366,580	\$361,659
<b>Total Intercompany Receivables</b>	<b>\$18,358,367</b>	<b>\$3,865,403</b>	<b>\$5,421,567</b>	<b>\$6,592,405</b>
<b>Intercompany Payables</b>				
<b>Company</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 YTD*</b>
Columbia Gas of Kentucky	\$21,003	\$17,778	\$17,658	\$68,844
Columbia Gas of Ohio	\$5,055,002	\$3,690,636	\$3,383,750	\$3,250,186
Columbia Gas of Maryland	\$426,639	\$398,529	\$752,218	\$775,447
Columbia Gas of Virginia	\$257,341	\$80,057	\$132,756	\$482,734
Columbia Network Services Company	\$5,472	\$5,472	\$5,472	\$5,016
Columbia Gas Transmission	\$50,120,881	\$54,116,415	\$49,260,722	\$44,868,264
Columbia Gulf Transmission	\$869,429	\$1,022,623	\$884,181	\$765,971
NiSource Corporate Services	\$221,291,339	\$193,031,370	\$186,880,931	\$147,885,643
Energy USA	\$47,568			
NIPSCO		\$18,399		
Columbia of Pennsylvania Receivables		\$100		
NiSource Incorporated	\$522,600	\$1,995,069	\$160,242	\$221,650
NiSource Finance Company	\$16,607,196	\$16,681,085	\$18,292,796	\$19,281,477
NiSource Money Pool	\$80,962		\$21,901	\$14,788
<b>Total Intercompany Payables</b>	<b>\$295,305,432</b>	<b>\$271,057,533</b>	<b>\$259,792,627</b>	<b>\$217,620,020</b>
<b>Net Annual Payables to Affiliates</b>	<b>\$276,947,065</b>	<b>\$267,192,130</b>	<b>\$254,371,060</b>	<b>\$211,027,615</b>

\* The 2012 YTD column shows charges through November 2012.  
Source: Data Request 3 and 326

Ring-fencing is the term used to describe efforts which are intended to insulate a regulated utility from the potentially riskier activities of unregulated affiliates. The objective is to ensure that the financial stability of the utility and the reliability of its service are not impacted by the activities of non-regulated corporate activities. CPA and NiSource have no specific written policies related to ring-fencing efforts. However, CPA does not guarantee the debt of any of its affiliates, nor does it pledge its assets as collateral for the debt of its affiliates. These two practices help to insulate CPA's financial strength from that of its affiliated companies. CPA does participate in the NiSource Money Pool, a short term funding vehicle that allows NiSource companies access to funds for short term needs. Unregulated NiSource affiliate companies are allowed to invest in but not borrow funds from the money pool, which is another form of insulation or ring-fencing for CPA and other regulated NiSource affiliates from their unregulated affiliates.

Competitive safeguards and affiliate standards of conduct at natural gas utilities were established by Commission Order, adopted on May 11, 2000, at Docket No. M-00991249F0009 and are further addressed by the Commission's policy statement regarding affiliated interest issues of Natural Gas marketers at 52 Pa. Code §69.191-192. The purpose of these safeguards is to assure the provision of direct access on equal and nondiscriminatory terms to all customers and suppliers, prevent discrimination in rates, terms or conditions of service by natural gas distribution companies, prevent the cross subsidization of service amongst customers, customer classes or between related distribution companies and suppliers, to forbid unfair or deceptive practices by production companies and suppliers, and to establish and maintain an effective and vibrant competitive market in the purchase and sale of retail energy. Suppliers, electric and natural gas distribution companies must comply with certain requirements that address items such as:

- Preferential treatment in the processing of retail generation supply service requests,
- Dissemination or disclosure of customer information,
- False or deceptive advertising, and
- Dispute resolution process.

The Standards of Conduct section of CPA's gas tariff, which can be found on the Company's website, contains the following topic areas that specifically cover the provisions listed above: General Requirements, Dispute Resolution Procedures and Complaint Procedures.

Annually, approximately 15 percent of the NiSource employee population receives training on Federal Energy Regulatory Commission Order No. 717 Standards of Conduct training. In addition, certain groups receive Anti-market Manipulation Training (i.e., approximately 5% of employees) and Anti-trust training periodically to all relevant employees (i.e., approximately 9% of employees). Annually, all managers and higher level management are reminded about rules governing affiliate relationships. This reminder is sent to them via intercompany email from the Corporate Services Corporate Compliance Department.

### **Findings and Conclusions**

Our examination of the Affiliated Interests function focused primarily on an examination of affiliated interest agreements, cost allocation methodologies and compliance with existing cost allocation policies, practices and procedures, inter-company transactions, ring-fencing efforts and a review of competitive safeguards. Based on our review of Affiliated Interests, no specific evidence came to our attention that would lead the Audit Staff to believe that the areas reviewed were not being addressed adequately.

### **Recommendation**

**None.**

## VI. FINANCIAL MANAGEMENT

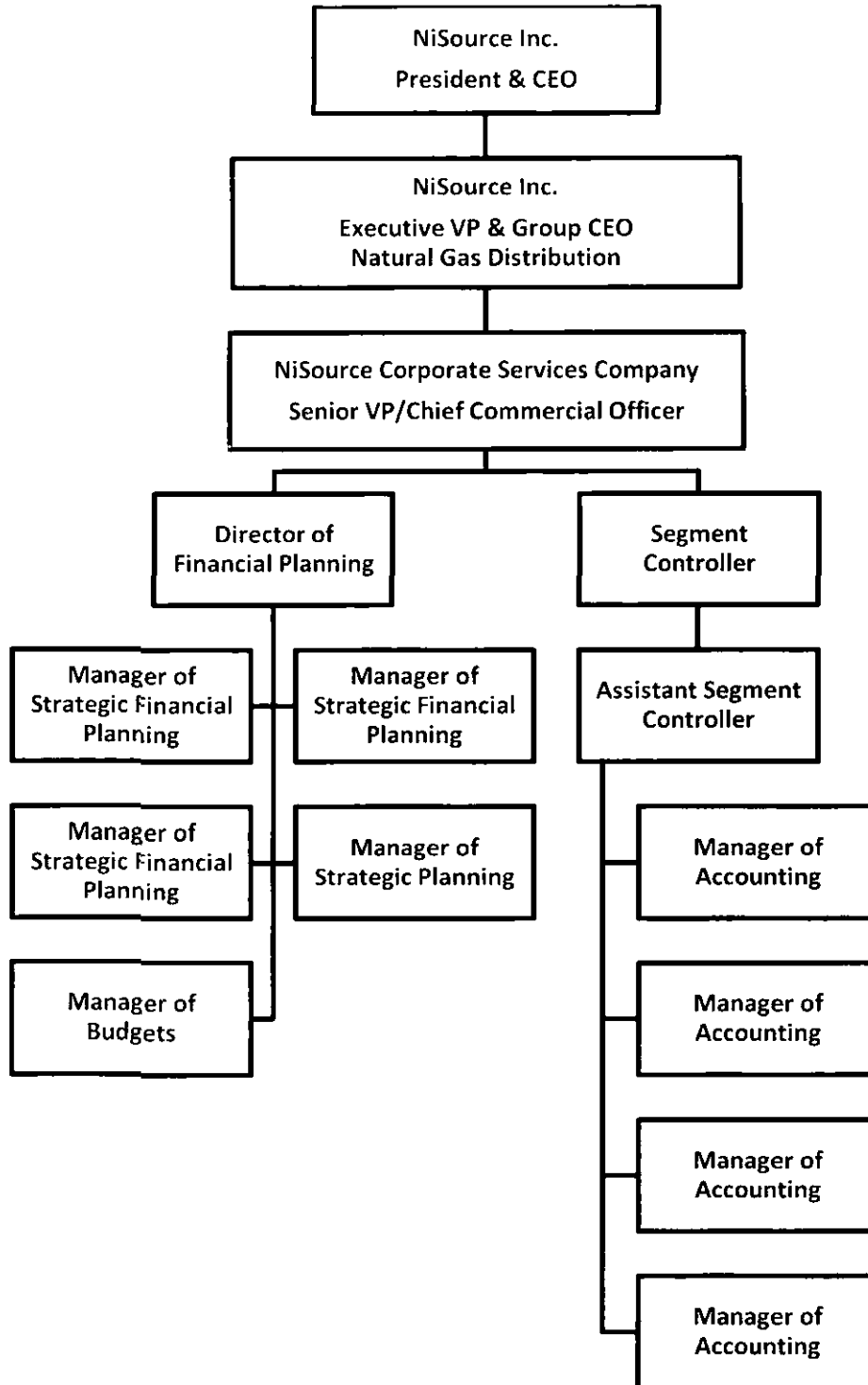
### Background

As discussed in Chapter II – Background, Columbia Gas of Pennsylvania, Inc. (CPA or Company) is a subsidiary of the Columbia Energy Group (Columbia) which is owned by NiSource Inc. (NiSource). As detailed in Chapter V – Affiliated Interests, the accounting and financial planning activity is one of several functions performed on the behalf of all NiSource affiliates, including CPA, by the NiSource subsidiary NiSource Corporate Services Company (Corporate Services). In particular, Corporate Services provides accounting and financial services to all of NiSource's natural gas distribution companies (NGDCs), including CPA. As shown in Exhibit VI-1, Corporate Services' Senior Vice President/Chief Commercial Officer oversees the Accounting and Financial Planning Departments.

In general, Corporate Services' Accounting Department is responsible for asset accounting, research and other special studies, cash management, and general accounting for all of NiSource's NGDCs. More specifically, the Accounting Department is responsible for the following:

- Providing value added financial services to both internal and external customers.
- Financial activities such as the preparation of NiSource and affiliates results and the preparation, maintenance and analysis of actual financial statements and records which are used for internal and external reporting.
- Supporting and maintaining certain business application systems and records which are used for internal and external reporting.
- Complying with NiSource system policies and procedures, generally accepted accounting principles (GAAP), Sarbanes Oxley and applicable regulatory standards.
- Preparation and distribution of timely and accurate financial statements in accordance with GAAP to internal and external users.
- Providing accurate and timely financial information for various internal and external reports and filings.
- Preparation of variance analysis, audit schedules and responses to special requests.
- Staying current with emerging accounting and reporting guidelines and trends including Financial Accounting Standards Board and Securities and Exchange Commission (SEC) standards and interpretations.
- Providing assistance to regulatory and other departments for rate case activities, including routine regulatory filings, pro-forma calculations, testimony and data requests, review and analysis of rate case support, new rate orders and accounting orders.
- Maintaining accurate and current asset records including depreciation and leases schedules.
- Managing cash activities of NiSource's NGDCs.

**Exhibit VI-1**  
**NiSource Corporate Services Company**  
**Accounting and Finance Department Organization Chart**  
**As of July 22, 2012**



Source: Data Request No. 152



In general, Corporate Services' Financial Planning Department is responsible for revenue, capital and Operation and Maintenance (O&M) financial forecasting, budgeting and analysis for all of NiSource's NGDCs. More specifically, Corporate Services' Financial Planning Department is responsible for the following:

- Budgeting and financial planning process, including data gathering and coordination with business partners, departments and functions within NiSource.
- Preparing financial models for internal use within business unit and NiSource, model revenues, perform economic analysis and provide business case development support for special projects.
- Analyzing actual results against budgets and research and prepare explanations regarding business drivers.
- Providing assistance to regulatory and other departments for rate case activities, including routine regulatory filings, pro-forma calculations, testimony and data requests, review and analysis of rate case support, new rate orders and accounting orders.

All NiSource affiliates use a calendar year of January 1 through December 31 as their fiscal year. The O&M expense budgeting methodology used by CPA is a combination of a "top down" and "grass roots" approach. At a high level, the O&M budget serves as a key component of CPA's overall financial plan and at more detailed level it serves as a cost management tool. Annually the Corporate Services management team, including CPA's management, first identify the general O&M requirements and then establish financial goals and planning objectives in conjunction with NiSource's senior management. These overall corporate wide goals and objectives are then communicated to each successive layer of management and employees, and the Corporate Services Financial Planning and Analysis team, which is responsible for Corporate Services' financial plans. It is the responsibility of these groups, as they work together to budget and then manage, to ensure that CPA's financial plans, including O&M expenses, are developed in accordance with NiSource's overall financial goals and objectives as modified to address certain guidelines and assumptions and individual Company operational and administrative requirements.

In conjunction with the Corporate Services Budget Group, CPA's O&M "long range" budget is annually developed in July for each department by cost element. The same CPA managers responsible for approving expenditures are also responsible for preparing their part of the budget. As a result, Department heads are responsible for overseeing the development of O&M budgets for all cost centers under their control. In August, each department's budget is reviewed with the business segment's CFO and CEO. These reviews include a comparison of the proposed budgets to the current budgets as well as a comparison of year over year changes. These comparisons help identify trends and/or potential oversights or errors in the initial "grass roots" budgets. In September, budget refinement begins in operating center locations in the field and other departments representing the major business functions. In mid to late October, these operating center location and departmental budgets are combined with a corporate level budget to arrive at a consolidated NiSource budget, which is then approved by the NiSource Board of Directors. The various components of this overall NiSource budget

serve as the year's baseline budget, but it is revised throughout the year to reflect timing variances as actual month's O&M expenses are recorded and other changes become known. Furthermore, in addition to the periodic baseline budget and monthly budget updates, CPA's budget process includes three additional official budget updates, occurring in May, July and January that follow a similar budgeting process as the baseline budget. During each of these official budget updates, variances are reviewed and the entire budget is vetted for accuracy.

Monthly the Corporate Services Budget Group also compares actual O&M expenses incurred to the current year's budget by department and by cost element. Analysts and managers responsible for individual departmental budgets and total Company and subsidiary budgets independently perform reviews. These are reasonableness reviews of the budget versus actual variances that are designed to identify and investigate unexpected variances that occurred during a particular month to mitigate the possibility of errors and take corrective action as necessary. This review process includes interaction with Corporate Services Accounting and other departments as needed.

There are a significant number of individual transactions processed each month, most of which are attached to a specific source document (e.g., employee timesheets, invoices, etc.). The Corporate Services Budget Group does not review individual transactions as a normal part of the reasonableness review process unless needed to clarify an accounting entry. Once the monthly closing reasonableness review is completed, Corporate Services' Budget Group notifies the Accounting Department that its reasonableness review of the current month's activity has been completed and the books may be closed for that month's business. After the monthly closing, Corporate Services' Budget Group completes a more detailed analysis and provides reports that identify variances of concern for individual departments and Corporate Services leadership to review. As part of the process, the Corporate Services Budget Group may notice specific variances that trigger further review of that month's actual expenditures. Also after monthly closing, the Corporate Services Budget Group continues to analyze and further test the reasonableness of actual expenditures, which may also lead to further budget variance reviews. These variance reviews are conducted at both a cost element level as well as a departmental view, and variance explanations are communicated to departmental management on a monthly basis and to Corporate Services leadership each time an official plan is submitted.

The capital budgeting and planning process performed by Corporate Services is a continual management process and includes the following key milestones in preparation for subsequent year capital expenditure programs:

- April – May: Annual capital review meetings are held and Engineering begins developing grass roots budget estimates using a budget template provided by the Director of the Capital Program Management Department (which is part of the Corporate Services Engineering and Operations Logistics Departments).
- June: The budget templates are returned to the Director of the Capital Program Management Department.

- July – August: A formal request for capital is presented to the Capital Allocation Group (part of Corporate Services Financial Planning and Analysis Department) and the NiSource Executive Council at the annual corporate capital planning meeting (timing and location is determined each year).
- September – October: The capital budget is finalized by the NiSource Executive Council.
- November – December: The President and CEO of NiSource presents the final budget request to the Board of Directors for approval. The capital budget as ultimately approved is distributed to distribution company leadership teams and planning organizations.

During the year, Corporate Services' Capital Program Management Department leads a capital program review session each month with key Corporate Services management staff within the Engineering, Budgeting, Regulatory and Financial Planning Departments. These sessions include a review of current month and year-to-date actuals, variance explanations, year-end forecasts and key management action plans.

There are several approval matrixes for capital budget item approvals and reviews including an annual program approval, project and specific budget approval, additional new business approval, corporate review and approval, engineering peer reviews, project management team reviews and pre-construction reviews. Once it becomes known that the cost of an approved budget item will vary by more than plus or minus 10% or \$5,000 (whichever is greater); the project manager is required to submit a written explanation outlining the reason(s) for the variance. The explanations are to include a summary of changes in the project's nature that significantly impacted the cost. If a capital budget item's actual cost will vary by more than 20% or \$50,000 (whichever is greater), the budget must be re-approved according to the approval limits applicable to the new amount.

CPA borrows and invests short term funds through the NiSource Money Pool. Daily, the Company determines if it has funds available to invest in the System Money Pool or has a need to borrow from the System Money Pool. The Money Pool interest rate is based on the average outstanding external debt and investment for NiSource Finance Corporation. As an example, the interest rate for the Money Pool was 1.40% as of April 30, 2012. CPA has a \$300 million short term debt limit that was originally set by the SEC; however, the NiSource Board of Directors approved limit is half that or \$150 million.

CPA issues long term promissory notes through NiSource Finance Corporation. The Company receives authorization to issue long term notes from the Public Utility Commission (PUC or Commission) through its securities certificate registration process. The interest rate on intercompany notes between CPA and NiSource Finance Corporation are based upon the corresponding maturity treasury yield plus the yield spread on corresponding maturities for companies with a credit risk profile equivalent to that of the NiSource Finance Corporation effective on the date of the note issuance. CPA's long term debt, as of November 30, 2012, was \$378 million as detailed in Exhibit VI-2. It is noteworthy that all of CPA's debentures have been issued, or refinanced, since late 2005 and therefore its average long term debt interest rate of 5.8% is

reflective of current lower interest rates than was available prior to the initial economic downturn that occurred in 2001.

**Exhibit VI-2  
 Columbia Gas of Pennsylvania, Inc.  
 Long Term Debt  
 As of November 30, 2012**

Description	Date of Issue	Date of Maturity	Principal Amount Issued	Coupon Interest Rate	Annualized Cost
Debentures	11/28/05	11/28/15	\$47,350,000	5.410%	\$2,561,635
Debentures	11/28/05	11/28/16	\$18,525,000	5.450%	\$1,009,613
Debentures	11/28/05	11/28/25	\$54,515,000	5.920%	\$3,227,288
Debentures	11/1/06	11/1/21	\$20,000,000	6.015%	\$1,203,000
Debentures	12/14/07	12/14/27	\$58,000,000	6.865%	\$3,981,700
Debentures	12/18/08	12/18/13	\$22,000,000	5.460%	\$1,201,200
Debentures	12/16/10	12/16/30	\$28,000,000	6.020%	\$1,685,600
Debentures	3/28/12	3/26/32	\$30,000,000	5.355%	\$1,606,500
Debentures	3/28/12	3/26/42	\$35,000,000	5.890%	\$2,061,500
Debentures	11/28/12	11/28/42	\$65,000,000	5.260%	\$3,419,000
Totals			\$378,390,000		\$21,957,036
<b>Total Average Weighted Effective Cost Rate</b>			<b>\$21,957,036/\$378,390,000 = 5.8%</b>		

Source: Data Request No. 327

As shown below in Exhibit VI-3, CPA's pension plan (for more details on the pension plan refer to Chapter X – Human Resources) was 78% funded as of November 30, 2012. The plan is maintained as a master retirement trust through NiSource. In 2007 the plan was over 100% funded before the recession hit in December of that year, causing the plan to become underfunded. The plan is currently following the requirements of the Pension Protection Act and is subject to the Employee Retirement Income Security Act of 1974 (ERISA). Contributions to the pension plan have significantly increased in each of the last three years from approximately \$962,000 in 2009, to \$8.45 million in 2010 and then \$21.47 million in 2011.

**Exhibit VI-3  
 Columbia Gas of Pennsylvania, Inc.  
 Employee Pension Plan Funding Status  
 As of November 30, 2012**

Projected Benefit Obligation	\$120,282,331
Fair Value of Plan Assets	\$93,607,575
Percent Funded	78%

Source: Data Request No. 328

The Company stated that when analyzing its capital structure, the first consideration is to balance total capitalization levels (equity plus debt) to total rate base. Second, the Company strives to maintain an appropriate debt-equity ratio. The Company has targeted an equity ratio of between 52-56% and a debt ratio, including short term debt, of between 44-48%. Exhibit VI-4 shows CPA's actual capital structures as of years ended 2009 through 2011 and as of November 30, 2012. CPA's capital structure was 52.34% equity, 47.34% long term debt and 0.33% short term debt as of November 30, 2012.

**Exhibit VI-4**  
**Columbia Gas of Pennsylvania, Inc.**  
**Capital Structure**  
**As of December 31, 2009 – 2011 and November 30, 2012**

	As of 12/31/09	As of 12/31/10	As of 12/31/11	As of 11/30/12
Common Equity	\$327,601,000	\$346,399,000	\$382,642,000	\$418,406,000
Percentage of Total Capital	52.78%	52.52%	54.76%	52.34%
Long Term Debt	\$285,215,000	\$313,215,000	\$313,215,000	\$378,390,000
Percentage of Total Capital	45.95%	47.48%	44.82%	47.34%
Short Term Debt	\$7,854,000	\$0	\$2,930,000	\$2,577,000
Percentage of Total Capital	1.27%	0.00%	0.43%	0.33%
Totals	\$620,670,000	\$659,614,000	\$698,788,000	\$799,373,000

Source: Data Request No. 145 and 332

CPA's equity can be relatively higher coming out of the winter period due to the cyclical nature of the gas industry. The Company performs a quarterly dividend analysis to determine if dividends should be paid to NiSource or if earnings should be retained to balance total capitalization with total rate base and to achieve an appropriate debt-to-equity ratio. The amount of dividends paid to the Parent, net income of CPA and the percentage of dividends to net income from 2009 through 2012 are shown in Exhibit VI-5. The percentage of dividends to net income has been decreasing from approximately 74% in 2009 to 12% in 2011 and potentially even lower in 2012. This is in large part the result of CPA using a large portion of its internally generated funds to finance its increasing investment in capital additions that far exceed its depreciation expense, as shown in Exhibit VI-6. A discussion regarding CPA's increase in its investment as it expedites the replacement of bare steel and cast iron mains is included in Chapter VII – Gas Operations

**Exhibit VI-5**  
**Columbia Gas of Pennsylvania, Inc.**  
**Percentage of Dividends to Net Income**  
**For the Years 2009 – 2011 and January - November 2012**

Year	Dividends	Net Income	% of Dividends to Net Income
2009	\$25,000,000	\$33,709,266	74.16%
2010	\$31,500,000	\$50,187,065	62.77%
2011	\$5,000,000	\$41,538,855	12.04%
2012*	\$2,000,000	\$37,705,857	5.30%

\* - January through November 2012.

Source: Data Request No. 93 and 331 and Auditor Analysis

**Exhibit VI-6**  
**Columbia Gas of Pennsylvania, Inc.**  
**Depreciation Expense vs. Capital Additions**  
**For the Years 2009 – 2011 and January – November 2012**

Year	2009	2010	2011	2012*
Depreciation Expense	\$22,933,000	\$24,267,000	\$27,084,000	\$29,533,000
Capital Additions	\$55,492,000	\$78,362,000	\$135,963,000	\$135,820,000

\* - January through November 2012.

Source: Data Request No. 90 and 330

**Findings and Conclusions**

Our examination of the Financial Management function focused primarily on a review of accounting and financial management organizational structure and policies and procedures, capital and operating budget process, budget variance tracking and reporting, long and short term financing, the pension plan, capital structure and dividend policies. Based on our review of Financial Management, the Company should initiate or devote additional efforts to improve the efficiency and effectiveness of its financial management operations by addressing the following:

**1. NiSource does not have a formal dividend policy.**

As previously stated, CPA performs a quarterly dividend analysis to determine if dividends should be paid to its parent, NiSource, or if earnings should be retained to balance total capitalization with total rate base and to achieve an appropriate debt-to-equity ratio. Although CPA's annual dividend payments to NiSource have been under 75 percent of net income since 2009 (ranging from approximately 5% to 74%), there are no NiSource or CPA policies related to the payment of dividends from the regulated utility (i.e., CPA) to its parent corporation (NiSource). It should be noted again that CPA has been using a large portion of its internally generated funds to finance its increasing investment in capital additions; however the establishment of a formal dividend policy

would set some sound business parameters from which to base dividend payouts in the future.

**2. The Company does not have a formal O&M budget policy.**

CPA's affiliate, Corporate Services, is responsible for the maintenance of capital and O&M budgets for the Company. Although Corporate Services maintains a Capital Allocation and Authorization Policy, which describes the capital budgeting process for all NiSource NGDCs, a similar policy does not exist for the O&M budgeting process. The Capital Allocation and Authorization Policy describes the capital budgeting process through the following sections:

- Definition and Overview
- Budget Types
- Planning and Management Process
- Budget Development and Allocation Process
- Reviews and Approvals
- Completed Project Evaluations
- Budget Variance Explanations

At a minimum, Corporate Services should create a documented O&M budgeting process similar to the Capital Allocation and Authorization Policy. Although CPA's O&M variances have been reasonable since 2009, the Company's O&M variance performance could change in the future. Similar sized utilities maintain documented O&M budgeting policies and procedures, along with their capital budgeting process, to maintain consistency in the budgeting and performance monitoring process.

**3. Some of the schedules found in the Company's PUC Annual Report are not complete and accurate.**

Under 66 Pa. C.S. §504, the PUC may require any public utility to file periodic reports as the Commission may prescribe concerning any matters whatsoever about which the Commission is authorized to inquire, keep itself informed, or required to enforce. The Commission may also require a public utility to file a copy of any reports it must file with a Federal regulatory body. Accordingly, all NGDCs subject to the jurisdiction of the PUC are required to complete and file an Annual Report with the Commission. The general instructions to the Annual Report indicate that all accounting terms and phrases used in this form report are to be interpreted in accordance with the effective applicable Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission Title 18 under "Part 201-Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act". Likewise, all instructions shall be followed and each question shall be answered fully and accurately. Sufficient answers shall appear to show that no question or schedule has been overlooked.

The Annual Reports are used by Commission staff, including the Audit Staff, to acquire data and information for use in trending the performance of a utility and compare performance to other Pennsylvania utilities. These various trends and comparisons are useful for determining how well a utility may be performing.

The Audit Staff's use of CPA's Annual Reports revealed that not all of the schedules as submitted had been completed accurately. In some instances, only certain pieces of information were included while others were left blank. For example, Schedule 600 of the Annual Report is the Classification of Customers, Units Sold and Operating Revenues by Tariff Schedule. This schedule is designed for the NGDC to provide the number of customers, volumes sold, and operating revenues by tariff schedule for the calendar year being reported. Customers should be reported on the basis of number of meters, plus number of unmetered accounts, except that where separate meter readings are added for billing purposes, one customer shall be counted for each group of meters so added. In Schedule 600 of the Annual Reports for the years 2007-2011, the Company reported the number of heating, other, and transportation customers for each customer class (i.e., residential, commercial and industrial) for beginning of year, end of year, and average during the year; however, under the sales during the year, CPA did not report volumes sold to other and transportation customers and the related operating revenues in the residential and commercial customer classes even though there are customers reported in these groups for each customer class. As a result, it is difficult to accurately identify the actual volumes sold and/or delivered and the related operating revenues for each customer class in this schedule. Although there are other schedules in the Annual Report, such as Schedule 505 Gas Account – Natural Gas, that identify total volumes delivered in the Company's system, Schedule 505 does not provide information such as volumes delivered and related operating revenues by customer class. Missing information can make it difficult for the Commission to effectively keep informed on the present performance of a utility under its jurisdiction.

To comply with the filing requirements under 66 Pa. C.S. §504 and provide useful and comparable data and information, all utilities, including CPA, should fully and accurately complete each schedule of their Annual Report.

### **Recommendations**

- 1. Establish a formal dividend policy.**
- 2. Create a formal policy that documents the Company's O&M budgeting process.**
- 3. Fully and accurately complete all schedules in the PUC Annual Report.**



## VII. CUSTOMER SERVICE

### Background

Customer service activities for Columbia Gas of Pennsylvania, Inc. (CPA or Company) fall under the responsibility of two groups. The Vice President of Customer Operations within the NiSource Corporate Services Company (Corporate Services) is responsible for the Customer Contact Center, Customer Programs and Meter to Cash. CPA's Director of Rates and Regulatory Affairs is responsible for Universal Services, Customer Programs and Regulatory Compliance, as well as for developing and directing rate and regulatory activity before the Pennsylvania Public Utility Commission (PUC or Commission) and managing the Company's response to emerging industry issues, proposed regulations and PUC audits and investigations. The overall customer service organization is shown in Exhibit VII-1.

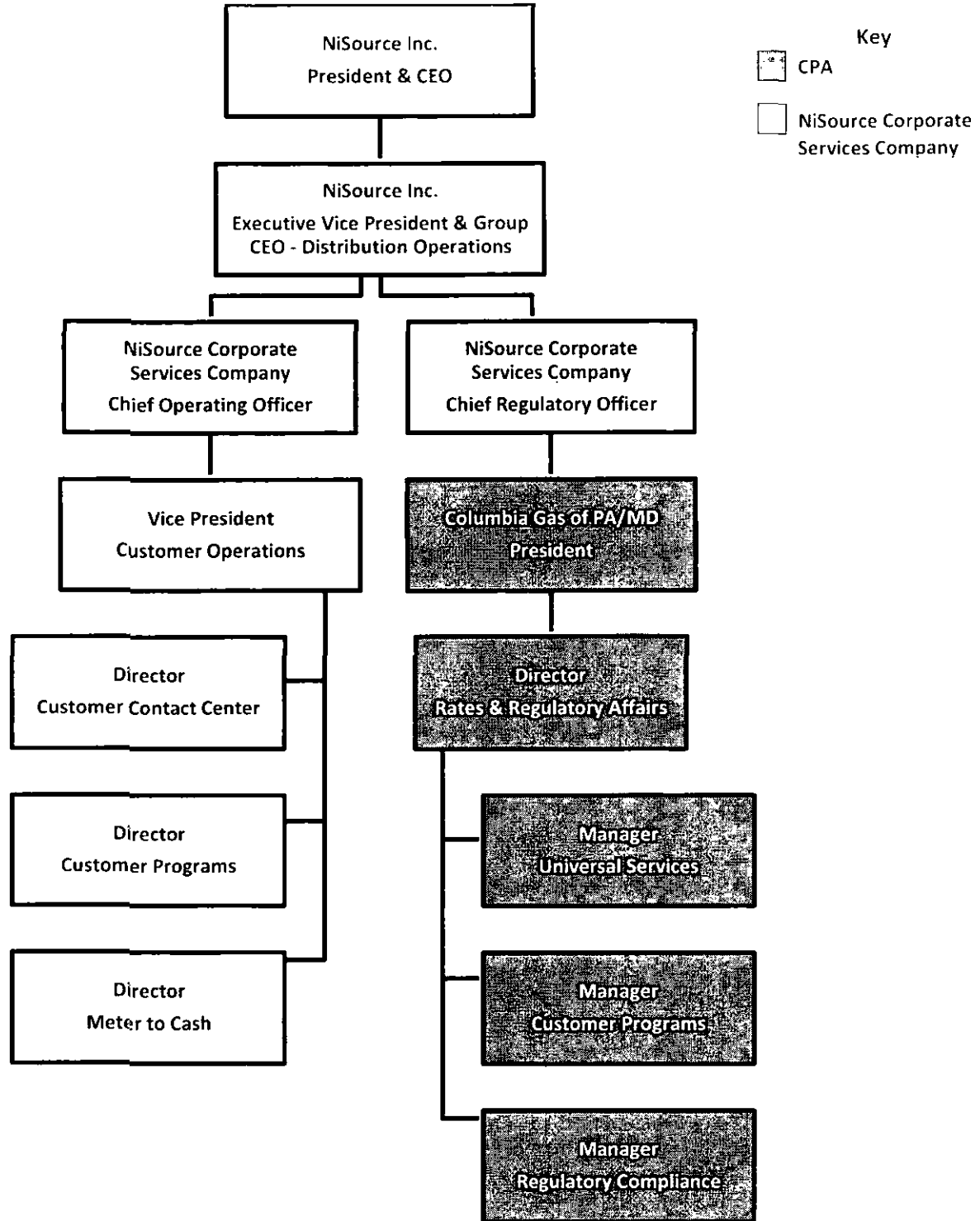
Corporate Services' Director of the Customer Contact Center is responsible for the center's ability to respond to inbound customer inquiries. These inquiries can come in the form of a telephone call, e-mail or written correspondence. Typically, customer inquiries fall into one of three categories:

- Customer Service Calls – inbound telephone calls relating to customer billing issues, credit and collections issues or requests to start, stop or transfer utility service.
- Emergency Calls – inbound telephone calls relating to an odor of gas, fire, explosion, carbon monoxide, high pressure or any other situation that requires an immediate response.
- Web Self-Service Calls – inbound calls relating to customer technical issues experienced while using the web self-service application (discussed later in this chapter).

All Customer Service Representatives (CSRs) at the Customer Contact Center are employees of Vertex, a third-party provider. Vertex also leases the building from a third-party provider. As of August 29, 2012, there were 226 CSRs staffed by Vertex with 68 of them trained to handle Pennsylvania calls. Of these 68 CSRs, 43 are primarily skilled for Pennsylvania with calls going straight to them, while the other 25 are used as back up agents on an as needed basis. The costs to CPA are allocated on a minute used basis. Call center performance is monitored by the PUC's Bureau of Consumer Services (PUC-BCS). PUC-BCS monitors telephone performance by the following three measures of telephone access:

- Busy-Out Rate – the number of calls to a call center that receive a busy signal divided by the total number of calls received at a call center.

**Exhibit VII – 1**  
**NiSource Corporate Services Company and Columbia Gas of Pennsylvania, Inc.**  
**Customer Service Organization Chart**  
**As of July 22, 2012**



- Call Abandonment Rate – the number of calls to a utility’s call center that were abandoned divided by the total number of calls that the utility received at its call center or business office.
- Percentage of Calls Answered within 30 seconds – the percentage of calls answered within 30 seconds (“answered” means a utility representative is ready to render assistance to the caller). An acknowledgement that the consumer is on the line does not constitute an answer.

CPA’s call center performance for the years 2007 through 2011 using the three measures monitored by PUC-BCS is shown on Exhibit VII-2. It is important that all three statistics be considered together as telephone access for the consumer may not be accurately portrayed by the individual statistics. The Company has maintained an average Busy-Out Rate rounded to 0% for the period and improved its Call Abandonment Rate performance from 2008-2011. CPA has shown a minor deterioration in its percentage of Calls Answered within 30 Seconds over the 2009 to 2011 period.

**Exhibit VII – 2  
 Columbia Gas of Pennsylvania, Inc.  
 Call Center Performance  
 For the Years 2007 - 2011**

Year	Busy-Out Rate	Call Abandonment Rate	% of Calls Answered within 30 Seconds
2007	0%	3%	74%
2008	0%	5%	69%
2009	0%	2%	82%
2010	0%	2%	80%
2011	0%	2%	77%

Source: 2007-2011 PUC-BCS Customer Service Performance Reports

During the past six years (i.e., 2007 – 2012) the following changes have been made to enhance performance at the Customer Contact Center:

- Contact Plus - This is an improved method of rating and scoring quality assurance that is competency based and uses customer friendly phrasing for the CSRs. This was implemented in July 2009 and was revised/updated in July 2012.
- Customer Payment Vendor - A new customer payment vendor was introduced that granted the option for customers to make payments by credit card. This was implemented in March 2011.
- VSIST - A new front end application was developed which allows CSRs to follow a script format throughout certain call types. This type of technology also implements check points to ensure all data has been gathered and

processed. This was implemented in February 2011 and was revised/updated in August 2012.

- Smart Forms - These are customer required forms and letters developed for auto population with the required information. CSRs no longer have to craft letters on their own, or rely on other business teams to process these requests. This was implemented in February 2007 and was revised/updated in March 2012.
- Automated Meter Reading (AMR) - AMR technology enables the Company to obtain monthly meter readings for customer billings. This enhancement has reduced the number of calls requiring estimated reads and possible high bill investigations. It has also eliminated the need for customers to call in their meter readings during the estimated billing months. CPA/NiSource/Columbia Energy Group is currently installing the Itron Mobile Automated Meter Reading (MAMR) system. The MAMR device attaches to the gas meter and transmits consumption information from the meter to a radio equipped handheld computer or vehicle based mobile computer collection system. CPA uses two contractors along with Company personnel to perform meter reading. MAMR implementation began in January 2011 and was expected to be completed by the end of 2012. The total projected cost of the MAMR project is approximately \$20 million.
- Uploading Customer Documentation - Customers are now able to upload required documentation to a secured website which allows the call center to quickly and easily obtain critical documentation needed to turn on service. This was implemented in November 2010.
- Customer Payment Locations - CSRs now have the ability to search for customer payment locations by zip code. This allows the CSR to direct the customer to the closest or most convenient location. This was implemented in January 2012 and was revised/updated in March 2012.
- Online Management Tool (Call Aid) - Ongoing improvements to the online management tool continue on a day to day basis in an effort to cascade the most recent information to the CSR. This was initially implemented in 2002 and improvements are ongoing.
- Database Development - CSRs can submit requests to other departments to help address questions and concerns outside of the call center environment. This was initially implemented in the summer/fall of 2006 and revised/updated in August 2012.
- Web Self Service - This new channel was opened up for customers to self-serve through the Company's website which includes obtaining balance and payment information, scheduling disconnect orders, and reporting payment receipts among other things. This has allowed the call center to better

manage call volume during peak seasons. This was initially implemented in September 2005 and was revised/updated in June 2012.

- Mobile Application - Phase one of the mobile application was rolled out, which allows the customer to view their account summary, make a free online payment, receive information regarding emergencies and gas safety, and obtain information on payment locations. This was implemented in December 2011 and was revised/updated in June 2012.
- Universal Services Call Group – The Company's call center staffing includes a Universal Services Call Group, which is comprised of individuals who are specially trained to assist low income, payment-troubled customers. Pursuant to a provision in the settlement of its 2008 base rate proceeding at Docket No. 2008-2011621, CPA added eight new hires to its Universal Services Call Group, in order to improve call performance rates for this group. As of 2008, there are 24 trained Universal Service Representatives available to handle these types of calls. In addition, in the event of an increase in call volume, there are another five CSRs who are fully trained to perform Universal Service functions. This approach was initially implemented in 1998 and expanded in 2008.

Corporate Services' Director of Customer Programs is responsible for the programs that facilitate, support, and/or manage various customer touch points, communication channels, and interface opportunities by:

- Providing platforms to enhance customer satisfaction through mobile, web self-service and Interactive Voice Response.
- Actively participating in steps needed to keep customer channels compliant and working as intended.
- Increasing billing accuracy and resulting customer satisfaction by managing MAMR deployment.
- Providing opportunities for efficient, consistent, professional, respectful, dependable, and desired customer experiences that avail themselves through easy to access and timely channels.
- Providing a forum for functional areas within Corporate Services to help make the customer experience easier.

Corporate Services' Director of Meter to Cash is responsible for the following activities for CPA, as well as NiSource's other natural gas distribution companies (NGDCs):

- Meter Reading – consists of both Company employees and contractors whose main responsibility is to read customer meters.

- Printing and Inserting – responsible for the printing and mailing of customer bills and notices.
- Billing Team – responsible for handling billing exceptions, processing adjustments to customer bills, billing for unauthorized usage and other back office billing work.
- Revenue Recovery Team – responsible for working with CPA Regulatory Compliance (discussed later in this chapter) to set credit and collection standards, monitor collection processes and collect on final delinquent account balances. This team also works with the outside collection agencies and monitors the performance of those agencies.
- Field Collections – responsible for the NiSource NGDCs and third party field collectors that perform collection work including turning gas off for nonpayment at locations.

CPA's portion of the customer service organization is shown on the right hand column in Exhibit VII-1. The Manager of Universal Services is responsible for the development and implementation of the various components of the Universal Service menu of assistance programs for low-income customers to remain in compliance with PUC regulations. Programs include Customer Assessment, Referral and Evaluation Services (CARES); Customer Assistance Program (CAP); Low Income Usage Reduction Program (LIURP); Low Income Home Energy Assistance Program (LIHEAP); and Fuel Funds by:

- Managing over 50 contracts to provide services through all programs with community based organizations, weatherization and Heating, Ventilation and Air Conditioning contractors, energy educators, and quality assurance monitors.
- Approving, posting, reconciling and refunding LIHEAP and Fuel Fund grants to ensure accurate posting and compliance with state vendor agreement and PUC regulations.
- Providing information and resources to low income customers through extensive outreach including community networks, agencies, legislative and senior fairs, toll free hotlines, bill inserts, media outlets, and targeted phone call campaigns to promote assistance programs.
- Managing various outreach channels and referral sources to provide the highest level of customer satisfaction for low income customers allowing easy access to programs, first time problem resolution and solutions to long term payment problems.

- Maintaining cost effective programs to provide the highest level of benefits to low income customers at the least cost to non-CAP customers who financially support these programs.
- Distributing written information and resources to all customers requesting additional information on reducing usage.
- Managing multiple contracts with auditors, energy efficiency experts and scheduling contractors to provide Building Performance Institute certified audits, free programmable thermostats and rebates to promote the wise use of energy to those just above the poverty level (i.e., 151% - 250% of poverty).
- Promoting the energy efficient benefits of natural gas to new and existing customers through a variety of outreach channels including community meetings, fairs, senior events, media outlets and targeted outbound calling campaigns.

CPA's Manager of Customer Programs is responsible for:

- Developing and implementing energy efficiency programs to provide value added service to all residential customers.
- Offering energy efficiency information and WarmWise: Audits and Rebates programs.

CPA's Manager of Regulatory Compliance is responsible for:

- Serving as a liaison between CPA and the PUC and other respective state agencies in resolving consumer service issues.
- Developing new and revising existing CPA procedures, and implementing them, to ensure compliance with PUC regulations relating to customer service, including coordination of related training of employees.
- Overseeing CPA's response process to PUC informal and formal complaints.
- Investigating and responding to PUC citations of possible regulation violations. Coordinating investigations into non-compliance issues relative to matters involving billing, collections, meter reading, field/service operations, customer selection to use an alternative natural gas supplier, new business, company personnel issues and other customer related functions.
- Tracking issues of non-compliance and taking appropriate measures with affected department supervisor or manager on corrective actions.

- Responding on behalf of Company to various PUC related reports (monthly/annually) involving CPA's customer service performance and collection activities.
- Reviewing PUC's customer service performance reports and recommending solutions to improve performance.

CPA's Customer Information System, known as the Distributive Information System (DIS), provides capabilities for customer billing, account management, service order activities, etc. It also provides information to the Customer Contact Center, Collections Department and interfaces with the web self-service. The annual costs to CPA regarding DIS expenses are comprised of DIS information technology support costs related to maintenance and upgrades to the system. An allocation code is used to transfer costs to CPA with customers being the most used cost base.

The number of customers participating in CPA's Universal Services programs and the dollar amounts related to each program during the years 2009-2011, is shown on Exhibit VII-3. Overall, customer participation in the programs declined by approximately 23% from 2009 to 2011, while the dollar amounts have decreased by 4% over the three year period.

**Exhibit VII – 3**  
**Columbia Gas of Pennsylvania, Inc.**  
**Participation Levels in Universal Services Programs**  
**For the Years 2009 through 2011**

Universal Service Program	Number of Customers		
	2009	2010	2011
<b>CAP</b>	31,231	29,155	27,651
<b>CARES</b>	95	51	102
<b>LIHEAP</b>	45,021	27,535	29,884
<b>LIURP</b>	485	483	527
<b>Hardship Funds</b>	3,093	2,781	2,979
<b>Totals</b>	79,925	60,005	61,143

Universal Service Program	Participation Dollars		
	2009	2010	2011
<b>CAP</b>	\$1,227,795	\$1,193,671	\$1,120,146
<b>CARES (including LIHEAP)</b>	\$319,134	\$380,110	\$368,513
<b>LIURP</b>	\$3,148,334	\$3,235,040	\$3,057,749
<b>Hardship Funds</b>	\$101,862	\$80,029	\$80,152
<b>Totals</b>	\$4,797,125	\$4,888,850	\$4,626,560

Source: Data Request No. 189



## Findings and Conclusions

Our examination of the Customer Service function included a review of the organizational structure, current policies and procedures, performance measures and levels, customer information systems, call center, Universal Services, credit and collections procedures and meter reading. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and/or effectiveness of its customer service function by addressing the following issues:

**1. CPA has a significant number of meters not read in six months and twelve months and is not in compliance with PUC regulations.**

Pursuant to PUC regulation at 52 Pa. Code § 56.12(4)(ii), a utility may estimate the bill of a residential ratepayer if utility personnel are unable to gain access to obtain an actual meter reading. However, at least every six months, the utility must obtain an actual meter reading or ratepayer supplied reading to verify the accuracy of prior estimated bills. The Reporting Requirements for Quality of Service Benchmarks and Standards at § 62.33(b)(3)(i) require major NGDCs to report the number and percentage of residential meters the utility has not read in accordance with § 56.12(4)(ii).

CPA's meter reading performance regarding the percentage of meters not read in six and twelve months was compared to a panel of other Pennsylvania natural gas distribution companies in the PUC-BCS Customer Service Performance Report for the years 2009-2011. As shown in Exhibit VII-4, CPA's percentage of meters not read within six and twelve months was higher in each of the years when compared to the PUC-BCS panel average.

According to the Company, the primary reason for the meters not being read within six or twelve months is the number of meters located inside structures which cannot be accessed (see Finding and Conclusion No. 2). The Company has been relocating meters to the outside of structures in areas where both service line and main replacements are being completed. Every three years inside and outside meters are physically inspected by an employee for leak detection and corrosion. A customer read is attempted every month and if a customer read is not obtained for three consecutive months the following process is utilized:

- At three months a postcard is mailed to the customer requesting access on the next scheduled read date.
- At four months a letter is mailed to the customer requesting access to read the meter.
- At five months a third party telephone contact is completed.
- At six months a termination notice is issued for failure to provide access to the meter.

**Exhibit VII – 4**  
**Columbia Gas of Pennsylvania, Inc.**  
**Percentage of Meters Not Read in Six and Twelve Months**  
**For the Years 2009 through 2011**

<b>Meters Not Read in Six Months</b>						
<b>Company</b>	<b>2009</b>		<b>2010</b>		<b>2011</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
Equitable	82	0.04%	11	0.00%	4	0.00%
NFG	389	0.20%	314	0.16%	506	0.26%
PECO	139	0.03%	4	0.00%	2	0.00%
PGW	257	0.06%	291	0.06%	182	0.04%
Peoples	703	0.22%	518	0.14%	388	0.11%
UGI - Gas	33	0.01%	19	0.01%	27	0.01%
UGI Penn Natural	30	0.02%	17	0.01%	18	0.01%
<b>Panel Average</b>	<b>233</b>	<b>0.08%</b>	<b>168</b>	<b>0.05%</b>	<b>161</b>	<b>0.06%</b>
<b>CPA</b>	<b>607</b>	<b>0.16%</b>	<b>665</b>	<b>0.17%</b>	<b>551</b>	<b>0.14%</b>
<b>Meters Not Read in Twelve Months</b>						
<b>Company</b>	<b>2009</b>		<b>2010</b>		<b>2011</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
Equitable	28	0.01%	0	0.00%	1	0.00%
NFG	73	0.04%	31	0.02%	22	0.01%
PECO	36	0.01%	0	0.00%	0	0.00%
PGW	71	0.00%	97	0.02%	60	0.01%
Peoples	96	0.03%	106	0.01%	35	0.02%
UGI - Gas	3	0.00%	1	0.00%	3	0.00%
UGI Penn Natural	7	0.00%	10	0.01%	3	0.00%
<b>Panel Average</b>	<b>45</b>	<b>0.01%</b>	<b>35</b>	<b>0.01%</b>	<b>18</b>	<b>0.01%</b>
<b>CPA</b>	<b>210</b>	<b>0.05%</b>	<b>220</b>	<b>0.05%</b>	<b>204</b>	<b>0.05%</b>

Source: 2009-2011 PUC-BCS Customer Service Performance Reports

If a customer provided reading was received for the account the following process is utilized:

- At four months a letter is mailed to the customer requesting access to read the meter.
- At nine months a third party telephone contact is completed and a postcard is mailed to the customer requesting access on the next scheduled read date.
- At ten months a letter is mailed to the customer requesting access to read the meter.
- At 11 months a third party telephone contact is completed.
- At 12 months a termination notice is issued for failure to provide access to the meter.

When the Company does not read a meter within the six month or twelve month period, it is possible that CPA may not be aware of problems such as a fast or slow meter, or a possible theft of service. The Company believes completing the deployment of MAMR, as noted in the background of this chapter, should resolve this issue. The MAMR project started in January 2011 and as of November 2012 was scheduled for completion by the end of 2012.

## **2. CPA has a high number of meter sets located inside structures.**

Natural gas meter set (i.e., gas meter and associated gas regulator) locations need to be selected with consideration for the safety of the building being supplied with gas and for the meter piping itself. Normally an outdoor location of meter sets is preferred to facilitate the safe relief of excess gas pressure if an emergency situation occurs. Pressure is designed to be relieved at the meter set's regulator to protect the downstream piping from becoming over-pressurized. Meter sets that are located inside structures have become an increasing safety concern as the average age of equipment increases along with the number of occurrences of gas leaks that have occurred inside structures. Therefore, on July 28, 2011, the Commission initiated a rulemaking process to amend existing regulations at 52 Pa. Code §59.18 related to meter set location via a Proposed Rulemaking Order, at Docket No. L-2009-2107155. The Proposed Rulemaking Order is intended to align the state meter set location regulations with provisions of the Code of Federal Regulations, which were previously adopted by the Commission, in order to enable gas utilities to more efficiently address meter set location programs and to ensure safe and reliable service. The Proposed Rulemaking Order includes a requirement that meter sets be installed outside and above ground in most circumstances, and that the location must accommodate meter reading, inspections, repairs, testing, changing and operation of the gas shut-off valve. When the Commission or a utility determines that a meter set must be moved for safety reasons, all costs associated with the relocation of such meter set are to be borne by the utility. When a utility moves a meter set, the related cost of extending customer owned facilities to the new meter set location shall also be borne by the utility.

As of November, 2012 CPA had 86,701 meter sets located inside structures, which is an average annual reduction of approximately 2,900 meter sets located inside structures since 2007 when the Company commenced its accelerated main replacement program. In concert with the main replacement, CPA is replacing customer service lines along the replaced main and relocating any inside meter sets to the outside. The Commission's 2011 Order initiating the Proposed Rulemaking indicated that the percentage of inside meters industry-wide had remained consistent for the past five years, indicating that Columbia's efforts exceed the industry as a whole. The Proposed Rulemaking calls for all inside regulators associated with the meter set to be moved outside of structures by year end 2020; however, it is possible that this date will be extended beyond 2020 since as of November 2012 the Proposed Rulemaking had yet to be approved. Conservatively, assuming that the Proposed Rulemaking as eventually adopted requires inside regulators associated with meter sets to be moved outside by year end 2025, CPA will have to move approximately 7,225 inside meter sets outside of structures annually to comply. Therefore it appears that CPA's present pace

of moving approximately 2,900 meter sets, or regulators only, outside each year would have to be accelerated by about 2½ times to meet a 2025 completion date

**3. CPA has a higher percentage of gross write-offs than a panel average of other Pennsylvania Natural Gas Distribution Companies.**

During the years 2009 and 2011, based on the PUC-BCS' statistics as shown in Exhibit VII-5, CPA wrote off (i.e., expensed) a higher percentage of its revenues as uncollectible than a panel average of Pennsylvania NGDCs. More specifically, CPA's uncollectible customer accounts receivable write off performance was worse than the panel average in 2009, better in 2010 when it was above the panel average, and then was much worse than the panel average in 2011.

**Exhibit VII – 5  
 Columbia Gas of Pennsylvania, Inc.  
 Gross Write-Off as a Percentage of Gross Revenues  
 For the Years 2009 through 2011**

<b>Company</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Peoples	4.06%	3.59%	1.82%
Equitable	2.97%	2.19%	2.13%
NFG	2.33%	3.39%	2.00%
PECO - Gas	0.85%	1.17%	0.97%
UGI - Gas	3.08%	2.43%	2.27%
UGI Penn Natural	3.83%	2.75%	2.10%
Panel Average	2.85%	2.59%	1.88%
CPA	3.11%	2.27%	2.82%

Source: 2009-2011 PUC-BCS Reports on Universal Service Programs & Collections Performance and Auditor Analysis

The lower delinquent accounts collection success discussed in Finding and Conclusion No. 4 could be contributing to CPA's relatively higher write-off ratios. Timely receipt of payment for service will enhance CPA's cash flow, reduce its write-offs and lower the Company's level of borrowing from the NiSource Money Pool. Exhibit VII-6 contains a calculation of the potential savings that CPA could realize by reducing its write-off percentage and level of borrowing. Based on CPA's average revenues and write-offs for the period 2009-2011, the Company's average write-off percentage was 2.73% compared to an average write-off of 2.44% for the panel of other Pennsylvania NGDC's shown in Exhibit VII-5. Over this period, CPA could have saved approximately \$15,000 annually in interest expense by reducing its write-off percentage to the panel average. This estimate is based on the interest rate for the Money Pool being 1.40% as of April 30, 2012, which is representative of the rates during 2012.

**Exhibit VII – 6  
 Columbia Gas of Pennsylvania, Inc.  
 Potential Savings from Reducing Uncollectible Write-Offs  
 For the Years 2009 – 2011**

Year	Revenues	Write-Offs	CPA Write-Off Ratio	Panel Average Write-Off Ratio
2009	\$387,454,010	\$12,039,187	3.11%	2.85%
2010	\$359,493,889	\$8,162,827	2.27%	2.59%
2011	\$346,316,467	\$9,761,318	2.82%	1.88%
3-Yr Average	\$364,421,455	\$9,987,777	2.73%	2.44%
Average Annual Write-Off Level if Write-off Ratio for Period = 2.44% ( $\$364,421,455 \times 2.44\% =$ )		\$8,891,884		
Average Annual Increase in Cash Flow for Period if Write-Off Ratio = 2.44%		\$1,095,893		
<b>Potential Annual Savings from Reduced Borrowing</b>			<b>\$15,343</b>	

Source: 2009-2011 PUC-BCS Reports on Universal Service Programs & Collections Performance, Data Request Nos. 100 and 287 and Auditor Analysis

**4. NiSource's outside primary collection agencies have not been achieving the performance goals for collection efforts that have been established.**

NiSource contracts outside collection agencies in an attempt to recover outstanding payments it has been unable to recover on its own. Primary agencies make the first attempt to recover delinquent accounts placed with them, while secondary agencies are used to attempt to recover delinquent accounts not accomplished by a primary agency after nine months. NiSource uses three primary agencies and two secondary agencies for their delinquent customer accounts collections. The collection performance for 2007 through 2011 and January through November 2012 for the five agencies is shown in Exhibit VII-7 (i.e., primary collections) and Exhibit VII-8 (i.e., secondary collections). The combined totals of all the primary and secondary agencies and the net collection rates for the agencies are displayed below the individual agency performances. NiSource's 2012 threshold level for net collections for primary agencies was 7.75% and the goal was 8%. The threshold is the minimum performance that NiSource expects from a collection agency and the goal is a higher target level. Although thresholds and goals were not established for secondary agencies in 2012, the first monthly scorecard meeting for primary and secondary agencies included performance for the July, August and September period.

New goals and thresholds for primary and secondary agencies were to be established in December 2012 for use starting in January 2013. The new goals for primary agencies may be different than the secondary agencies based upon the scorecards for each group. The goal and threshold levels are to be based on previous performance of the collection agencies. If a goal or threshold is not reached, accounts can be taken from an agency and given to another agency or a new agency. NiSource has previously changed agencies due to poor performance. For example, in 2008, the primary agencies were changed due to poor performance, and in 2010, NiSource began using secondary agencies. The Audit Staff noted that for other than one primary agency in 2010 through 2011 and January through November 2012, none of the

**Exhibit VII – 7**  
**Columbia Gas of Pennsylvania, Inc.**  
**Performance of Primary Collections**  
**For the Years 2007 – 2011 and January through November 2012**

Year	Agency	Placed	Gross Collections	% Gross Collection	Net Collections	% Net Collection
2007	Primary Agency #1	\$4,554,789	\$467,950	10.27%	\$407,584	8.95%
2008	Primary Agency #1	\$7,823,834	\$758,054	9.69%	\$660,265	8.44%
2009	Primary Agency #1	\$6,905,570	\$715,371	10.36%	\$598,944	8.67%
2010	Primary Agency #1	\$3,181,799	\$300,512	9.44%	\$248,223	7.80%
2011	Primary Agency #1	\$3,164,852	\$273,386	8.64%	\$225,817	7.14%
2012*	Primary Agency #1	\$2,392,261	\$171,128	7.15%	\$141,352	5.91%
Year	Agency	Placed	Gross Collections	% Gross Collection	Net Collections	% Net Collection
2007	Primary Agency #2	\$3,536,565	\$233,481	6.60%	\$199,626	5.64%
2008	Primary Agency #2	\$3,855,294	\$218,091	5.66%	\$186,468	4.84%
2009	Primary Agency #2	\$3,998,840	\$233,481	5.84%	\$199,626	4.99%
2010	Primary Agency #2	\$2,497,049	\$119,022	4.77%	\$103,549	4.15%
2011	Primary Agency #2	\$2,523,716	\$114,131	4.52%	\$99,865	3.96%
2012*	Primary Agency #2	\$1,802,750	\$88,688	4.92%	\$77,602	4.30%
Year	Agency	Placed	Gross Collections	% Gross Collection	Net Collections	% Net Collection
2007	Primary Agency #3	\$696,117	\$72,129	10.36%	\$62,752	9.01%
2008	Primary Agency #3	\$909,988	\$83,011	9.12%	\$72,220	7.94%
2009	Primary Agency #3	\$1,669,393	\$145,300	8.70%	\$126,411	7.57%
2010	Primary Agency #3	\$2,511,717	\$176,749	7.04%	\$153,772	6.12%
2011	Primary Agency #3	\$3,104,823	\$253,847	8.18%	\$220,847	7.11%
2012*	Primary Agency #3	\$2,283,622	\$146,206	6.40%	\$127,199	5.57%
Year	Agency	Placed	Gross Collections	% Gross Collection	Net Collections	% Net Collection
2007	Total Primary Agencies	\$8,787,471	\$773,560	8.80%	\$669,962	7.62%
2008	Total Primary Agencies	\$12,589,116	\$1,059,156	8.41%	\$918,953	7.30%
2009	Total Primary Agencies	\$12,573,803	\$1,094,152	8.70%	\$924,981	7.36%
2010	Total Primary Agencies	\$8,190,565	\$596,283	7.28%	\$505,544	6.17%
2011	Total Primary Agencies	\$8,793,391	\$641,364	7.29%	\$546,529	6.22%
2012*	Total Primary Agencies	\$6,478,633	\$406,022	6.27%	\$346,153	5.34%
<b>6-Year Total for Primary Agencies</b>		<b>\$57,412,979</b>	<b>\$4,570,537</b>	<b>7.96%</b>	<b>\$3,912,122</b>	<b>6.81%</b>

\* - Data is for the period January through November 2012.  
 Source: Data Requests No. 42 & 193

**Exhibit VII – 8**  
**Columbia Gas of Pennsylvania, Inc.**  
**Performance of Secondary Collections**  
**For the Years 2007 – 2011 and January through November 2012**

Year	Agency	Placed	Gross Collections	% Gross Collection	Net Collections	% Net Collection
2007	Secondary Agency #1	\$11,540,489	\$126,222	1.09%	\$86,778	0.75%
2008	Secondary Agency #1	\$6,005,354	\$159,605	2.66%	\$118,108	1.97%
2009	Secondary Agency #1	\$34,179,030	\$243,580	0.71%	\$180,249	0.53%
2010	Secondary Agency #1	\$10,762,313	\$271,090	2.52%	\$200,607	1.86%
2011	Secondary Agency #1	\$4,170,765	\$290,940	6.98%	\$215,296	5.16%
2012*	Secondary Agency #1	\$4,030,786	\$188,501	4.68%	\$139,491	3.46%
Year	Agency	Placed	Gross Collections	% Gross Collection	Net Collections	% Net Collection
2007	Secondary Agency #2	NA	NA	NA	NA	NA
2008	Secondary Agency #2	NA	NA	NA	NA	NA
2009	Secondary Agency #2	NA	NA	NA	NA	NA
2010	Secondary Agency #2	\$5,693,925	\$32,420	0.57%	\$23,991	0.42%
2011	Secondary Agency #2	\$2,157,734	\$20,669	0.96%	\$15,295	0.71%
2012*	Secondary Agency #2	\$2,283,881	\$33,786	1.48%	\$25,002	1.09%
Year	Agency	Placed	Gross Collections	% Gross Collection	Net Collections	% Net Collection
2007	Total Secondary Agencies	\$11,540,489	\$126,222	1.09%	\$86,778	0.75%
2008	Total Secondary Agencies	\$6,005,354	\$159,605	2.66%	\$118,108	1.97%
2009	Total Secondary Agencies	\$34,179,030	\$243,580	0.71%	\$180,249	0.53%
2010	Total Secondary Agencies	\$16,456,238	\$303,510	1.84%	\$224,598	1.36%
2011	Total Secondary Agencies	\$6,328,499	\$311,609	4.92%	\$230,591	3.64%
2012*	Total Secondary Agencies	\$6,314,667	\$222,287	3.52%	\$164,493	2.60%
<b>6-Year Total for Secondary Agencies</b>		<b>\$80,824,277</b>	<b>\$1,366,813</b>	<b>1.69%</b>	<b>\$1,004,817</b>	<b>1.24%</b>

NA – Secondary Agency #2 was not utilized in 2007-2009.

\* - Data is for the period January through November 2012.

Source: Data Requests No. 42 & 193

agencies met the minimum expected threshold performance level for net collections of 7.75%.

The Company should ensure that they are receiving the desired collection performance from each of the collection agencies they retain for services, and if needed, replace any poor performing agencies. Improving the collection performance will also help CPA improve its write-off ratio discussed in Finding and Conclusion No. 3.

The Company has been tracking goals and thresholds since 2010. Exhibit VII-9 shows what primary collections would have been had the threshold and/or goal been achieved versus actual net collections for the years 2010 through 2011 and January through November 2012. On average, CPA would have increased its net collections by approximately \$140,000 to \$160,000 had it achieved its net collection threshold or goal. Over this period, CPA could have saved approximately \$2,000 annually in interest expense by achieving its net collection threshold or goal. Again, this estimate is based on the interest rate for the Money Pool being 1.40% as of April 30, 2012, which is representative of the rates during 2012. This quantified savings would actually be part of the reduced interest expense discussed previously in Finding and Conclusion No. 3.

**Exhibit VII – 9**  
**Columbia Gas of Pennsylvania, Inc.**  
**Primary Collections Threshold and Goal versus Actual Performance**  
**2007 – 2011 and January through November 2012**

Year	Agency	Placed	Net Collections for 7.75% Threshold	Net Collections for 8.00% Goal	Actual Net Collections	Difference Between Actual and Threshold	Difference Between Actual and Goal
2010	Primary Agencies	\$8,190,565	\$634,769	\$655,245	\$505,544	\$129,225	\$149,701
2011	Primary Agencies	\$8,793,391	\$681,488	\$703,471	\$546,529	\$134,959	\$156,942
2012*	Primary Agencies	\$6,478,633	\$502,094	\$518,291	\$346,153	\$155,941	\$172,138
<b>3-Year Average</b>						<b>\$140,042</b>	<b>\$159,594</b>
<b>Potential Annual Savings from Reduced Borrowing</b>						<b>\$1,961</b>	<b>\$2,234</b>

\* - Data is for the period January through November 2012.  
 Source: Data Requests No. 42, 100, 193 and Auditor Analysis

**Recommendations**

1. **Complete implementation of MAMR and enact additional measures as necessary to minimize the number of meters not read within six months and twelve months and that, at a minimum, customer supplied reads are acquired every six months.**
2. **Accelerate efforts to relocate inside meters sets or, at a minimum, the associated regulators outside the structure.**
3. **Strive to minimize write-offs of delinquent accounts receivable by exploring potential solutions to enhance the collection efforts.**
4. **Ensure that delinquent account collection agencies are achieving their performance goals, and as necessary, replace poor performing agencies with new collection agencies.**



## VIII. GAS OPERATIONS

### Background

As discussed in Chapter II – Background, many of Columbia Gas of Pennsylvania, Inc. (CPA or Company) employees that work in the various gas operations related functions ultimately report to managers within the NiSource Corporate Service Company (Corporate Services). CPA's gas operations functions applicable to this audit include field operations, engineering, construction, metering and regulation, corrosion and leaks, and materials procurement; many of which interact with or report to Corporate Services. In addition to Corporate Services, there are also other natural gas distribution companies (NGDC) owned by NiSource Inc. (NiSource), including affiliates in Maryland and Virginia owned by the Columbia Energy Group, which interact with CPA's Operations Department resulting in affiliate employees which either report to CPA positions and/or CPA positions reporting to affiliate management. Due to the complexity and considerable size of the NiSource family of affiliates' gas operations organization structure, the organization charts included in this chapter to illustrate the gas operations management structure have been split into multiple exhibits. In some instances, where multiple sections have similar organizational structure a sample organization chart is provided.

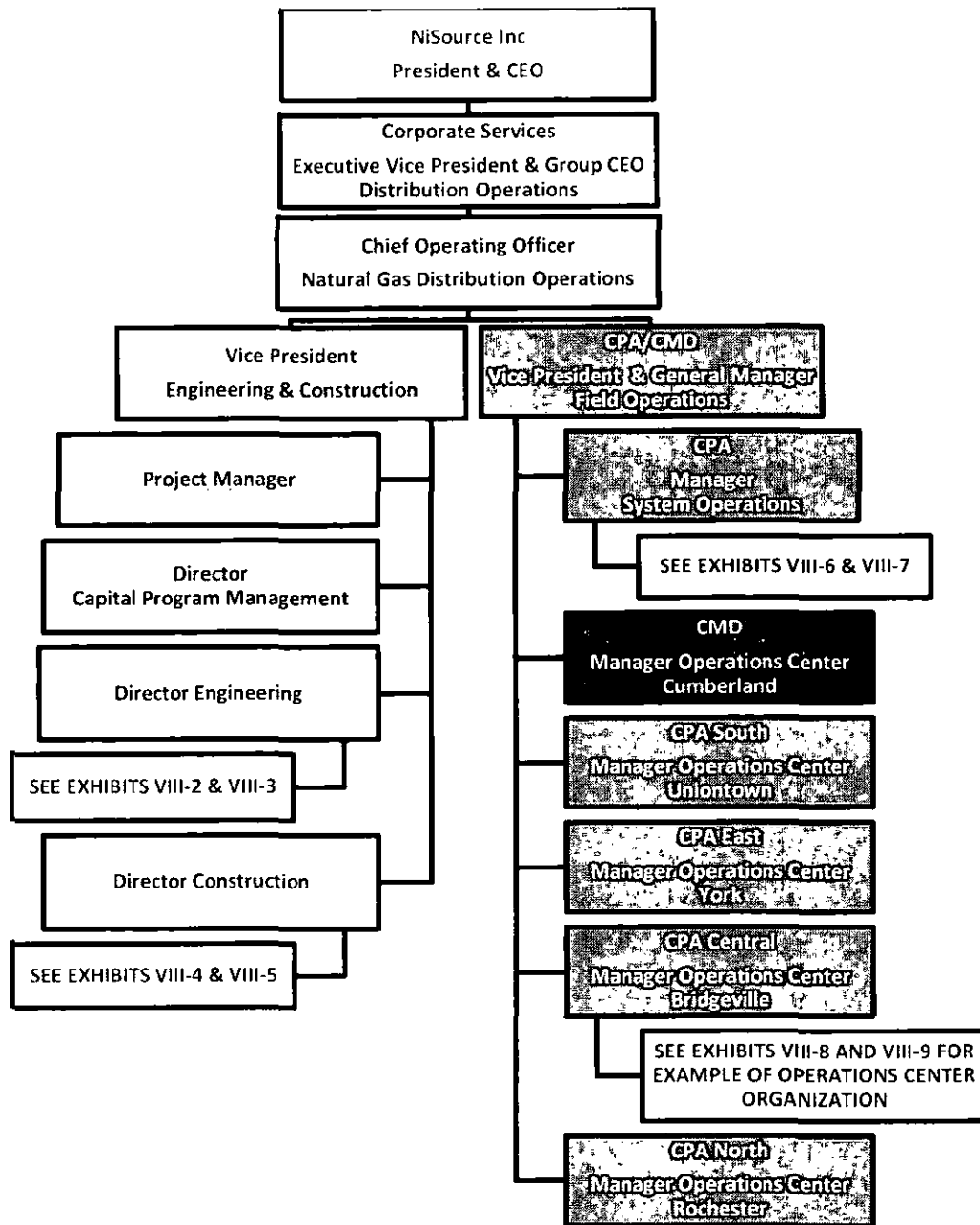
CPA's operational territory is divided into five operating territories and not all of these territories are continuous areas. For instance, the PA East operating territory is comprised of two non-continuous sections. There is also one section, i.e. Greencastle, in Pennsylvania that is operationally managed by one of Columbia Gas of Maryland, Inc.'s (CMD) operating territories. The Greencastle office is staffed by CPA employees but these employees report to CMD management. Each operating territory operates through the use of satellite offices. The operating territories and their various satellite offices are as follows:

- PA North – Main office in Rochester; satellite offices in Bradford, Warren, New Bethlehem, Emlenton, New Castle, and Neville Island.
- PA Central – Main office in Bridgeville; satellite office in Washington.
- PA South – Main office in Uniontown; satellite offices in Charleroi, Jeanette, and Somerset.
- PA East – Main office in York; satellite offices in State College and Hanover.
- CMD Hagerstown operating territory – contains PA satellite office of Greencastle.

The overall organization structure for all functional areas related to CPA's gas operations, except for materials procurement, which is separately addressed later in the background, is shown in Exhibit VIII-1. The Corporate Services' Vice President of Engineering and Construction and CPA/CMD Vice President of Field Operations and General Manager report to Corporate Services' Chief Operating Officer of Natural Gas Distribution Operations. Reporting to the Corporate Services' Vice President of Engineering and Construction are the Project Manager of Engineering and

Construction, Director of Capital Program Management, Director of Engineering and Director of Construction. The organization reporting to the CPA/CMD Vice President of Field Operations and General Manager is discussed later in this chapter.

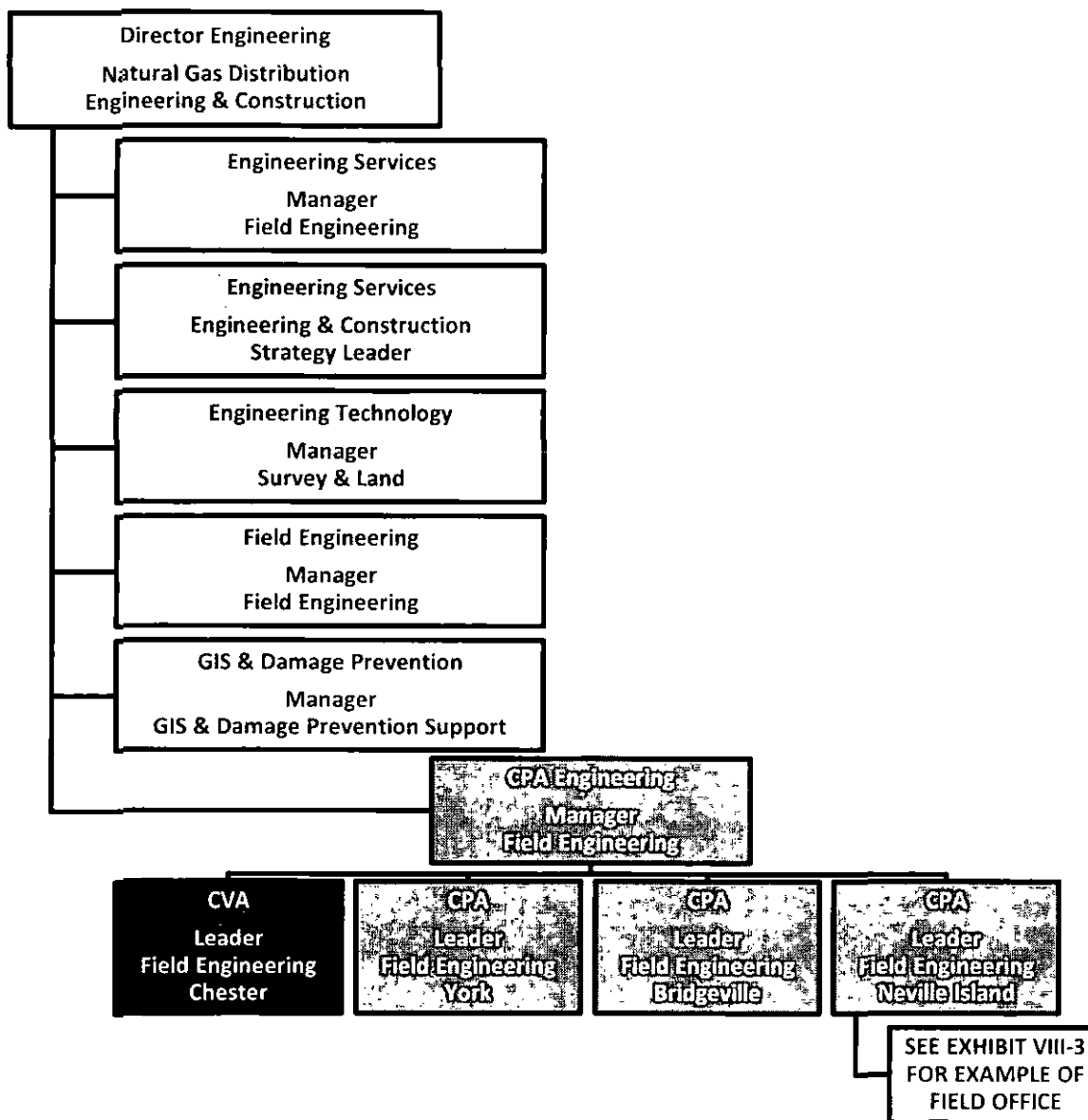
**Exhibit VIII – 1  
 NiSource Corporate Services Company and Columbia Gas of Pennsylvania, Inc.  
 Organizational Structure for Operations, Engineering, Construction,  
 Metering and Regulation, and Corrosion Functions  
 As of October 2012**



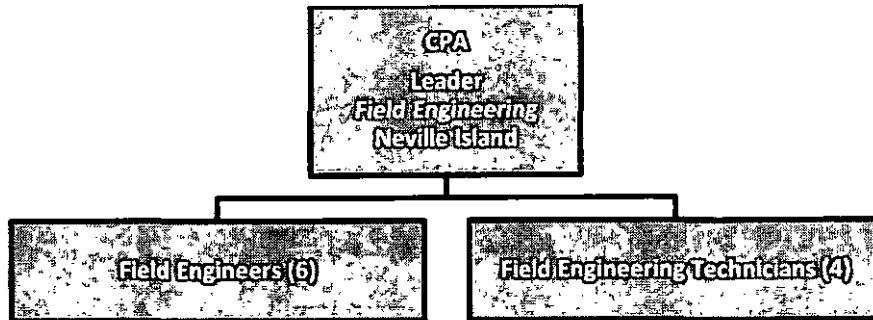
Source: Data Requests 152 and 290

Primary engineering responsibilities for CPA are performed under the direction of the CPA Manager of Field Engineering who reports to Corporate Services' Director of Engineering and Construction. All engineering support responsibilities (e.g., surveying, mapping, etc.) are performed by Corporate Services. As shown in Exhibit VIII-2, the Director of Engineering has six direct reports, including CPA's Manager of Field Engineering who also has four Leaders of Field Engineering as direct reports. One of the Leaders of Field Engineering is a Columbia of Virginia, Inc. (CVA) employee. Exhibit VIII-3 displays an example of the organization structure of an engineering field office (e.g., the Neville Island office).

**Exhibit VIII – 2**  
**NiSource Corporate Services Company and Columbia Gas of Pennsylvania, Inc.**  
**Organizational Structure for Engineering Department**  
**As of November 2012**



**Exhibit VIII – 3  
Columbia Gas of Pennsylvania, Inc.  
Organizational Structure for Leader Field Engineering  
Neville Island Field Office  
As of November 2012**



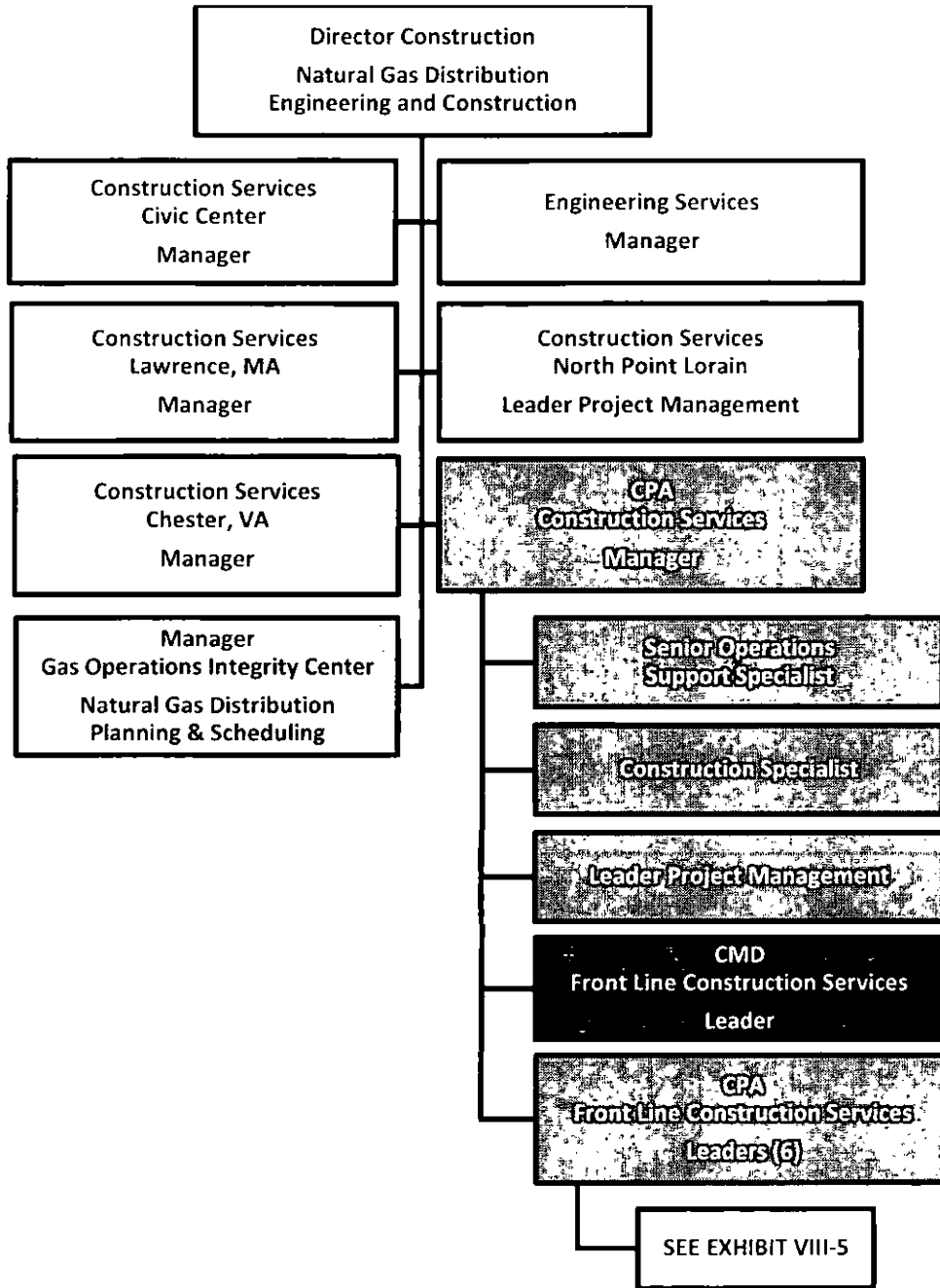
Source: Data Requests 152 and 290

As shown in Exhibit VIII-4, the Construction Department is structured similar to the Engineering Department with the Director of Construction from Corporate Services having seven direct reports, including CPA's Manager of Construction Services who has ten direct reports, six of which are Front Line Construction Services Leaders. Reporting to the Front Line Construction Services Leaders are multiple construction coordinators which are displayed in Exhibit VIII-5, which is a sample for the Front Line Construction Service Leader.

Reporting to the Vice President and General Manager of CPA and CMD Field Operations are the Manager of System Operations and five Managers of Operations Centers (including one for CMD). Each Manager of an Operations Center has various Field Operations Leaders reporting to them. Exhibit VIII-6 shows that CPA's Manager of System Operations is responsible for managing the Company's metering, regulating, and corrosion and leak control activities. Exhibit VIII-7 displays an example of an organization structure reporting to the Leader of Front Line System Operations for the Neville Island Field Office.

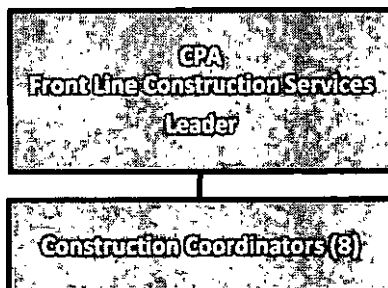
Each Manager of an Operations Center has various Field Operations Leaders reporting to them and each of the Field Operations Leaders has various positions reporting to them among other positions such as Damage Prevention Coordinator and Support Service Specialists (i.e., customer service related responsibilities such as turn ons, house calls, etc.). A sample organizational structure reporting to the Manager of an Operations Center is displayed in Exhibit VIII-8. A sample organizational structure reporting to a Field Operations Leader is displayed in Exhibit VIII-9 which has Construction Equipment Operators (i.e., operating and maintaining equipment), Laborers (i.e., main and service work, service orders), Street Service workers (i.e., repair / replace work, testing and inspection), and a Plant / Service Specialist (i.e., repair / replace, customer meter work) reporting to them.

Exhibit VIII – 4  
NiSource Corporate Services Company and Columbia Gas of Pennsylvania, Inc.  
Organizational Structure for Construction Department  
As of November 2012



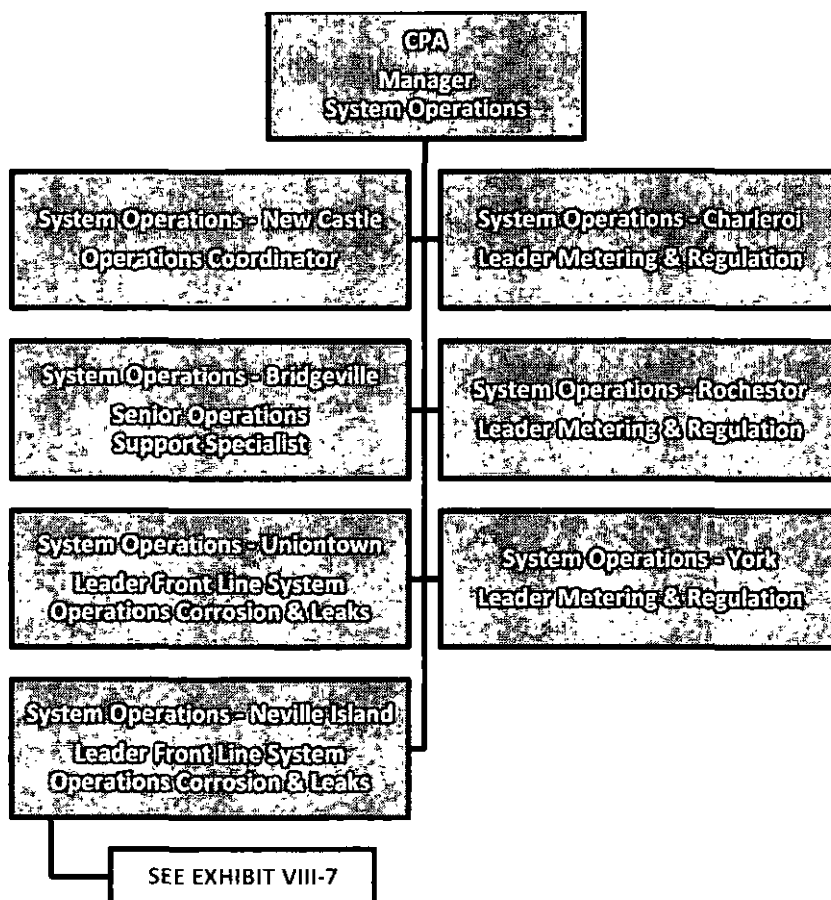
Source: Data Requests 152 and 290

Exhibit VIII – 5  
Columbia Gas of Pennsylvania, Inc.  
Sample Organizational Structure for Leader Front Line Construction Services  
As of November 2012



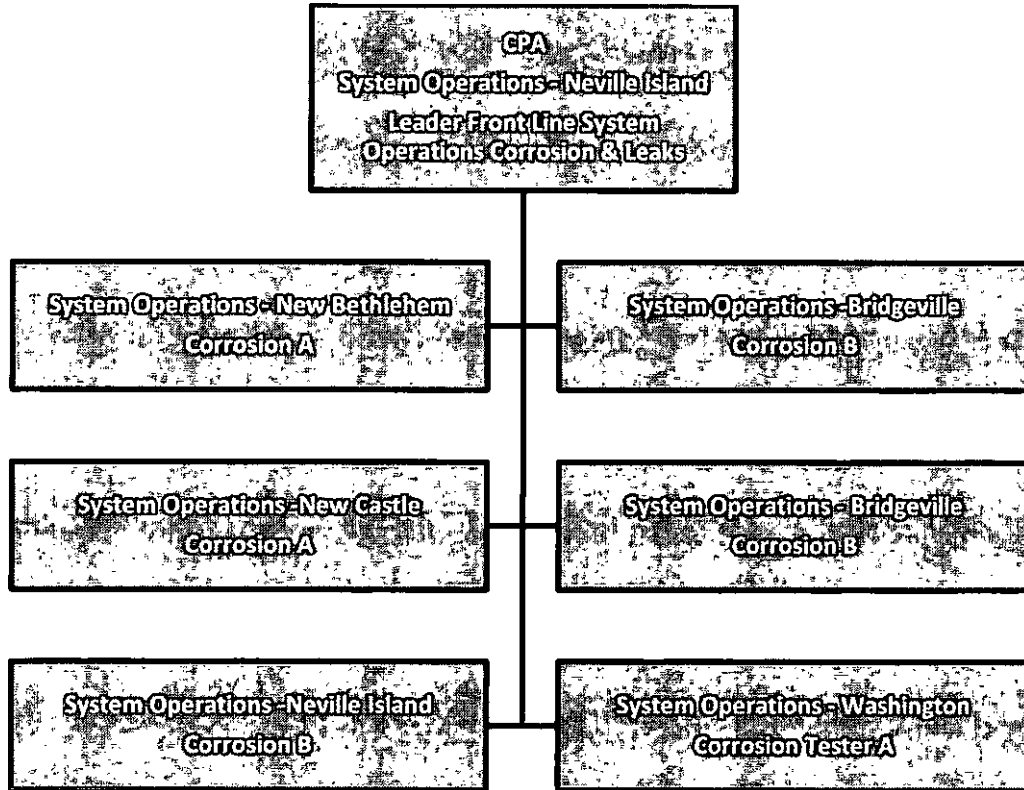
Source: Data Requests 152 and 290

Exhibit VIII – 6  
Columbia Gas of Pennsylvania, Inc.  
Organizational Structure for Metering, Regulation and Corrosion  
As of November 2012



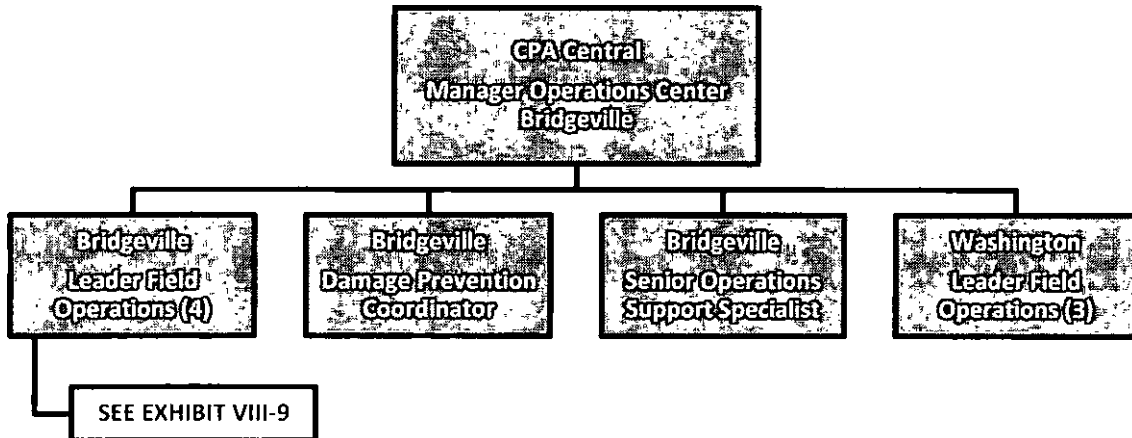
Source: Data Requests 152 and 290

**Exhibit VIII – 7**  
**Columbia Gas of Pennsylvania, Inc.**  
**Organizational Structure for Leader Front Line Systems Operations**  
**Corrosion and Leaks**  
**As of November 2012**



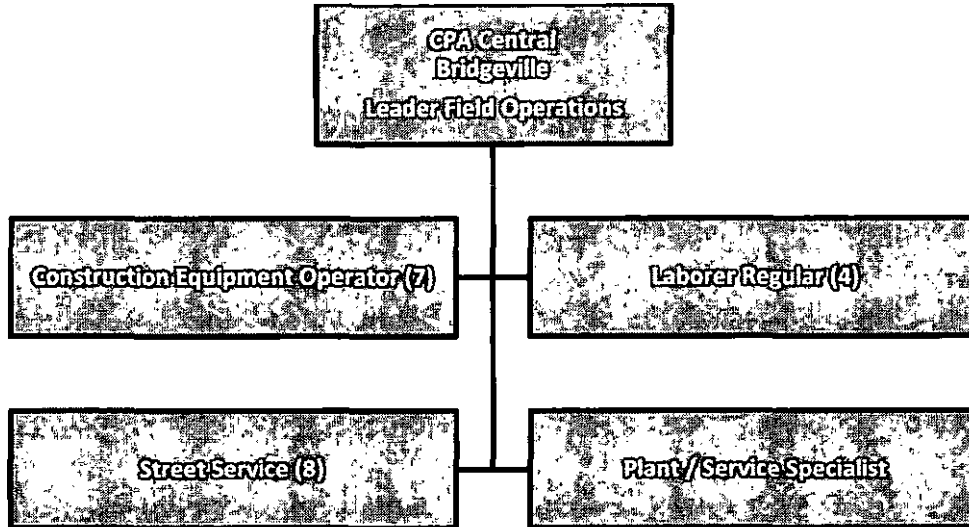
Source: Data Requests 152 and 290

**Exhibit VIII – 8**  
**Columbia Gas of Pennsylvania, Inc.**  
**Organizational Structure for Bridgeville Operations Center**  
**As of November 2012**



Source: Data Requests 152 and 290

Exhibit VIII – 9  
Columbia Gas of Pennsylvania, Inc.  
Sample Organizational Structure for Leader Field Operations Bridgeville  
As of November 2012



Source: Data Requests 152 and 290

The purchasing and materials management responsibilities for all of NiSource's NGDCs are performed under the direction of the Corporate Services' Manager of Procurement Operations. CPA, and its NGDC affiliates, use a third party integrated material supplier for all capital, operations and maintenance (O&M), and emergency materials. CPA has utilized a material supplier contractor since the late 90's, and has been using its current supplier since 2003. For capital supplies, Corporate Services' supplier provides a "Just In Time" approach to material warehousing. All needed supplies for capital projects are delivered by the contractor to a local CPA field office or job site, depending on the nature of the job, just before the job is to begin.

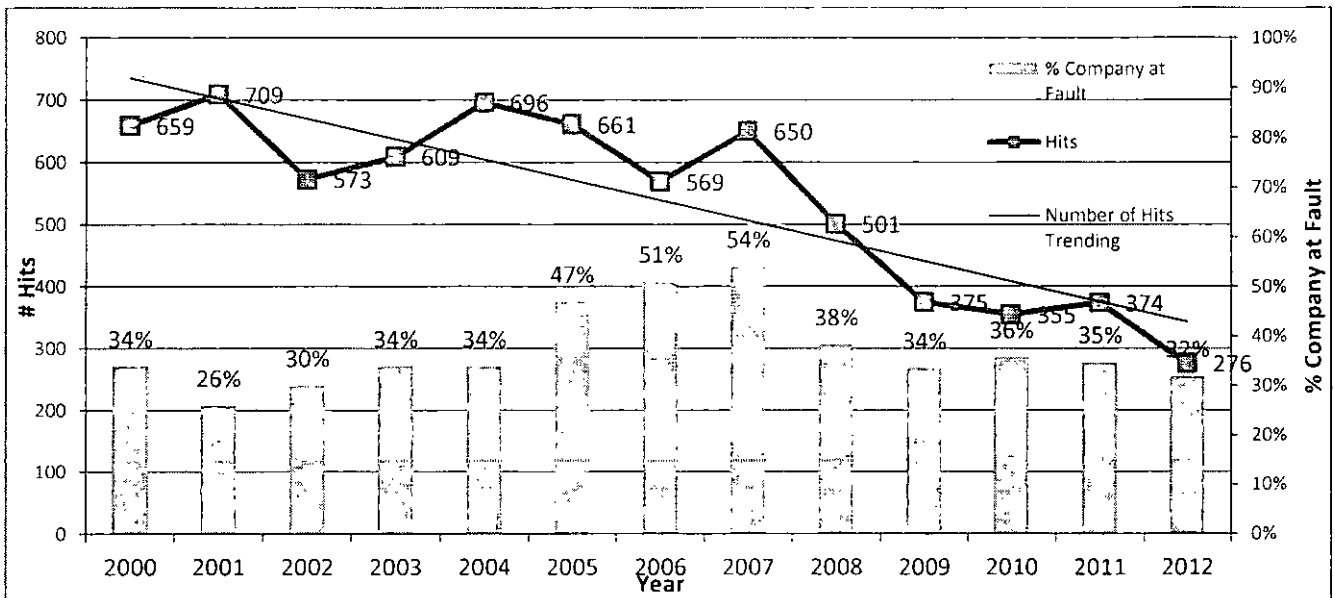
Starting in 2011, Corporate Services uses a Material Depot Process for O&M materials. Consumable O&M materials (i.e., fittings, etc.) are stored in bins at each field office. The bins are owned and stocked by the contract supplier. When a CPA employee uses these materials, they will enter the usage data into their mobile terminals and only at that point is the part charged to CPA. The contract supplier monitors the stock for each bin and adds materials as needed.

All job related software systems at the Company are tied into the material acquisition process. For example, when a capital project is initiated in the Work Management Information System (WMS), through interaction with the purchasing software, an order is automatically placed for the materials with the contract supplier. An invoice for the material from the supplier is sent electronically to Accounts Payable. Any unused material is returned for a credit. As needed, local supplier warehouses are regionally located in Coraopolis and State College, PA, Columbus, OH, and Richmond, VA.



In recent years, the Public Utility Commission's (PUC or Commission) Gas Safety Division and Audit Staff have made significant efforts to persuade the utilities to reduce the number of facility damage hits which occur at Pennsylvania NGDCs through public education, new excavation techniques, accurate mapping, proper locating procedures, use of Pennsylvania One Call, and accurate records tracking. CPA's trending in facility damages since 2000 is displayed in Exhibit VIII-10. The facility damage hits by third parties at CPA has been generally decreasing since 2000. The company at fault hits consist of hits that, although a third party may have hit the line, were ultimately caused by the Company through a lack of line marking, an inaccurate marking, or inaccurate record keeping and mapping. In general, the Company has reduced the percentage of Company at fault hits since 2005.

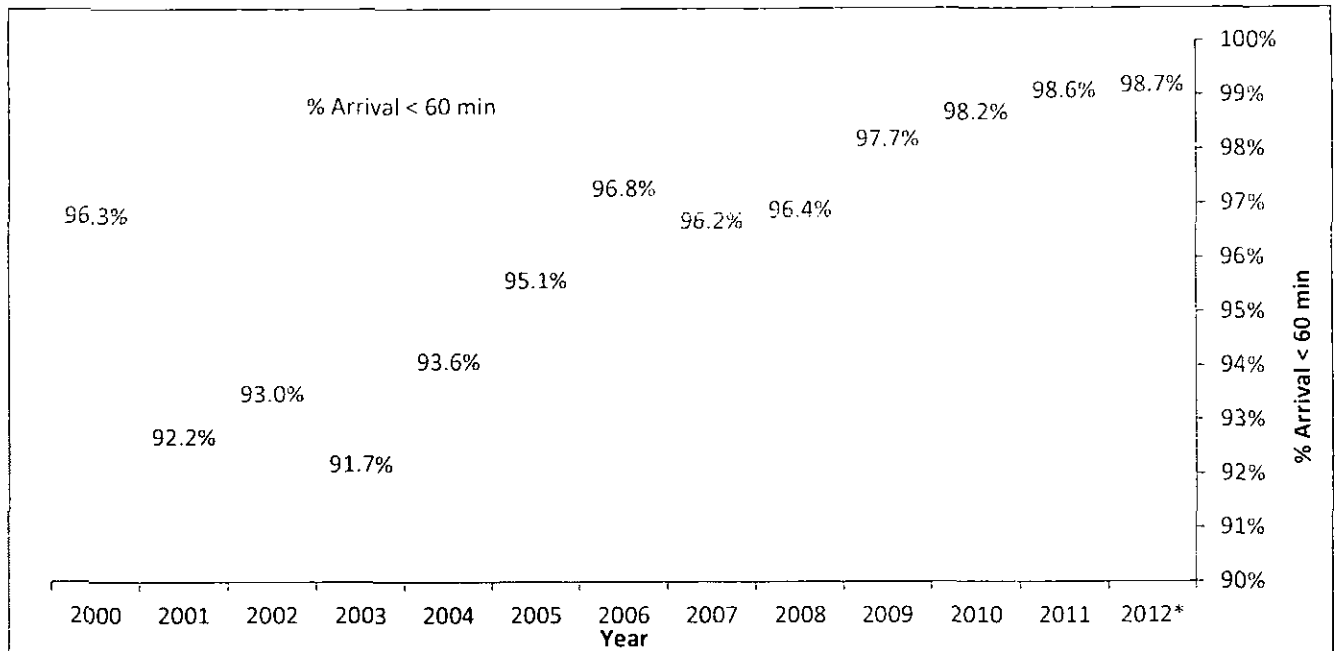
**Exhibit VIII – 10**  
**Columbia Gas of Pennsylvania, Inc.**  
**Facility Damages**  
**For the Years 2000 – 2011 and January - November 2012**



Source: Data requests 57 and 302

Similarly, in recent years, the Commission's Gas Safety Division and Audit Staff have made significant efforts to persuade utilities to reduce their emergency response times through improved call out procedures, enhanced dispatching technology, staffing additions, additional staggered work shifts, and/or first responders taking response vehicles home between work shifts, etc. Dispatch time is defined as the time elapsed from when the customer call is received to when the call is assigned to a responder. Arrival time is defined as the time from when the customer call is received to when the responder arrives at the emergency. The Gas Safety Division requires that NGDCs provide written explanations of any dispatches that take more than 15 minutes or any arrival times that occur later than 60 minutes of the initial contact. CPA's overall annual percentage of emergency arrival times that occurred within 60 minutes since 2000 are displayed in Exhibit VIII-11.

**Exhibit VIII – 11**  
**Columbia Gas of Pennsylvania, Inc.**  
**Annual Percentage of Emergency Arrival Times Less Than 60 Minutes**  
**For the Years 2000 – 2011 and January – November 2012**



\* - Results shown are for January thru November 2012.  
Source: Data Request 169

There are two mapping/facility identification technologies that CPA is planning on partnering to develop with the Gas Technology Institute (GTI) and create a "proof of concept" pilot. First is the Global Positioning System (GPS) facility location identification. This technology will provide a two to four inch horizontal accuracy at a point on the earth to identify the locations of the new and replacement underground facilities. This technology, coupled with a small laptop computer or other smart device would provide the ability to capture highly accurate facility location data in the field and then download the information directly into the CPA Geographical Information System (GIS). The second system is the bar code scanning of new, replacement, and repair facilities installed in the gas system. The combining of bar coding with the GPS process will enable every item installed to be scanned in to a computer data base and readily capture its precise location. Note that technology to combine these processes to work together is still under development and not yet commercially available. CPA's estimated timeline, assuming these technologies are available and contingent on CPA being able to enter a partnering agreement with GTI, is as follows:

- Fourth quarter 2012 – two GPS units operating in Pennsylvania to develop "proof of concept" and assure alignment of GIS and GPS systems.
- Second quarter of 2013 – one or two bar code scanning units operating in Pennsylvania to develop "proof of concept" and assure alignment of GIS, GPS, and WMS systems.
- Third quarter 2013 – Broad deployment of GPS units across Pennsylvania to capture the GPS coordinates on new and replacement construction.

- First quarter 2014 – Begin field deployment of bar code scanners linked to the GPS system for data capture.

CPA reports percentage of unaccounted for gas (UFG) based upon the following calculation:

$$\% \text{ UFG} = \frac{[(\text{Purchased Gas} + \text{Produced Gas}) - (\text{Customer Use} + \text{Company Use} + \text{Appropriate Adjustments})]}{(\text{Purchased Gas} + \text{Produced Gas})} \times 100$$

It should also be noted that the Company calculates their UFG performance for internal purposes on a 12 month period ending June 30 of each reporting year. Based on this 12 month calculation ending June 30, the Company's percentage of UFG for 2007 to 2011 are 1.3%, 1.3%, 1.9%, 2.0%, and 1.8%, respectively. These values are different from the values reported in the PUC Annual Report (which are based on a 12 month period ending December 31) as well as the comparative analysis in Appendix A of this report.

Because NGDCs routinely have calculated UFG values which are significantly different from UFG values as reported in the PUC Annual Report and because there is no standard methodology for calculating the actual UFG values as experienced by the NGDCs, the Commission adopted standard reporting requirements for unaccounted for gas calculations on April 4, 2013, at Docket No. L-2012-2294746, for all NGDCs regarding gas received, delivered, and appropriate adjustments to use. The standard reporting requirements also distinguish and separate the UFG values for distribution, transmission, storage, and production and gathering losses. In the future, the Audit Staff will investigate UFG at NGDCs based upon the new standards as developed by the Commission.

### **Findings and Conclusions**

Our examination of the Gas System Operations function included a review of assigned responsibilities, policies and procedures, O&M budget and expense trends, system operations, preventative maintenance, capital planning, workforce management, emergency response, gas control, safety, etc. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and/or effectiveness of its Gas Systems Operations by addressing the following:

- 1. CPA has a higher than average percentage of unprotected bare steel in its distribution system.**

Bare steel pipes are highly vulnerable to corrosion which can lead to leaks, high levels of unaccounted for gas, and potential explosions. Exhibit VIII-12 details the amount of bare steel in CPA's system and how this compares to a panel of similar Pennsylvania NGDCs regarding the amount of bare steel main within their systems. Note that as of the end of field work in November 2012, the 2011 Department of Transportation (DOT) reports providing the bare steel main statistics for the various

NGDCs were the most recent available, therefore, 2011 data was the most recent data to use for comparison.

**Exhibit VIII – 12**  
**Columbia Gas of Pennsylvania, Inc.**  
**Percentage of Unprotected Bare Steel Main in**  
**Natural Gas Distribution Company Distribution Systems**  
**For the Years 2007 – 2011**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	24.3%	23.7%	23.0%	22.4%	21.0%	-3.6%
National Fuel	20.6%	19.9%	19.3%	18.5%	17.9%	-3.4%
Peoples	28.3%	27.8%	27.4%	26.9%	26.5%	-1.6%
Peoples TWP	39.5%	38.4%	37.3%	36.5%	35.4%	-2.7%
UGI Central	17.8%	17.5%	16.9%	16.5%	16.2%	-2.3%
UGI Penn	11.3%	11.1%	11.0%	10.6%	10.3%	-2.3%
UGI Utilities	5.6%	5.3%	5.1%	4.9%	4.6%	-4.7%
Panel Average	21.1%	20.5%	20.0%	19.5%	18.9%	-2.7%
Columbia	28.4%	27.1%	26.2%	25.3%	23.3%	-4.9%

Source: DOT Annual Reports

Similarly, cast iron mains are vulnerable to corrosion and considered to be an antiquated piping material. Exhibit VIII-13 shows that CPA compares well to the panel of NGDCs regarding the amount of cast iron mains. Note, the spike in the percentage of cast iron main in 2011 for CPA is due to a review of the system characteristics and a change in the amount of cast iron main in its system due to correction in the records for pipe that was previously being mislabeled.

**Exhibit VIII – 13**  
**Columbia Gas of Pennsylvania, Inc.**  
**Percentage of Cast Iron Main in**  
**Natural Gas Distribution Company Distribution Systems**  
**For the Years 2007 – 2011**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	1.4%	1.4%	1.4%	1.3%	3.0%	21.1%
National Fuel	1.9%	1.8%	1.8%	1.7%	1.7%	-2.2%
Peoples	1.0%	1.0%	1.0%	0.9%	0.9%	-2.7%
Peoples TWP	0.0%	0.0%	0.0%	0.0%	0.0%	NM
UGI Central	0.7%	1.6%	0.5%	0.5%	0.4%	-10.1%
UGI Penn	5.5%	5.2%	2.5%	4.7%	4.5%	-5.1%
UGI Utilities	8.1%	7.9%	7.5%	7.3%	6.8%	-4.3%
Panel Average	2.7%	2.7%	2.1%	2.3%	2.5%	-1.7%
Columbia	1.0%	0.9%	0.9%	0.8%	2.2%	21.6%

Source: DOT Annual Reports

CPA refers to the bare steel and cast iron main in their system as "first generation pipe" or priority pipe to be removed and replaced. Exhibit VIII-14 displays the amount of priority pipe replaced and the amount of capital investment for priority

pipe replacement from 2007 to October 2012. For this period, the Company has invested \$378 million specifically for the replacement of bare steel and cast iron pipe and has replaced approximately 448 miles of priority pipe. Also, it should be noted that CPA classifies wrought iron as bare steel since it has similar characteristics to bare steel. As of November 2012, CPA has approximately 1,866 miles of priority pipe remaining of which approximately 110 of these miles is wrought iron. Of this total, the Company also has 46 miles of cast iron remaining in its system. However, because previous record keeping was not accurate, it is unknown exactly how much first generation pipe is in CPA's system.

**Exhibit VIII – 14**  
**Columbia Gas of Pennsylvania, Inc.**  
**Capital Budget Dedicated to Replacing Unprotected Bare Steel Main / Cast Iron**  
**Main and Miles Replaced**  
**For the Years 2007 – 2011 and January to October 2012**

Year	Miles of Priority Pipe Beginning of Year	\$ Dedicated to replacing first generation pipe	Miles of Priority Pipe Replaced	Miles of Priority Pipe End of Year
2007	2,314	\$32 million	67	2,247
2008	2,247	\$64 million	101	2,146
2009	2,146	\$42 million	65	2,081
2010	2,081	\$51 million	61	2,020
2011	2,020	\$97 million	105	1,915
2012*	1,915	\$92 million	49	1,866

\* As of October 2012

Source: Data Request 212

CPA plans to replace 100 miles of bare steel and four miles of cast iron main annually until it has completely replaced all first generation material. At this rate, it will take CPA approximately 18 years to replace all bare steel main and approximately 10 years to replace all cast iron main in its system. At this rate, all bare steel, wrought iron, and cast iron piping will be eliminated from CPA's distribution system by 2030.

To fund CPA's plans of eliminating first generation pipe in its system, the Company plans to file multiple base rate filings (i.e. using the fully projected test year) and implement a Distribution System Improvement Charge (DSIC) adjustment clause mechanism. The fully projected test year and DSIC for NGDCs are new tools recently provided by the passage of Act 11 in 2012 which should help to extend the time between base rate filings in the future. However, because the exact amount to be requested in each rate case and DSIC filing are dependent on the previously approved requests, it is difficult to accurately project the amounts that will be requested. However, the projected capital budgets as of November 2012 are displayed in Exhibit VIII-15 and will significantly drive the requested rate cases and DSIC requests. From 2007 to October 2012, the Company, on average, invested approximately \$75 million annually and replaced an average of 75 miles of priority pipe per year. As can be seen in Exhibit VIII-15, CPA plans for approximately \$103 million to \$151 million to

be invested annually dedicated to priority pipe replacements from 2013 to 2017 and approximately 104 miles of priority pipe is planned for replacement each year.

**Exhibit VIII – 15**  
**Columbia Gas of Pennsylvania, Inc.**  
**Capital Budget to Replace Unprotected Bare Steel Main / Cast Iron Main**  
**For the Years 2013 – 2017**

Year	\$ Dedicated to Replacing First Generation Pipe
2013	\$151 million
2014	\$148 million
2015	\$107 million
2016	\$106 million
2017	\$103 million

Source: Data Request 212

The Company also recently changed its leak survey strategy for its system. Prior to 2007, the Company surveyed approximately one third of its system every year. Since 2007, all priority pipe and approximately one-third of non-priority pipe has been surveyed annually. Due to improved prioritization and increased leak repair, the total number of outstanding leaks in the system is beginning to decrease. Exhibit VIII-16 displays the number of leaks in the system, by class. Note that September 2012 (the end of a quarter) was the most recent data available at the time the field work ended.

The Company expects the leakage rates to ultimately reduce with continued priority pipe replacement as capital investment continues. The definition of each type of class leak is as follows:

- Class 1 Leak – A leak that represents an existing or probable hazard to persons or property, and requires immediate repair or continuous action until the conditions are no longer hazardous. This type of leak requires prompt action to protect life and property, and continuous action until the conditions are no longer hazardous.
- Class 2 Leak – A leak that is recognized as being non-hazardous at the time of detection, but justifies scheduled repair based on probable future hazard. This type of leak can be scheduled for repair on a normal routine basis with periodic re-evaluation no later than 6 months until re-evaluation or clearing, repaired no later than 15 months after discovery and/or by replacing or retiring the pipeline with the leak no more than 24 months later.

**Exhibit VIII – 16**  
**Columbia Gas of Pennsylvania, Inc.**  
**Total Leaks in Distribution System by Class**  
**For the Years 2007 – 2011 and January – September 2012**

Leak Class	Year	Discovered	Repaired	Outstanding
Class 1	2007	1,406	1,407	0
	2008	1,176	1,176	0
	2009	1,010	1,011	0
	2010	957	957	0
	2011	1,062	1,061	1
	2012*	646	746	0
Class 2+	2007	1,022	1,016	17
	2008	1,079	1,085	14
	2009	966	962	19
	2010	892	889	23
	2011	1,039	1,045	17
	2012*	677	670	24
Class 2	2007	6,524	4,406	3,737
	2008	4,915	5,267	3,369
	2009	4,324	4,905	2,801
	2010	4,073	4,347	2,521
	2011	3,427	3,560	2,387
	2012*	2,705	3,160	1,927
Class 3	2007	2,903	1,126	7,331
	2008	2,345	1,926	7,738
	2009	1,596	1,573	7,823
	2010	1,238	1,898	7,066
	2011	1,088	1,236	6,933
	2012*	891	1,245	6,559

\* - for the nine months ended September 2012.  
 Source: Data Request 281

CPA further defines a Class 2 Leak which has the following characteristics as a "Class 2+" Leak:

- Class 2+ Leak – A leak that, when evaluated by the classification criteria, may justify accelerated scheduled repair. This type of leak shall be reduced to a non-hazardous classification, cleared, or if not company facilities, turned over to the responsible outside party not later than 21 calendar days from the day discovered.
- Class 3 Leak – A leak that is non-hazardous at the time of detection and can be reasonably expected to remain non-hazardous. This type of leak not cleared shall be re-evaluated at least once each calendar year with the exception of Class 3 leaks that do not produce a detectable reading during the scheduled leakage survey which are not required to be re-evaluated but shall remain open until cleared.

CPA should continue to replace bare steel and cast iron pipe at the planned or increased rate to help reduce leaks, decrease distribution costs, and mitigate potential safety issues and if possible implement the new technologies or similar technologies to increase mapping effectiveness.

**2. CPA has many field operations employees who work excessive amounts of overtime.**

Annual overall overtime levels for the field operations employees at CPA from 2007 to October 2012 ranged from 7% to 12%. Although this range of overtime for field employees in total is not unreasonable for an NGDC, there were a substantial number of CPA employees who worked significant amounts of individual overtime during 2011. CPA indicated that it uses from 500 to 600 hours annually, or 24.0% to 28.8% of regular hours, as the reasonable upper limit on overtime for field operations positions. Using 600 hours as the upper annual limit, the Audit Staff reviewed overtime levels for the field operations employees whose overtime exceeded 600 hours annually from 2007 to October 2012. Exhibit VIII-17 displays the top 10 overtime percentages that field operations employees worked each year and how many total field operations employees worked more than 600 hours or 28.8% of overtime during the years 2007-2011. For the 2012 data, as of the end of our field work only 10 months of statistics were available so employees with 500 hours or more were noted (i.e.,  $10/12 \times 600 = 500$ ).

To analyze why overall overtime was at a much lower rate than the highest individual overtimes, the Audit Staff reviewed CPA's call out agreements for emergency situations with its employee unions. As of 2012, all five CPA unions for field operations have new provisions in their contracts regarding emergency response. CPA's union contracts consistently state that all employees in emergency responder positions must accept at least one third of all emergency calls and that an emergency responder will be designated as on call on a rotating basis for each operating area. However, with management approval, an employee is allowed to swap their turn in the rotation provided they can find a qualified responder to take their place. Additionally, employees will be called for emergencies based on who is closest to the emergency. The contract language also includes an acknowledgement that management ultimately has the final authority to determine who is the most appropriate responder.

Excessive levels of employee overtime are a concern because eventually it results in reduced job performance (due to fatigue), a decrease in overall cost effectiveness, and ultimately becomes a safety issue both for the employees and the public. Therefore, the Company should determine if the impact from its emergency response stipulations with its unions has adequately addressed high individual overtime levels, and if not, continue to investigate changes to emergency response policies, initiate additional shift work, add more field crew workers per shift, and/or hire additional staff by operating area or job descriptions as needed. Note the Audit Staff was unable to review and analyze CPA's shift work history as this information was unavailable.



**Exhibit VIII – 17**  
**Columbia Gas of Pennsylvania, Inc.**  
**Highest Overtime Levels as a Percentage of Regular Hours**  
**By Individual for Field Operations**  
**2007 – October 2012**

Highest OT Totals	Year					
	2007	2008	2009	2010	2011	Oct 2012*
1	53.7%	41.6%	25.6%	35.7%	44.0%	49.7%
2	51.0%	33.3%	24.2%	35.3%	38.0%	46.7%
3	47.8%	33.1%	23.8%	29.4%	37.1%	42.2%
4	46.6%	33.1%	23.6%	27.8%	36.4%	42.0%
5	42.6%	30.5%	22.3%	27.5%	34.3%	41.7%
6	41.5%	29.2%	22.1%	27.5%	32.9%	34.9%
7	38.9%	28.5%	21.1%	26.9%	31.3%	33.2%
8	37.0%	28.2%	21.0%	26.6%	30.9%	30.7%
9	36.3%	28.0%	20.8%	26.3%	30.7%	29.3%
10	36.1%	27.9%	20.8%	26.3%	30.1%	28.1%
No. of Employees > 600 hrs (28.8%) of OT	25	6	0	3	14	9
<p>Overtime levels over 600 hours (28.8% of regular hours) are shaded for 2007 to 2011.</p> <p>* Overtime levels over 28.8% of regular hours for October 2012 are based on 500 hours (600 x 10/12 = 500) which would be the equivalent of a projected 600 hours for the year.</p>						

Source: Data request 53 and 216

**3. CPA has a high number of vacant field operations, engineering, and construction positions.**

Based on the spans of control analysis detailed in the background of Chapter III – Executive Management, the Audit Staff discovered that as of November 2012 there were 66 vacant, open or unfilled positions out of 626 total CPA operation related positions. A summary of this position analysis is shown in Exhibit VIII-18. In summary, our analysis revealed no concerns with the positions in the rates and regulations group (i.e., there were no vacant positions) and meter reading group due to the fact that automated meter reading will soon be implemented requiring significantly less meter readers; therefore, only the open positions related to gas operations (i.e., field operations, construction, and engineering) were examined in more detail.

As shown in Exhibit VIII-18, while the field operations positions had the most openings with 30 positions, it also had the 2<sup>nd</sup> lowest percentage of vacant positions at 6.8%. The construction related positions have 19 openings, or 19.0% of total open positions, which is the highest percentage of vacant positions in the groups continuing at current levels (i.e., excluding meter reading). The engineering related positions had

seven openings for a total of 18.4%. According to the Company, the following positions will likely be filled in 2013, note that the department that these positions are with is in parentheses:

- Senior Operations Specialist (Operations) – 6
- Damage Prevention Coordinator (Operations) – 3
- Facility Locators (Operations) – 4
- GIS Engineering Technician (Engineering) – 8
- GIS Mapping Technician (Operations) – 3
- Land Agent & Land Technician (Operations) – 4
- Field Engineers (Engineering) – 3
- Systems Planning Engineer (Engineering) – 1
- Construction Inspectors (Construction) – 19

**Exhibit VIII – 18**  
**Columbia Gas of Pennsylvania, Inc.**  
**Open Position Analysis**  
**As of November 2012**

Position Group	Total Number of Positions	Number of Open Positions	Percent of Open Positions
Field Operations	444	30	6.8%
Construction	100	19	19.0%
Regulation / Rates	27	0	0.0%
Engineering	38	7	18.4%
Meter Reading	<u>17</u>	<u>10</u>	58.8%
<b>Totals</b>	<b>626</b>	<b>66</b>	<b>10.5%</b>

Source: Data Requests 1 and 290 and Auditor Analysis

Many of the vacant operations related positions are related to the capital projects for pipeline replacement (see Finding and Conclusion No. 1). In 2011 and 2012, there were many transfers from the Field Operations Department to newly formed positions in the Construction Department which were created as part of CPA's efforts to accelerate first generation pipe replacement. If these positions are filled as planned during 2013, all construction and engineering positions would be filled along with a significant portion of the gas operations positions. However, in addition to the number of open positions, it should be noted that in the next five years, 247 Pennsylvania field operations employees will be eligible to retire. Although the exact retirement dates for certain positions are indefinite (i.e., some employees may choose to work several years past the date of eligibility – in most cases age 55), the Company should begin to be prepared for these retirements in advance since technical positions often take time to be fully trained (e.g., at least 1½ years for field operations positions to be fully trained). As has become the trend for NGDCs in Pennsylvania, CPA has to compete with the Marcellus Shale industry for attracting potential candidates. Moreover this is proving to be somewhat difficult as the Marcellus Shale industry offers very competitive wages and

benefits to qualified pipeline / natural gas candidates. CPA needs to review its current salaries and benefits offered to field operations positions and determine if adjustments are necessary to attract and retain qualified employees in these positions. If the Company is not fully prepared for needed staffing, this could lead to delays in capital projects for pipeline replacement, excessive overtime and/or high dispatch times for emergencies (see Findings and Conclusions Nos. 1, 2, and 4).

**4. Based on the data provided, it appears that CPA has an excessive amount of dispatch times that took more than 15 minutes.**

Dispatch time is defined as the time elapsed from when the customer call is received to when the call is assigned to a responder. A written explanation must be submitted to the PUC's Gas Safety Division when the dispatch time in a particular instance exceeds 15 minutes. As we conducted the 2006 Management Audit of CPA, the Audit Staff found that there were many dispatch time irregularities recorded by CPA. At that time, due to a lack of available records, the Audit Staff could not definitively determine the extent of problems with dispatch times but did conclude that, at a minimum, there were problems with the dispatching system. During the 2010 Management Efficiency Investigation, the Company was still having record keeping problems related to retaining records related to emergency dispatch performance. The automated dispatching system was not in use and paper records were kept but they were only stored for 60 days and then discarded. For the Audit Staff's current review in 2012, the Company could not provide any dispatching data for the full distribution system until April 2012. As of 2012 the Company was utilizing an updated version of the dispatching system it was using in 2006. The new version was first piloted in October 2011 in the Eastern Operating Area and then implemented statewide in March and April 2012.

Exhibit VIII-19 summarizes the Audit Staff's compilation of available emergency dispatching statistics for the period January to October of 2012. The definition of the response period is slightly different for each district. The majority of the day shifts for the districts start between 7:00 and 7:30 AM and end from 3:30 to 4:00 PM. The evening shifts begin between 3:30 and 4:00 PM and end by 10:00 PM. For this period, there were 272 emergency dispatches over 15 minutes in duration, which was approximately 2.4% of total emergency dispatches. The emergency dispatches taking longer than 15 minutes in duration that occurred during normal operating hours accounted for 23 or only 8.5% of the ten-month total dispatches over 15 minutes. Most dispatches that took more than 15 minutes occurred during off hours (i.e., overnight, weekends or holidays), with the weekends accounting for the most occurrences with 121 or 44.5% of the ten month total. Although the holiday calls cover the least number of hours and accounted for the lowest number of emergency dispatches (i.e., 12 or 4.4%); these were the most likely, or highest percentage of calls at 17.9% to have dispatches take more than 15 minutes in duration.

CPA should strive to improve its methodology of dispatching responders such that all emergency dispatches can be completed within 15 minutes of the emergency call taking place. There may be unusual circumstances causing exceptions, but in general, with modern technology it should be possible for almost all emergency dispatches to occur within 15 minutes under most circumstances. CPA should determine if either the dispatching system needs enhancements or if proper staffing, modifying of shift work, or call out methodologies need to be improved (also see Finding and Conclusions Nos. 2 and 3).

**Exhibit VIII – 19**  
**Columbia Gas of Pennsylvania, Inc.**  
**Available Dispatch Statistics over 15 minutes**  
**January – October 2012**

Response Period	Total Dispatches		% Dispatches > 15 min
	> 15 min	Total Dispatches	
Day	23	6,690	0.3%
Evening	77	2,433	3.2%
Overnight	39	548	7.1%
Weekend	121	1,394	8.7%
Holiday	12	67	17.9%
Totals	272	11,132	2.4%

Source: Data Requests 270 and 308

**Recommendations**

1. **Strive to maintain the expedited replacement schedule of first generation pipe.**
2. **Assess high levels of overtime by individual field operations employees and adjust overtime practices, call out procedures, shift work, and/or stand by procedures as needed.**
3. **Expedite hiring of vacant operations related positions and timely conduct a study to determine needed staffing in anticipation of expanded capital projects and field operations retirements.**
4. **Improve dispatching methodologies to ensure that all emergency dispatches can be completed within 15 minutes of the emergency call receipt by implementing new or modifying existing procedures for call outs, stand by lists, shift work, and/or staffing levels.**

## IX. EMERGENCY PREPAREDNESS

### Background

Effective June 11, 2005, Public Utility Commission (PUC or Commission) regulations at 52 Pa. Code § 101.1-101.7 (Chapter 101) require jurisdictional utilities to develop and maintain appropriate written physical security, cyber security, emergency response and business continuity plans to protect the infrastructure within the Commonwealth and ensure safe, continuous and reliable utility service. Along with the requirement to establish these emergency preparedness plans, a utility is also required to annually file a Self Certification Form with the Commission. The form is comprised of 13 questions as shown in Exhibit IX-1 below.

### Exhibit IX – 1 Pennsylvania Public Utility Commission Public Utility Security Planning and Readiness Self Certification Form

Item No.	Classification	Response (Yes-No-N/A*)
1	Does your company have a physical security plan?	1.
2	Has your physical security plan been reviewed in the last year and updated as needed?	2.
3	Is your physical security plan tested annually?	3.
4	Does your company have a cyber security plan?	4.
5	Has your cyber security plan been reviewed in the last year and updated as needed?	5.
6	Is your cyber security plan tested annually?	6.
7	Does your company have an emergency response plan?	7.
8	Has your emergency response plan been reviewed in the last year and updated as needed?	8.
9	Is your emergency response plan tested annually?	9.
10	Does your company have a business continuity plan?	10.
11	Does your business continuity plan have a section or annex addressing pandemics?	11.
12	Has your business continuity plan been reviewed in the last year and updated as needed?	12.
13	Is your business continuity plan tested annually?	13.

\* Attach a sheet with a brief explanation if N/A is supplied as a response to a question.

Source: Public Utility Planning and Readiness Self Certification Form, as available on the PUC website at [http://www.puc.state.pa.us/general/onlineforms/pdf/Physical\\_Cyber\\_Security\\_Form.pdf](http://www.puc.state.pa.us/general/onlineforms/pdf/Physical_Cyber_Security_Form.pdf).

The Audit Staff reviewed the 2007 to 2012 Self Certification Forms submitted by Columbia Gas of Pennsylvania, Inc. (CPA) to determine the status of its responses. Our examination of the Company's emergency preparedness included a review of the physical security plan, cyber security plan, emergency response plan, business continuity plan, and all associated security measures. This included a review of security and emergency response manuals to ensure that proper identifications of PUC and other government agency contacts were sufficient and up to date. In addition, the Audit Staff performed inspections at a sample of the Company's facilities. Due to the sensitive nature of the information that was reviewed, specific information is not revealed in this report but rather the generalities of the information reviewed are summarized.

To protect physical and cyber security, the measures used by the Company include the following:

- Physical access to buildings is addressed by a risk based approach and is restricted through electronic card access, alarm systems, and traditional keys depending on the building. Access is determined by job requirement and/or business need. Additional access to facilities is granted upon approval from the appropriate personnel. Additionally, the more sensitive buildings in the NiSource Inc. system have security guards.
- Physical access to service centers, garages, and maintenance areas include traditional lock and key mechanisms, and/or electronic card access. *Additional security (depending on the sensitivity of the area) is provided through proper lighting, fencing, alarm systems, and closed circuit television monitoring.*
- Cyber access allows varying levels of access to internet, intranet, and software applications. Access levels are determined by an employee's job description and title.
- Cyber protection includes multiple types of firewalls, virus protection, and computer encryption to safeguard Company and customer information, deter improper disclosure, identify information system controls across all business functions, and protect data in both physical and electronic formats.

Additionally, CPA tests and updates its physical security, cyber security, emergency response, and business continuity plans at least annually and more frequently as needed.

### **Findings and Conclusions**

Our examination of CPA's Emergency Preparedness included a review of the physical security plan, cyber security plan, emergency response plan, business continuity plan, vulnerability assessment and all associated security measures. Based on our review of the Company's emergency preparedness efforts no evidence came to our attention that would lead the Audit Staff to conclude that there were any areas or plans reviewed that were not being addressed adequately.

### **Recommendation**

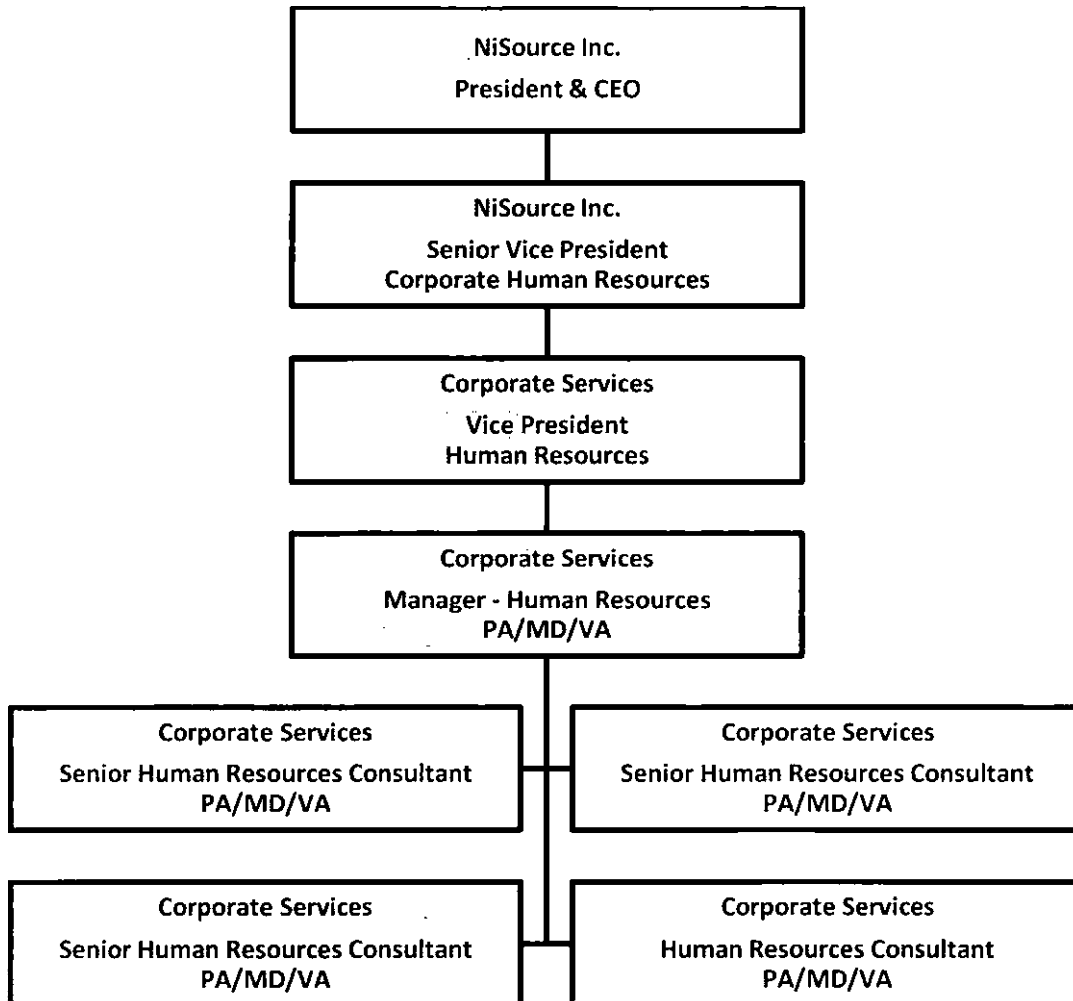
None.

## X. HUMAN RESOURCES

### Background

The Human Resource (HR) functions for Columbia Gas of Pennsylvania, Inc. (CPA or Company) are performed by NiSource Corporate Services Company (Corporate Services). The reporting structure for the applicable Corporate Services HR positions that perform work on behalf of CPA is displayed in Exhibit X-1.

**Exhibit X – 1  
NiSource Corporate Services Company  
Human Resources Structure  
As of November 2012**



Source: Data Request 1

Reporting to the NiSource Inc. (NiSource) President and Chief Executive Officer (CEO) is the Corporate Services Senior Vice President of Corporate Human Resources. Reporting to Corporate Services' Senior Vice President of Corporate Human Resources is the Corporate Services' Vice President of Human Resources. Reporting to the Corporate Services Vice President of Human Resources is the Corporate Services' Manager of Human Resources for Pennsylvania, Maryland, and Virginia. This Manager is located at the Canonsburg, PA office along with four Human Resource Consultant positions reporting to the Manager. The responsibilities of the Corporate Services Manager of Human Resources for Pennsylvania, Maryland, and Virginia include, among other areas: labor relations, grievances, arbitrations, benefits, recruiting, and background checks/verifications.

Corporate Services utilizes PeopleSoft for its human resource information system (HRIS). In addition to standard HRIS modules for human resources such as payroll, benefits, compensation, etc., this system has the capability to generate reports for more specific level reporting. Reports for these modules can be specific by job title, location, compensation level, and/or supervisor, etc.

The Company's employee benefits are universal for all employees (i.e., union, salaried, and executives), with the exception of the defined benefit pension plan which is not offered to Salaried or Executive employees hired on or after January 1, 2010. The following employee benefits are offered to CPA, Corporate Services and other NiSource employees:

- Medical plan – three different options
  1. Self-insured Preferred Provider Organization plan (includes Health Care Reform preventive care and a prescription drug plan) with copays, deductibles, co-insurance and out of pocket maximums and a corresponding Flexible Savings Account.
  2. Two self-insured High Deductible Preferred Provider Organization plans (includes Health Care Reform preventive care and prescription drug plan) with deductibles, co-insurance and out of pocket maximums and a corresponding Health Savings Account.
  3. Health Maintenance Organizations (where available) with copayments.
- Dental Plan – Self-insured dental plan with preventive, minor and major restorative coverage with deductibles, co-insurance and out of pocket maximums (also preventive dental plan and dental plan with orthodontia coverage are offered).
- Vision Plan – Insured plan with exam, lenses, frame and contact coverage with calendar year and allowance coverage (also a basic plan with provider discounts is offered).



- Long Term Disability – Insured plan with 50% of base salary company provided, with an employee paid option to an additional 10% coverage resulting in up to 60% of base salary.
- Life Insurance – Insured for two times base salary company provided coverage with an employee paid option of up to an additional four times base salary.
- Pension – Is a defined benefit plan which is an account balance plan based on date of hire and union/non-exempt/non-union status. The Pension plan is not offered to Salaried or Executive employees hired on or after January 1, 2010, or non-exempt employees hired after January 1, 2013.
- 401(k) Plan – Pretax, after tax, and Roth contribution options with a company match based on applicable pension formula (open to all employees, including those who are able to participate in the defined benefit plan).

The Audit Staff reviewed the employee compensation offered by the Company. The Company has established two compensation targets for the salaries for its employees in comparison to the energy/utility industry and with employers outside the industry for the same or similar type of work. The pay range is individual based. The pay range for each position is targeted at 75% to 125% of the market median. In addition to ranges for each individual position, the Company compares overall salaries with the market medians with the goal of paying between 90% and 110% of the market cumulatively across CPA.

In addition to base pay, employees are eligible for incentive pay based on performance of the employee's business unit and individual performance through the NiSource Corporate Incentive Plan. Under the terms of this plan, a discretionary amount is available based on individual performance as determined by an employee's manager or supervisor. Overall, two thirds of incentive pay is discretionary and one third is non-discretionary. Incentives are performance based in that they are determined by the degree to which individual performance goals are achieved. If corporate and business unit objectives are reached, an incentive pool is established. The percentage of an individual employee's base pay that is available for the cash incentive is dependent upon their job scope levels, which provides a trigger, target, and stretch performance for each employee at that job scope level. The employee's individual performance and achievement of predetermined goals as determined by his or her supervisor is also factored into the amount of incentive granted. The incentive plan is designed to drive and reinforce goals in performance. The goals are divided into four key categories: customer, employee, financial, and process.

As addressed in the last Management Audit issued in August 2006 and the Management Efficiency Investigation issued in January 2011, as of July 2005 NiSource outsourced major functions previously performed by Corporate Services to International Business Machines (IBM). The functions that were outsourced include the following functions which were performed by Corporate Services prior to the outsourcing:

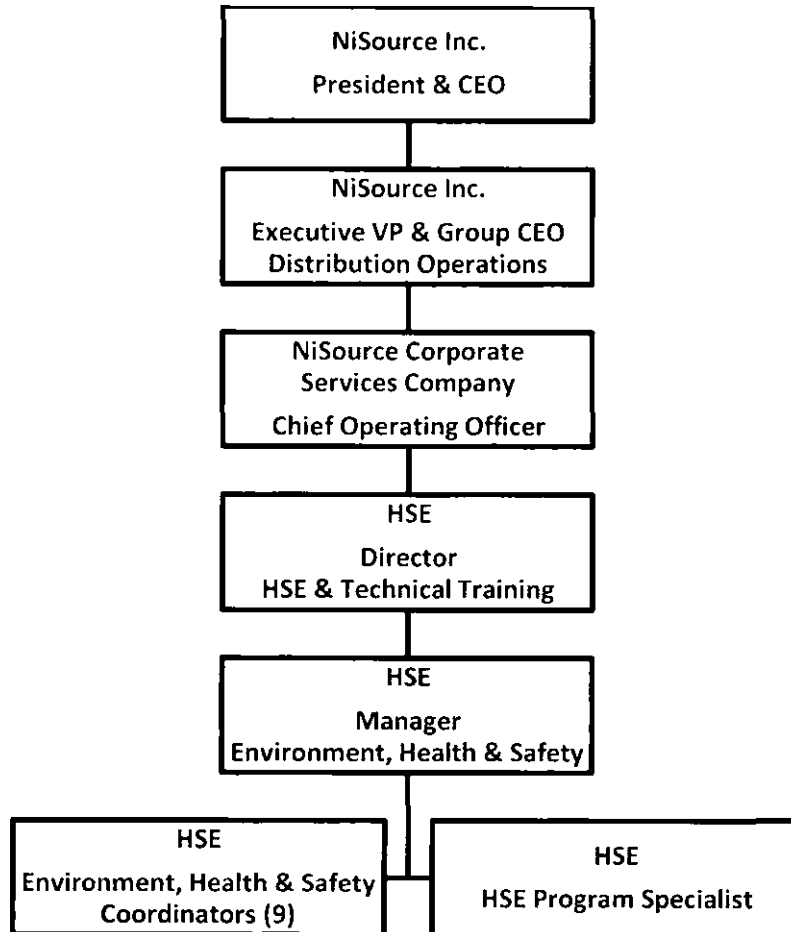
- Customer Call Center;
- Certain Finance and Accounting services (general accounting, fixed asset accounting, and budgeting);
- Supply Chain (purchasing and materials management);
- Human Resources (employee recordkeeping);
- Sales Center (functions not associated with customer contact and major accounts);
- Meter to Cash (printing and issuing customer bills and collections);
- Work Management Systems / GIS Mapping; and
- Information Technology (IT) Services.

Many of the employees that worked for Corporate Services to perform these functions were employed by IBM when the functions were outsourced. However, beginning in the first quarter of 2007 and concluding in September 2008, all functions except for IT services and the Customer Call Center were returned to Corporate Services. As this transition occurred, the employees who previously worked for CPA, Corporate Services, or other NiSource owned natural gas distribution companies (NGDCs), were re-hired as employees of their respective NiSource entity. In reviewing the long term impact of the temporary change in employer to the employees longevity/seniority related benefits and compensation, the Audit Staff found that, in general, the NiSource employees' previous service is reinstated when the break in service is less than five years (as was the case for these specific employees). The exception to longevity reinstatement is the severance plan, which will be computed based on the rehire date. In other words, for the Corporate Services and CPA employees who became IBM employees and then were rehired back to Corporate Services or CPA, the calculations for their severance pay in the cases of layoffs would be based solely on the timeframe from their second hiring with the Company to the date of release from the Company.

Corporate Services' Health, Safety, and Environmental Department (HSE) is responsible for safety functions at all six NiSource NGDCs managed by Corporate Services under the direction of the Director of the HSE Department. Exhibit X-2 displays HSE's organization structure. The Company's safety programs have been developed based on U.S. Occupational Safety and Health Administration (OSHA) regulations, other regulatory requirements, various association guidelines, and established internal policies and procedures. The annual OSHA recordable incident rate represents the number of reportable injuries and illnesses per 100 full-time workers (i.e., a lower rate indicates better performance). Exhibit X-3 displays the OSHA recordable incident rate from 2007 to October 2012 for CPA as well as the number of OSHA recordable incidents, CPA's annual goals, and statistics for an American Gas Association (AGA) comparative panel.

As illustrated in Exhibit X-3, CPA's OSHA recordable incident rates have, in general, declined (i.e., improved) since 2007. CPA's 2010 and 2011 performance was better than the AGA panel average (2<sup>nd</sup> quartile value). AGA awarded CPA with safety improvement awards for the years 2010 and 2011, and CPA was in the Pennsylvania NGDCs' top three for OSHA recordable incident rates for these years as well. In large part this is due to an extensive enhanced emphasis on safety by NiSource. The Audit

**Exhibit X – 2**  
**NiSource Corporate Services Company**  
**Health, Safety and Environmental Department's Organization Structure**  
**As of November 2012**



Source: Data Request 1

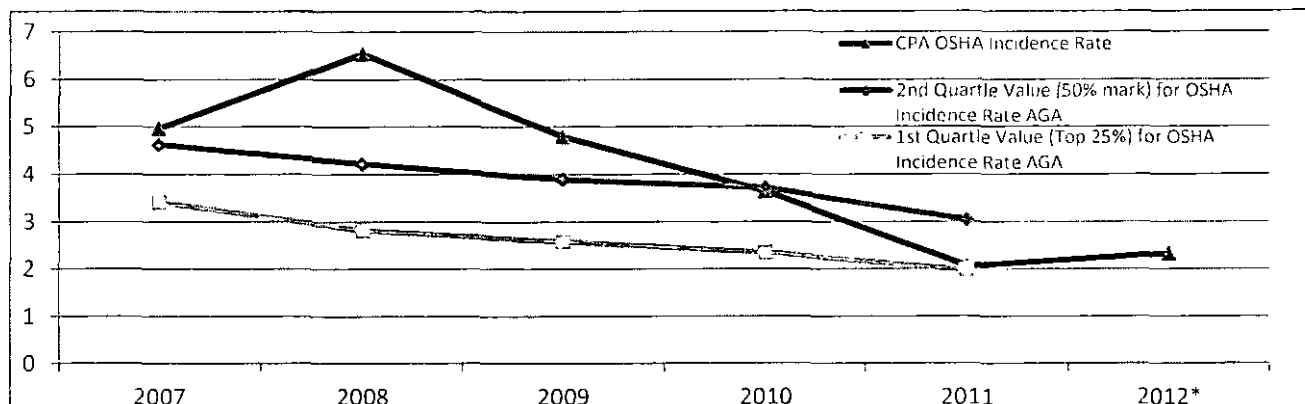
Staff reviewed all NiSource, Columbia, and CPA strategic plans and board meeting minutes since 2009 and found that safety related measures (for all NiSource NGDCs) are regularly reviewed. Since 2007, there have been approximately 50 changes, initiations, or improvements to the safety programs impacting CPA and the other NiSource NGDCs. Among some of the many improvements to the emphasis on safety in the last several years include the following:

2007

- Root cause analysis procedures – the affected employee, Corporate Services' HSE Department, and management investigates each recordable injury and preventable vehicle collision to identify opportunities to reduce recurrence of similar incidents. [implemented in January]

**Exhibit X – 3**  
**Columbia Gas of Pennsylvania, Inc.**  
**OSHA Reportable Incidents and Recordable Incident Rates**  
**2007 – October 2012**

Year	CPA OSHA Reportable Incidents	CPA Goal Reportable Injuries	CPA OSHA Incidence Rate	2nd Quartile Value (50% mark) for OSHA Incidence Rate AGA Panel Ave	1st Quartile Value (Top 25%) for OSHA Incidence Rate AGA Panel Ave	CPA Goal for OSHA Incidence Rate
2007	26	35	4.97	4.62	3.41	None
2008	31	28	6.54	4.22	2.82	None
2009	27	19	4.79	3.89	2.58	3.87
2010	17	17	3.64	3.71	2.35	3.37
2011	10	14	2.07	3.04	1.98	2.53
2012*	10	9	2.33	NA	NA	1.61



\* 2012 data is as of the end of October 2012

NA – Not available as of close of fieldwork.

Source: Data Requests 209 & 283

- *Defensive driving policy developed which includes training requirements (implementation of the Smith Driving Program), backing policy, restriction on cell phone use while driving, and a 360 degree pre trip vehicle walk around. [implemented in January]*
- Injury notification procedures – all injuries are required to be reported to the General Manager and Senior VP of Operations within 48 hours. [implemented in January]

2008

- HSE began conducting ten job site inspections per month. Hazards, coaching opportunities, at risk findings, and OSHA compliance issues were documented and reviewed at Operations Center Manager staff meetings. [implemented in January]
- Formal local safety teams began to meet monthly. Minutes are maintained, communicated, and discussed during the meetings. [implemented in April]
- HSE began to generate safety reports that are sent to all leaders (such as the Field Operation Leaders and the Manager of the Operations Centers (see

background for Chapter GO – Gas Operations) discussing any injury or collision events from the week prior. The report also includes data and information on current performance versus the safety milestones from the year. [implemented in July]

#### 2009

- Weekly tailgate meetings [usually on Mondays] are held with employees to discuss the weekly report. [implemented in January]
- Safety compliance training is provided for all field employees based upon their job classification. [implemented in February]
- Field Safety Observation Database is implemented in which job site inspections and findings data can be sorted, grouped, and better communicated. [implemented in 2<sup>nd</sup> quarter]

#### 2010

- Safety Blitz meetings are held if there are a relatively high number of incidents in any months. Daily mobile data terminal messages related specifically to the incidents that occurred are communicated on field crew computers in vehicles. [implemented in February]
- Nurse Triage – all employees reporting an injury call a hotline to report injuries. The employees speak to a registered nurse to assist in triaging the injury. [implemented in June]
- OSHA 10 Hour Course for Construction Safety is required for all field operations leaders. [implemented in July]

#### 2011

- Riskonnect database initiated. All employee injuries, vehicle collision, and job site safety inspections are accessible by all leaders, HSE staff, and corporate insurance employees. [implemented in January]
- Specific local safety plans are written and implemented for each operating area across the distribution company. [implemented in January]
- Pre job safety briefing process was implemented into the field. Each crew in the field is required to conduct a short safety discussion or safety “huddle” prior to each job focusing on hazard identification. [implemented in January]
- Near miss reporting was introduced to field employees. Near miss forms can be used to describe near miss events and are reviewed by HSE and Local Safety Teams. [implemented in January]

#### 2012

- HSE Web Portal was developed so all leaders and employees can find all the HSE initiatives in one location. All forms, completed root cause investigations, policies, procedures, links, safety supply vendors, etc. are located on the HSE Portal. [implemented in January]
- HSE computer based training initiatives were developed to provide safety related training to employees in the field on their mobile data terminals. Several programs have been developed and more are being designed. [implemented in January]

- HSE developed Vehicle Maneuverability Skills Workshops which include a one hour classroom discussion on a five year period of driving performance and common causes of collisions in the field. The employees then spend the entire day driving their company assigned vehicles through seven skill stations to improve their driving skills related to close quarter driving.  
[implemented in April]

Although the 2012 statistics have slightly increased as of October 2012 when compared to 2011, the Audit Staff specifically looked at all 2012 year to date incidents that occurred. Because a less severe accident or injury such as an insect sting and a severe accident such as a vehicle accident are tracked equally as an OSHA reportable incident, the Audit Staff decided to review the severity of the accidents which increased the OSHA recordable incident rate and determine if Company policies need to be improved as a result. However, of the ten incidents that occurred in 2012, two were insect bites, two were driving incidents (including one of which was minor and one that was not the employees' fault), four were sprain/strain incidents, and two were incidents of being struck with equipment/tools. Additionally, we acknowledge that the last information available from the Company before our fieldwork ended was year to date through October and it is likely that the full year actual 2012 OSHA incident rate will be lower as there are two remaining months and most construction work had been completed for the year.

In addition to endeavoring towards employee safety, CPA also strives to maintain public safety by basing safety plans and training on Department of Transportation (DOT) standards and AGA standards for the safe distribution of natural gas. These standards are contained on the Company's intranet site and available to all employees. In addition, each local operating territory maintains its own safety manual for specific matters and resources which may be applicable to that area and for specific local emergency providers. For more information on CPA efforts that have potentially significant impact on public safety issues, refer to the following sections of the report:

- Emergency Response Plan and Business Continuity Plan: see Chapter IX – Emergency Preparedness. The Emergency Response Plan and Business Continuity Plan are used during abnormal business operations to protect and inform the public, protect property, and ensure safe natural gas delivery.
- Third party hits: see Chapter VIII – Gas Operations Background. Third party hits endanger public safety and property. CPA works with contractors and the public to provide proper education regarding safe digging procedures.
- Emergency response: see Chapter VIII – Gas Operations Background for emergency response arrival times and Finding and Conclusion No. 4 for emergency response dispatching times. Emergencies should be dispatched and responded to immediately to resolve the emergency and to secure the site of the emergency.

- Bare steel / cast iron replacement and leaks: see Chapter VIII – Gas Operations Finding and Conclusion No. 1. Bare steel and cast iron are vulnerable to corrosion which leads to leaks. Leaks have the potential to lead to explosions.

### **Findings and Conclusions**

Our examination of the Human Resources function included a review of the Company's human resources information system, safety programs, training, benefits, and compensation. Based on our review of the Human Resources function, no evidence came to our attention that would lead the Audit Staff to conclude that any of the areas reviewed were not being addressed adequately.

### **Recommendation**

**None.**

## XI. ACKNOWLEDGEMENTS

We wish to express our appreciation for the cooperation and assistance given to us during the course of this Focused Management and Operations Audit by the officers and staff of NiSource Inc. and Columbia Gas of Pennsylvania, Inc.

This audit was conducted by Tim Kerestes, Craig Bilecki, and Krystle Daugherty of the Management Audit Staff of the Bureau of Audits.



## XII. APPENDICES

- Appendix A Columbia Gas of Pennsylvania, Inc.  
Financial and Operating Data and Statistics
- Appendix B Comparative Data and Statistics for the Pennsylvania Panel

Columbia Gas of Pennsylvania, Inc.  
Financial and Operating Data and Statistics

<u>Operating Statistics</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Gross Utility Plant	\$833,292,031	\$903,622,069	\$947,637,758	\$1,016,651,341	\$1,138,561,728	8.1%
Depreciation & Amortization	265,444,760	270,160,522	277,284,744	287,431,690	297,063,377	2.9%
Net Utility Plant	\$567,847,271	\$633,461,547	\$670,353,014	\$729,219,651	\$841,498,351	10.3%
Operating Revenue:						
Residential	\$375,236,411	\$451,926,057	\$349,489,047	\$323,067,880	\$300,666,299	-5.4%
Commercial	129,927,240	156,811,848	108,933,311	98,733,731	92,600,560	-8.1%
Industrial	4,494,441	4,840,417	3,032,214	3,063,474	2,291,207	-15.5%
Subtotals	\$509,658,092	\$613,578,322	\$461,454,572	\$424,865,085	\$395,558,066	-6.1%
Other	140,860,580	168,322,039	83,441,003	134,298,031	109,192,905	-6.2%
Totals	\$650,518,672	\$781,900,361	\$544,895,575	\$559,163,116	\$504,750,971	-6.1%
Deliveries by Volume (Mcf)						
Residential	28,064,273	28,311,865	26,097,595	25,942,239	24,878,520	-3.0%
Commercial	11,077,537	11,106,658	10,225,560	9,694,377	9,652,987	-3.4%
Industrial	375,350	342,807	292,876	304,419	242,632	-10.3%
Total Mcf Sales	39,517,160	39,761,330	36,616,031	35,941,035	34,774,139	-3.1%
Gas Trans. or Compr. for Others	37,447,788	36,976,570	33,736,734	35,696,912	39,151,095	1.1%
Injected into Storage	24,428,478	25,339,462	24,710,116	23,996,274	24,921,653	0.5%
Company Use	45,382	39,238	40,550	36,256	51,479	3.2%
Exchange Gas, Off System Sales, etc.	19,056,855	18,537,675	15,318,961	22,071,715	18,738,638	-0.4%
Other	692,000	525,000	381,000	-128,000	-1,537,000	NM
Total Deliveries (Mcf)	121,187,663	121,179,275	110,803,392	117,614,192	116,100,004	-1.1%
Total Receipts (Mcf)	121,123,340	120,379,254	110,550,150	117,680,838	114,365,953	-1.4%
Unaccounted for Gas (Mcf)	-64,323	-800,021	-253,242	66,646	-1,734,051	127.9%
UFG as a % of Total Receipts	-0.05%	-0.66%	-0.23%	0.06%	-1.52%	131.2%
Customers (Average):						
Residential	372,810	374,490	375,138	376,164	377,317	0.3%
Commercial	38,074	37,856	37,543	37,332	37,204	-0.6%
Industrial	328	330	330	308	285	-3.5%
Other	0	0	0	0	0	NM
Totals	411,212	412,676	413,011	413,804	414,806	0.2%
Employees (Average)						
	485	510	510	487	487	0.1%
Distribution Mains (M. Ft.)						
	40,121	38,988	38,676	38,877	38,993	-0.7%
Transmission Mains (M. Ft.)						
	348	343	354	0	0	-100.0%
Total Main Pipeline (M. Ft.)	40,469	39,331	39,030	38,877	38,993	-0.9%
Total Main Pipeline (Miles)						
	7,665	7,449	7,392	7,363	7,385	-0.9%
Services						
	415,969	416,638	NA	NA	NA	NA

NM = Not Meaningful  
NA = Not available  
Source: PUC Annual Reports

**Columbia Gas of Pennsylvania, Inc.**  
**Financial and Operating Data and Statistics**

<u>Gas Operation &amp; Maintenance Expenses</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>Growth</u>
Natural Gas Production Expenses	0	0	0	0	0	NM
Other Gas Supply Expenses	464,832,119	579,318,444	323,625,850	340,634,509	279,651,598	-11.9%
Natural Gas Storage, Terminating, & Processing Expenses:						
Underground Storage Expenses	219,928	171,443	163,010	200,824	175,442	-5.5%
Maintenance	20,488	12,803	4,847	5,373	18,305	-2.8%
Total	240,416	184,246	167,857	206,197	193,747	-5.3%
Transmission Expenses:						
Operation	0	0	0	0	0	NM
Maintenance	0	0	0	0	0	NM
Totals	0	0	0	0	0	NM
Distribution Expenses:						
Operation	22,724,144	24,194,625	23,516,910	25,606,707	26,690,015	4.1%
Maintenance	12,316,438	13,784,194	14,097,892	14,112,473	13,856,306	3.0%
Totals	35,040,582	37,978,819	37,614,802	39,719,180	40,546,321	3.7%
Customer Accounts Expenses	34,519,613	44,568,395	39,011,526	33,817,224	31,357,946	-2.4%
Customer Service & Inform. Expenses	1,774,752	2,385,073	4,779,747	7,052,634	8,953,271	49.9%
Sales Expenses	39,220	543,014	709,398	543,115	603,831	98.1%
Administrative & General Expenses:						
Operation	49,596,353	39,898,756	45,317,027	53,366,596	56,181,635	3.2%
Maintenance	0	0	0	0	0	NM
Totals	49,596,353	39,898,756	45,317,027	53,366,596	56,181,635	3.2%
Total Gas Operation & Maintenance Exp.	586,043,055	704,876,747	451,226,207	475,339,455	417,488,349	-8.1%

NM - Not Meaningful  
Source: PUC Annual Reports

**Columbia Gas of Pennsylvania, Inc.**  
**Comparative Data and Statistics for the Pennsylvania Panel**

<u>ELEMENT</u>	<u>CGP</u>	<u>EGC</u>	<u>NFG</u>	<u>PNG</u>	<u>TWP</u>	<u>UGIC</u>	<u>UGIP</u>	<u>UGIU</u>	<u>Panel Average</u>
Number of Customers - 2011	414,806	260,000	212,833	358,357	60,388	76,353	159,858	342,156	209,992
Number of Customers - 2007	411,212	255,943	211,743	357,008	62,451	76,059	159,586	322,801	206,513
Compound Annual Growth Rate	0.2%	0.4%	0.1%	0.1%	-0.8%	0.1%	0.0%	1.5%	0.2%
% Residential Customers - 2011	91.0%	93.2%	92.5%	92.1%	92.8%	86.4%	90.0%	89.8%	91.0%
Total Throughput (thousand Mcf) - 2011	114,366	60,151	49,185	87,091	25,920	31,036	67,380	136,744	65,358
Total Throughput (thousand Mcf) - 2007	121,123	67,462	52,851	88,201	26,012	28,555	57,457	103,195	60,533
Compound Annual Growth Rate	-1.4%	-2.8%	-1.8%	-0.3%	-0.1%	2.1%	4.1%	7.3%	1.2%
Mcf/Residential Customer - 2011	66	87	96	90	89	88	102	68	89
Transportation (thousand Mcf) - 2011	33,237	24,599	21,356	36,648	15,588	13,972	24,303	27,941	23,487
Transportation (thousand Mcf) - 2007	37,448	24,595	19,902	37,545	14,307	13,128	23,810	55,016	26,901
% Transportation - 2011	29.1%	40.9%	43.4%	42.1%	60.1%	45.0%	36.1%	20.4%	41.2%
% Transportation - 2007	30.9%	36.5%	37.7%	42.6%	55.0%	46.0%	41.4%	53.3%	44.6%
Compound Annual Growth Rate	-1.5%	2.9%	3.6%	-0.3%	2.3%	-0.5%	-3.4%	-21.3%	-2.4%
Number of Employees @ 12/31/11	496	353	322	717	202	197	250	881	417
Miles of Distribution Main - 2011	7,386	3,807	4,614	6,556	1,546	3,723	2,609	5,384	4,034
Miles of Transmission Main - 2011	0	38	338	1,084	1,155	111	30	117	410
Services - 2011		249,079	210,816	350,774	58,118	80,672	165,989	340,907	208,051
Net Plant (\$Million) - 2011	841	618	313	729	163	242	543	816	489
Net Plant/Gross Plant - 2011	73.9%	64.6%	63.3%	65.1%	65.3%	67.3%	71.4%	64.7%	66.0%
Customers/Main Mile - 2011	56	68	43	47	22	20	61	62	46
Average Revenue/Residential Customer - 2011	\$796.85	\$1,034.27	\$946.14	\$779.63	\$1,211.07	\$1,141.88	\$1,202.80	\$836.42	\$1,021.75
Average Revenue/Residential Mcf - 2011	\$12.09	\$11.83	\$9.90	\$8.64	\$13.55	\$12.93	\$11.81	\$12.28	\$11.56

CGP = Columbia Gas of Pennsylvania, Inc.  
 EGC = Equitable Gas Company  
 NFG = National Fuel Gas Distribution Corporation  
 PNG = Peoples Natural Gas Company LLC

TWP = Peoples TWP, LLC  
 UGIC = UGI Central Penn Gas, Inc.  
 UGIP = UGI Penn Natural Gas, Inc.  
 UGIU = UGI Utilities, Inc.

Source: PUC Annual Reports

**Columbia Gas of Pennsylvania, Inc.  
 Comparative Data and Statistics for the Pennsylvania Panel**

**Administrative & General Expense/Customer**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$254.71	\$133.32	\$109.43	\$112.18	\$109.20	-19.1%
National Fuel	\$124.46	\$125.31	\$125.41	\$128.52	\$138.75	2.8%
Peoples	\$23.09	\$42.26	\$27.66	\$92.25	\$142.14	57.5%
Peoples TWP	\$189.59	\$197.76	\$193.85	\$239.78	\$235.35	5.6%
UGI Central	\$315.62	\$227.23	\$206.41	\$239.74	\$202.79	-10.5%
UGI Penn	\$107.71	\$129.36	\$139.52	\$137.15	\$127.99	4.4%
UGI Utilities	\$114.50	\$110.84	\$117.30	\$112.64	\$107.56	-1.5%
Panel Average	\$161.38	\$138.01	\$131.37	\$151.75	\$151.97	-1.5%
Columbia	\$120.61	\$96.68	\$109.72	\$128.97	\$135.44	2.9%

**Operations & Maintenance Expense/Customer**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$1,564.79	\$2,024.18	\$1,414.57	\$1,062.69	\$904.98	-12.8%
National Fuel	\$1,411.88	\$1,559.86	\$1,272.56	\$940.92	\$890.39	-10.9%
Peoples	\$1,020.88	\$1,204.77	\$944.17	\$811.82	\$839.46	-4.8%
Peoples TWP	\$1,801.92	\$2,102.22	\$1,458.59	\$1,381.30	\$1,386.13	-6.3%
UGI Central	\$2,131.67	\$2,161.84	\$1,804.74	\$1,511.80	\$1,431.05	-9.5%
UGI Penn	\$1,659.61	\$1,868.75	\$1,981.26	\$1,637.59	\$1,482.64	-2.8%
UGI Utilities	\$1,531.76	\$1,544.85	\$1,471.88	\$1,318.64	\$1,197.26	-6.0%
Panel Average	\$1,588.93	\$1,780.92	\$1,478.25	\$1,237.82	\$1,161.70	-7.5%
Columbia	\$1,425.16	\$1,708.06	\$1,092.53	\$1,148.71	\$1,006.47	-8.3%

**Net Plant/Customer**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$2,330.28	\$2,279.26	\$2,316.36	\$2,381.29	\$2,375.51	0.5%
National Fuel	\$1,357.83	\$1,374.62	\$1,419.88	\$1,446.18	\$1,470.39	2.0%
Peoples	\$1,616.44	\$1,671.31	\$1,728.35	\$1,889.50	\$2,035.37	5.9%
Peoples TWP	\$2,315.16	\$2,400.19	\$2,432.28	\$2,587.96	\$2,699.43	3.9%
UGI Central	\$2,935.34	\$2,986.69	\$3,115.06	\$3,239.79	\$3,165.13	1.9%
UGI Penn	\$3,342.48	\$3,368.80	\$3,363.24	\$3,389.86	\$3,396.62	0.4%
UGI Utilities	\$2,213.25	\$2,254.48	\$2,263.78	\$2,301.40	\$2,384.99	1.9%
Panel Average	\$2,301.54	\$2,333.62	\$2,376.99	\$2,462.28	\$2,503.92	2.1%
Columbia	\$1,380.91	\$1,535.01	\$1,623.09	\$1,762.23	\$2,028.66	10.1%

Source: PUC Annual Reports

**Columbia Gas of Pennsylvania, Inc.**  
**Comparative Data and Statistics for the Pennsylvania Panel**

**Operations & Maintenance Expense/Operating Revenue**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$0.50	\$0.53	\$0.45	\$0.40	\$0.38	-6.5%
National Fuel	\$0.44	\$0.44	\$0.43	\$0.41	\$0.41	-1.8%
Peoples	\$0.43	\$0.44	\$0.44	\$0.46	\$0.46	1.8%
Peoples TWP	\$0.43	\$0.44	\$0.43	\$0.43	\$0.41	-1.1%
UGI Central	\$0.49	\$0.48	\$0.42	\$0.44	\$0.44	-2.7%
UGI Penn	\$0.42	\$0.44	\$0.46	\$0.46	\$0.45	2.1%
UGI Utilities	\$0.43	\$0.43	\$0.45	\$0.45	\$0.46	2.1%
Panel Average	\$0.45	\$0.46	\$0.44	\$0.44	\$0.43	-0.9%
Columbia	\$0.90	\$0.90	\$0.83	\$0.85	\$0.83	-2.1%

**Net Plant/Operating Revenue**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$0.74	\$0.59	\$0.73	\$0.89	\$1.00	7.8%
National Fuel	\$0.42	\$0.39	\$0.48	\$0.63	\$0.67	12.4%
Peoples	\$0.68	\$0.62	\$0.81	\$1.06	\$1.12	13.2%
Peoples TWP	\$0.55	\$0.51	\$0.71	\$0.80	\$0.80	9.8%
UGI Central	\$0.67	\$0.67	\$0.73	\$0.95	\$0.96	9.6%
UGI Penn	\$0.84	\$0.79	\$0.77	\$0.94	\$1.03	5.4%
UGI Utilities	\$0.61	\$0.63	\$0.70	\$0.79	\$0.92	10.6%
Panel Average	\$0.65	\$0.60	\$0.70	\$0.87	\$0.93	9.6%
Columbia	\$0.87	\$0.81	\$1.23	\$1.30	\$1.67	17.6%

**Operations & Maintenance Expense/Net Plant**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$0.67	\$0.89	\$0.61	\$0.45	\$0.38	-13.2%
National Fuel	\$1.04	\$1.13	\$0.90	\$0.65	\$0.61	-12.6%
Peoples	\$0.63	\$0.72	\$0.55	\$0.43	\$0.41	-10.1%
Peoples TWP	\$0.78	\$0.88	\$0.60	\$0.53	\$0.51	-9.9%
UGI Central	\$0.73	\$0.72	\$0.58	\$0.47	\$0.45	-11.2%
UGI Penn	\$0.50	\$0.55	\$0.59	\$0.48	\$0.44	-3.2%
UGI Utilities	\$0.69	\$0.69	\$0.65	\$0.57	\$0.50	-7.7%
Panel Average	\$0.72	\$0.80	\$0.64	\$0.51	\$0.47	-10.0%
Columbia	\$1.03	\$1.11	\$0.67	\$0.65	\$0.50	-16.7%

Source: PUC Annual Reports

**Columbia Gas of Pennsylvania, Inc.  
 Comparative Data and Statistics for the Pennsylvania Panel**

**Operations & Maintenance Expense/Mcf**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$8.41	\$10.80	\$7.22	\$5.62	\$4.88	-12.7%
National Fuel	\$6.88	\$7.86	\$6.83	\$4.99	\$4.40	-10.6%
Peoples	\$5.35	\$6.20	\$5.13	\$4.30	\$4.48	-4.3%
Peoples TWP	\$4.70	\$5.52	\$4.23	\$3.47	\$3.58	-6.6%
UGI Central	\$7.14	\$7.09	\$6.13	\$5.01	\$4.81	-9.4%
UGI Penn	\$5.58	\$6.73	\$7.30	\$6.14	\$5.43	-0.7%
UGI Utilities	\$5.47	\$5.88	\$5.91	\$4.65	\$3.84	-8.5%
Panel Average	\$6.22	\$7.16	\$6.11	\$4.88	\$4.49	-7.8%
Columbia	\$14.57	\$17.50	\$12.20	\$13.27	\$12.56	-3.6%

**Net Plant/Mcf**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$12.52	\$12.17	\$11.83	\$12.58	\$12.80	0.6%
National Fuel	\$6.61	\$6.93	\$7.62	\$7.67	\$7.27	2.4%
Peoples	\$8.47	\$8.61	\$9.39	\$10.01	\$10.85	6.4%
Peoples TWP	\$6.04	\$6.31	\$7.06	\$6.50	\$6.98	3.7%
UGI Central	\$9.83	\$9.79	\$10.58	\$10.73	\$10.63	2.0%
UGI Penn	\$11.24	\$12.13	\$12.39	\$12.71	\$12.45	2.6%
UGI Utilities	\$7.90	\$8.59	\$9.08	\$8.11	\$7.65	-0.8%
Panel Average	\$8.94	\$9.22	\$9.71	\$9.76	\$9.80	2.3%
Columbia	\$14.12	\$15.72	\$18.12	\$20.36	\$25.32	15.7%

**Distribution Expense/Thousand Ft. Line**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$1,159.21	\$1,416.46	\$1,497.99	\$1,348.90	\$1,204.69	1.0%
National Fuel	\$558.10	\$530.05	\$485.66	\$545.74	\$534.89	-1.1%
Peoples	\$856.00	\$915.36	\$926.31	\$1,027.58	\$1,046.76	5.2%
Peoples TWP	\$593.04	\$440.47	\$460.23	\$447.49	\$502.05	-4.1%
UGI Central	\$521.51	\$725.48	\$611.19	\$517.16	\$569.17	2.2%
UGI Penn	\$826.87	\$838.66	\$1,050.01	\$982.95	\$1,145.00	8.5%
UGI Utilities	\$878.59	\$894.98	\$824.32	\$857.37	\$1,004.26	3.4%
Panel Average	\$770.47	\$823.07	\$836.53	\$818.17	\$858.12	2.7%
Columbia	\$898.75	\$981.97	\$967.53	\$1,018.62	\$1,039.70	3.7%

Source: PUC Annual Reports

**Columbia Gas of Pennsylvania, Inc.**  
**Comparative Data and Statistics for the Pennsylvania Panel**

**Customer Accounts Expense/Customer**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$73.74	\$57.27	\$33.89	\$53.54	\$37.33	-15.6%
National Fuel	\$81.78	\$78.41	\$64.58	\$49.89	\$35.65	-18.7%
Peoples	\$82.07	\$61.88	\$61.17	\$50.66	\$59.39	-7.8%
Peoples TWP	\$48.43	\$51.12	\$58.82	\$61.46	\$50.81	1.2%
UGI Central	\$66.66	\$96.08	\$89.57	\$52.94	\$60.22	-2.5%
UGI Penn	\$67.71	\$96.47	\$73.32	\$44.70	\$39.57	-12.6%
UGI Utilities	\$67.00	\$75.19	\$57.35	\$47.81	\$49.81	-7.1%
Panel Average	\$69.63	\$73.77	\$62.67	\$51.57	\$47.54	-9.1%
Columbia	\$83.95	\$108.00	\$94.46	\$81.72	\$75.60	-2.6%

**Unaccounted For Gas (as a % of Total Receipts)**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	9.3%	10.0%	4.8%	4.0%	2.4%	-29.1%
National Fuel	-1.5%	-0.5%	-0.4%	1.9%	-1.2%	-6.4%
Peoples	9.0%	6.4%	4.4%	5.8%	4.4%	-16.3%
Peoples TWP	4.3%	3.7%	5.1%	3.9%	0.8%	-33.6%
UGI Central	5.5%	4.4%	1.0%	0.8%	2.1%	-21.6%
UGI Penn	-0.3%	0.7%	0.9%	0.4%	0.4%	NM
UGI Utilities	0.6%	0.4%	0.5%	0.2%	0.2%	-20.0%
Panel Average	3.8%	3.6%	2.3%	2.4%	1.3%	-23.5%
Columbia	-0.1%	-0.7%	-0.2%	0.1%	-1.5%	131.2%

**Revenue/Employee**

<u>Company</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Compound Growth</u>
Equitable	\$987,637	\$1,653,646	\$1,304,578	\$982,559	\$936,520	-1.3%
National Fuel	\$1,007,114	\$1,081,022	\$903,022	\$718,336	\$772,754	-6.4%
Peoples	\$924,021	\$1,029,932	\$850,136	\$664,307	\$589,514	-10.6%
Peoples TWP	\$638,828	\$733,000	\$547,655	\$495,887	\$529,803	-4.6%
UGI Central	\$526,449	\$665,663	\$631,781	\$686,566	\$737,244	8.8%
UGI Penn	\$833,940	\$939,018	\$981,130	\$1,117,196	\$1,215,382	9.9%
UGI Utilities	\$663,534	\$756,916	\$722,661	\$700,843	\$610,055	-2.1%
Panel Average	\$797,361	\$979,885	\$848,709	\$766,528	\$770,182	-0.9%
Columbia	\$1,342,660	\$1,534,643	\$1,069,471	\$1,149,359	\$1,036,450	-6.3%

NM = Not Meaningful

Source: PUC Annual Reports



**Columbia Gas of Pennsylvania, Inc.**  
**Comparative Data and Statistics for the Pennsylvania Panel**

<u>Company</u>	<u>Customers/Employee</u>					<u>Compound Growth</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
Equitable	596	679	704	690	729	5.2%
National Fuel	617	609	590	626	663	1.8%
Peoples	733	716	702	658	554	-6.8%
Peoples TWP	301	308	311	299	298	-0.2%
UGI Central	249	263	283	333	380	11.1%
UGI Penn	410	435	464	541	633	11.5%
UGI Utilities	349	397	433	412	391	2.9%
Panel Average	465	487	498	508	521	2.9%
Columbia	849	810	811	851	852	0.1%

<u>Company</u>	<u>Plant Materials and Operating Supplies/Net Plant</u>					<u>Compound Growth</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
Equitable	0.2%	0.2%	0.1%	0.1%	0.1%	-16.8%
National Fuel	0.2%	0.2%	0.2%	0.2%	0.2%	-7.5%
Peoples	0.3%	0.4%	0.4%	0.4%	0.3%	-1.7%
Peoples TWP	1.0%	0.7%	0.6%	0.6%	0.6%	-10.7%
UGI Central	1.0%	1.1%	1.1%	1.2%	1.2%	4.4%
UGI Penn	0.4%	0.4%	0.0%	0.0%	0.0%	NM
UGI Utilities	0.3%	0.3%	0.3%	0.4%	0.4%	10.4%
Panel Average	0.5%	0.5%	0.4%	0.4%	0.4%	-4.4%
Columbia	0.1%	0.1%	0.1%	0.1%	0.1%	10.5%

<u>Company</u>	<u>Unprotected Bare Steel Main %</u>					<u>Compound Growth</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
Equitable	24.3%	23.7%	23.0%	22.4%	21.0%	-3.6%
National Fuel	20.6%	19.9%	19.3%	18.5%	17.9%	-3.4%
Peoples	28.3%	27.8%	27.4%	26.9%	26.5%	-1.6%
Peoples TWP	39.5%	38.4%	37.3%	36.5%	35.4%	-2.7%
UGI Central	17.8%	17.5%	16.9%	16.5%	16.2%	-2.3%
UGI Penn	11.3%	11.1%	11.0%	10.6%	10.3%	-2.3%
UGI Utilities	5.6%	5.3%	5.1%	4.9%	4.6%	-4.7%
Panel Average	21.1%	20.5%	20.0%	19.5%	18.9%	-2.7%
Columbia	28.4%	27.1%	26.2%	25.3%	23.3%	-4.9%

NM = Not Meaningful

Source: PUC Annual Reports, DOT Annual Reports

**Columbia Gas of Pennsylvania, Inc.  
 Comparative Data and Statistics for the Pennsylvania Panel**

<u>Company</u>	<u>Cast Iron Main %</u>					<u>Compound</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Growth</u>
Equitable	1.4%	1.4%	1.4%	1.3%	3.0%	21.1%
National Fuel	1.9%	1.8%	1.8%	1.7%	1.7%	-2.2%
Peoples	1.0%	1.0%	1.0%	0.9%	0.9%	-2.7%
Peoples TWP	0.0%	0.0%	0.0%	0.0%	0.0%	NM
UGI Central	0.7%	1.6%	0.5%	0.5%	0.4%	-10.1%
UGI Penn	5.5%	5.2%	2.5%	4.7%	4.5%	-5.1%
UGI Utilities	8.1%	7.9%	7.5%	7.3%	6.8%	-4.3%
Panel Average	2.7%	2.7%	2.1%	2.3%	2.5%	-1.7%
Columbia	1.0%	0.9%	0.9%	0.8%	2.2%	21.6%

<u>Company</u>	<u>Main Leaks Repaired/100 Main Miles</u>					<u>Compound</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Growth</u>
Equitable	34.3	29.0	28.4	32.8	26.7	-6.0%
National Fuel	31.0	29.3	30.4	31.1	23.3	-6.9%
Peoples	37.2	34.5	41.8	36.1	33.9	-2.3%
Peoples TWP	53.1	48.8	52.6	46.9	37.0	-8.6%
UGI Central	12.9	14.2	16.3	11.2	16.7	6.7%
UGI Penn	34.5	31.8	30.1	35.9	31.3	-2.4%
UGI Utilities	25.2	22.6	27.9	22.5	26.6	1.4%
Panel Average	32.6	30.0	32.5	30.9	27.9	-3.8%
Columbia	56.8	67.2	53.2	50.4	45.7	-5.3%

<u>Company</u>	<u>Unprotected Bare Steel Service %</u>					<u>Compound</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Growth</u>
Equitable	7.7%	7.5%	6.6%	6.6%	6.0%	-6.1%
National Fuel	17.0%	16.1%	15.3%	14.7%	14.5%	-3.9%
Peoples	16.0%	15.6%	15.2%	15.0%	14.7%	-2.1%
Peoples TWP	23.4%	21.4%	20.8%	20.2%	19.6%	-4.4%
UGI Central	1.0%	0.8%	0.8%	0.5%	0.5%	-15.4%
UGI Penn	1.2%	1.1%	1.0%	1.0%	0.9%	-5.1%
UGI Utilities	5.5%	5.3%	5.1%	4.8%	4.5%	-5.1%
Panel Average	10.3%	9.7%	9.3%	9.0%	8.7%	-4.1%
Columbia	18.2%	17.3%	16.8%	16.1%	15.7%	-3.7%

NM = Not Meaningful

Source: PUC Annual Reports, DOT Annual Reports

**Columbia Gas of Pennsylvania, Inc.  
Comparative Data and Statistics for the Pennsylvania Panel**

<u>Company</u>	<u>Service Leaks Discovered/1,000 Services</u>					<u>Compound</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Growth</u>
Equitable	3.7	3.4	2.8	2.8	2.8	-6.7%
National Fuel	3.7	6.4	3.0	2.8	2.8	-7.3%
Peoples	10.7	9.6	11.3	12.4	10.0	-1.6%
Peoples TWP	6.0	5.4	3.7	3.2	3.4	-13.1%
UGI Central	2.7	2.3	2.5	2.0	1.5	-13.9%
UGI Penn	3.5	5.8	7.2	7.3	7.5	21.3%
UGI Utilities	6.8	2.9	2.9	3.2	3.6	-14.6%
Panel Average	5.3	5.1	4.8	4.8	4.5	-3.9%
Columbia	4.6	4.7	4.2	4.0	3.9	-4.2%

Source: PUC Annual Reports, DOT Annual Reports

# NiFiT Deployment 2 - Risk Assessment Review

## NiSource IT Audit

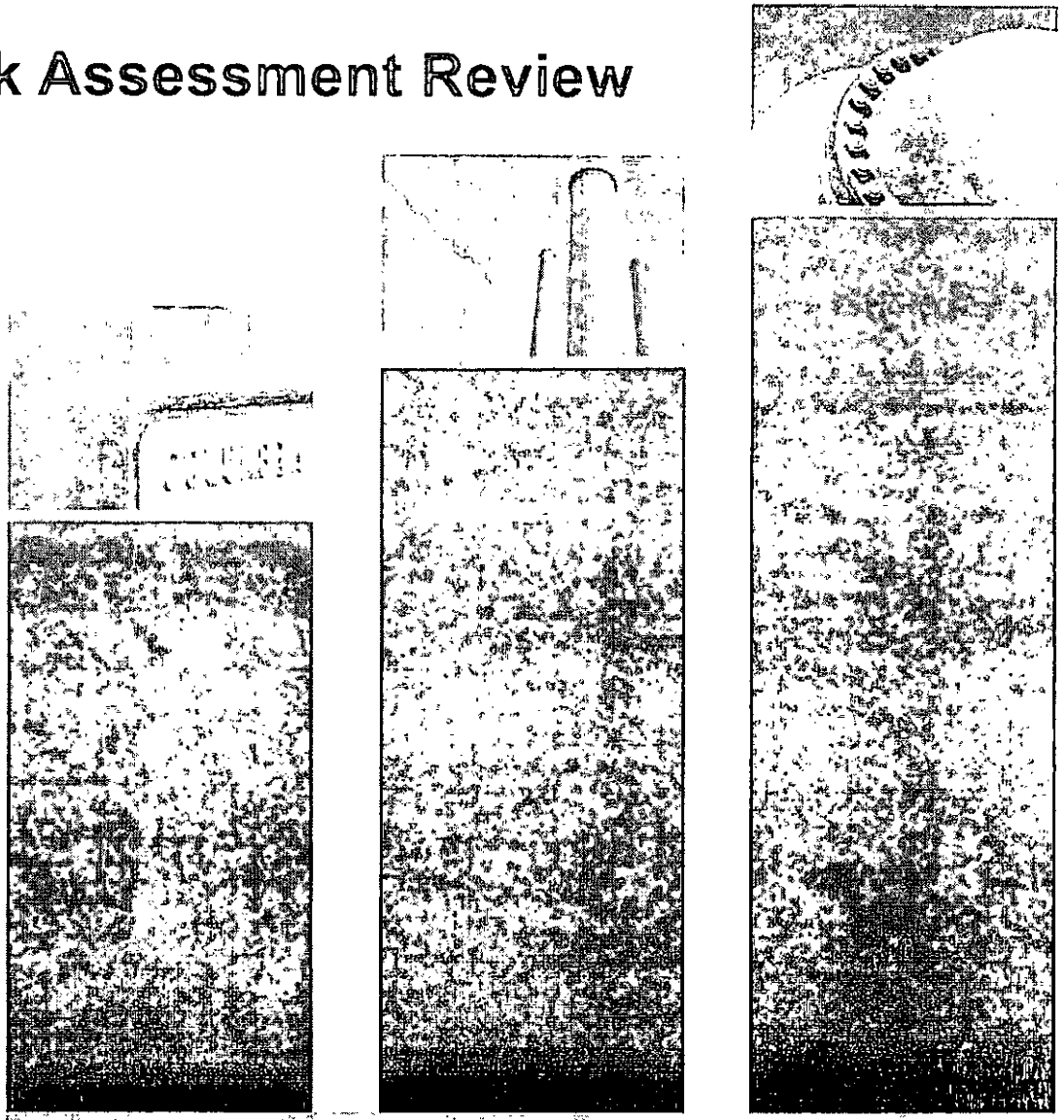
January 3, 2014

**To:**

Rick Fontaine, VP - Financial Transformation  
Russ Viater, VP – IT Service Delivery (NIPSCO/NCS)  
Jon Veurink, VP - Chief Accounting Officer  
Tim Tokish, VP – Financial Planning & Analysis

**From:**

John Manfreda, Project Manager – IT Audit  
Greg Wancheck, Manager – IT Audit  
Ray Irvin, Director – IT Audit



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  - Scope
  - Audit Plan
  - Approach
  - Objective
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NiFiT Deployment 2 - Risk Assessment Review

# EXECUTIVE OVERVIEW



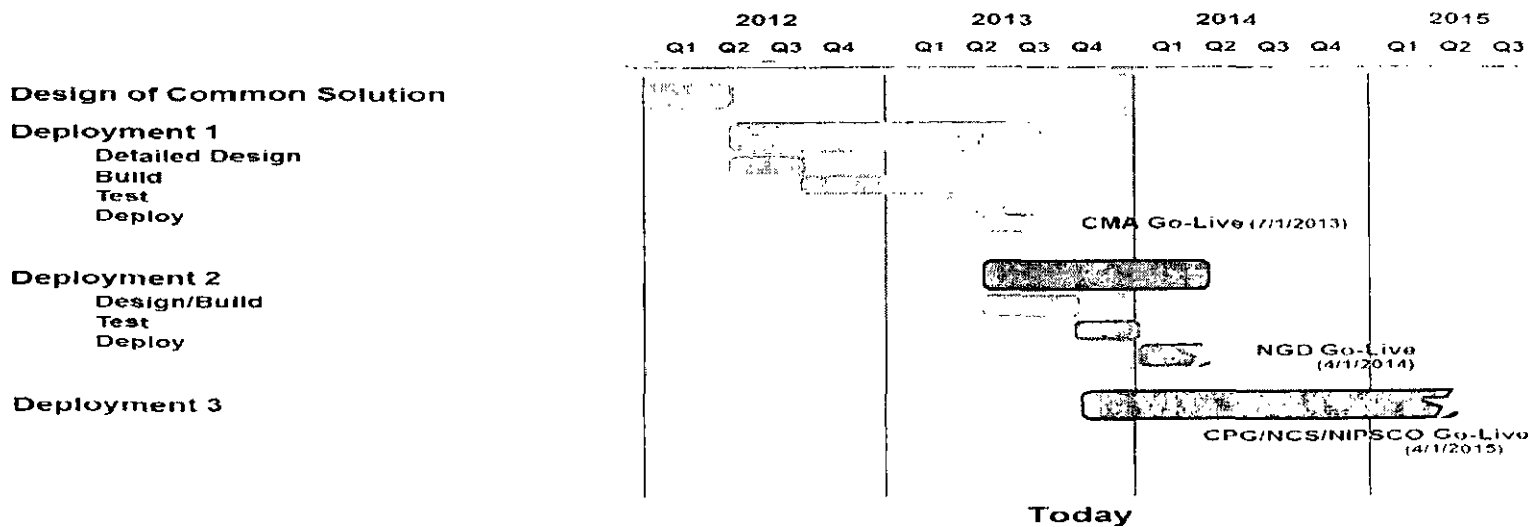
# NiFiT Deployment 2 - Risk Assessment Review

## Executive Overview

Scope

The NiFiT project is currently the largest IT project being undertaken by NiSource IT and NiSource Corporate Business Services (NBCS). NiFiT has an estimated budget of \$125MM over its projected four (4) year lifecycle and employs forty-one (41) full-time NiSource personnel who are being assisted by their system integration partner, Accenture, and other partner firms (including IBM, HMB, PowerPlan, Navigator and Axia). The result is a full-time NiFiT project peak team size of 147 people spanning nine (9) different partner companies participating from four (4) countries around the globe.

The following timeline depicts the phased approach being followed by the NiFiT Project team. The approach calls for three (3) deployments, with Deployments 1 and 2 including the NGD (NiSource Gas Distribution) companies (CMA, COH, CPA, CKY, CVA and CMD). Deployment 1 (CMA) went live in July 2013 while Deployment 2, which encompasses the remaining NGD Companies, is targeted for April 2014. Deployment 3 will include the Columbia Pipeline Group (CPG), NiSource Corporate Business Services (NCBS) and Northern Indiana Public Service Company (NIPSCO) business units and is currently planned for April 2015.



# NiFiT Deployment 2 - Risk Assessment Review

## Executive Overview (Cont'd)

Throughout 2013 and 2014, NiSource IT Audit will issue several reports timed and focused on NiFiT Deployment 2. Our reports will include a Risk Assessment Review, a Phase Assurance Report planned to be delivered near go-live in April 2014 and a Post-Deployment Review, timed shortly after Deployment 2 implementation, which will include an opinion on solution turnover and Hypercare support. The timing of these NiFiT Deployment 2 reports has been determined to allow for adequate and timely feedback to NiFiT Project team Management.

The following chart depicts the planned reports to be delivered by IT Audit in support of the NiFiT Deployment 2 effort. This Deployment 2 Risk Assessment Review is the tagged box below highlighted in light blue.

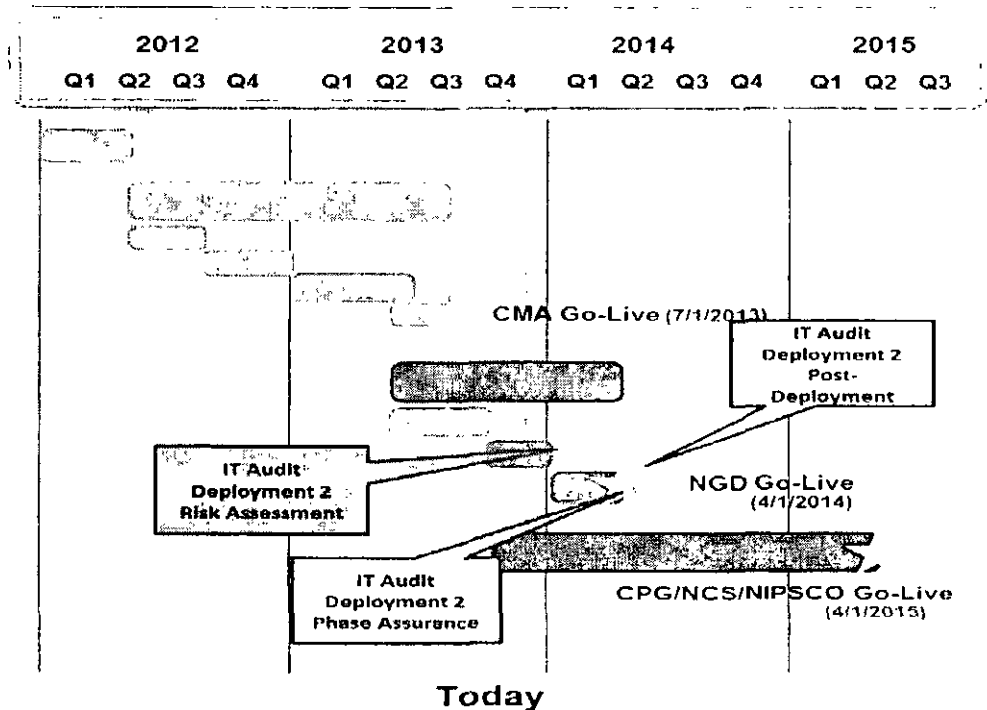
Audit Plan

### Design of Common Solution

- Deployment 1**  
 Detailed Design  
 Build  
 Test  
 Deploy

- Deployment 2**  
 Design/Build  
 Test  
 Deploy

### Deployment 3





# NiFiT Deployment 2 - Risk Assessment Review

## Executive Overview (Cont'd)

Approach

IT Audit continues to provide both advisory and assurance services during the current and future phases of NiFiT. The purpose of each IT Audit review is as follows:

- Capture and report on key information and data regarding NiFiT project delivery execution.
- Assess the effectiveness of adoption and usage of the NiFiT system by NiSource.
- Conclude whether controls were considered and tested by relevant parties as part of NiFiT deployment.

The following terms are used to describe services provided by IT Audit throughout the duration of the NiFiT project:

### **Assurance Services:**

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusion regarding an entity, operation, function, process, system or other subject matter. (IIPF standards revised October 2010)

### **Advisory Services:**

Consulting services are advisory in nature and are performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. (IIPF standards revised October 2010)

# NiFiT Deployment 2 – Risk Assessment Review

## Executive Overview (Cont'd)

Objective

The objective of IT Audit's NiFiT Deployment 2 (D2) Risk Assessment is to provide management with an evaluation of the policies, procedures and processes used to manage risks associated with Deployment 2 and provide assurance that business process controls impacted by Deployment 2 are considered, approved and documented. This Deployment 2 Risk Assessment Review focuses on the following:

### 1) Risk Documentation and Risk Management Processes

Review NiFiT project risk management documentation to obtain a perspective on related risks to Deployment 2 and how those risks impact release delivery timing and quality. Review risk identification and mitigation measures to provide a perspective to NiFiT management.

### 2) Project Management Controls

Review project management controls over NiFiT schedule, scope and costs to provide reasonable assurance processes instituted for Deployment 1 continue to be used for Deployment 2.

### 3) Stakeholder Risk Management Perspective

Provide a perspective to both the NiFiT Project team and relevant NiFiT Stakeholders on overall risk management practices and procedures used to guide Deployment 2 activities.

### 4) Business Process Controls

Review automated business process control designs, documentation and process owner approvals to provide an opinion on the adequacy of management's inclusion of controls for Deployment 2. Review whether the Risk Navigator SOX database is aligned with corresponding NiFiT Risk and Control Matrices (RCMs) for Deployment 2.

# NiFiT Deployment 2 - Risk Assessment Review

## Executive Overview (Cont'd)

### Background

A key area of sound project management includes managing risk, with corresponding risk management exercises involving three (3) primary processes: risk identification, risk analysis and risk mitigation. Since changes occurring both within, and outside NiFiT, can impact whether a negative project event takes place, risk management is an on-going process that needs to be continuously managed for awareness. The following is provided as background relevant to the NiFiT Deployment 2 Risk Assessment Review.

IT Audit issued a NiFiT Deployment 1 Risk Assessment Review in December of 2012 focusing on risk management practices employed by the NiFiT Project team. This Deployment 2 Risk Assessment Review is being undertaken to help ensure project risk management controls instituted during Deployment 1 continue to operate effectively throughout Deployment 2.

### Findings

The NiFiT Project team categorizes and manages risk at three (3) unique levels:

- Technical/Tactical (detailed-level)
- Project Operational (mid-level)
- Executive (high-level)

Of the three (3) levels of risk categorized, IT Audit noted both the NiFiT Project Risk Log (tracking tactical/technical project risks) and the Executive Risk Heat Map (tracking executive project-level risks) instituted during Deployment 1 are consistently being reviewed and updated by the NiFiT Project team as part of continuing efforts for Deployment 2. IT Audit also found the tracking and review of project operational (mid-level) risks by NiFiT Project team Management is a newly implemented oversight practice for Deployment 2 and encourages the procedure both continue to be used for mid-level risk evaluation/mitigation and be shared with relevant parties where applicable.

# NiFiT Deployment 2 - Risk Assessment Review

## Executive Overview (Cont'd)

Findings (Cont'd)

IT Audit also noted the NiFiT project is required to use the NiSource Project Management Methodology (PMM) and has a dedicated Project Management Office (PMO) team for providing project management services and support to the NiFiT Project team. For purposes of testing project management controls owned and operated by both the NiFiT PMO and Project teams, IT Audit reviewed various NiFiT Weekly Status Reports to determine whether designated project management controls for Deployment 2 schedule, scope and cost modifications were functioning as intended. Post review, IT Audit found NiFiT project management controls related to schedule, scope and/or cost changes related to Deployment 2 are being executed as designed with results being actively shared with NiFiT Project Sponsors and key Stakeholders.

IT Audit also engaged the NiFiT Executive Advisor team and a select sample of key Deployment 2 Stakeholders for inclusion in a formal interview process around risk management procedures incorporated by the NiFiT Project team. Upon consolidation of interview participant responses, IT Audit identified a subset of risk items which were reviewed with the NiFiT Project Executive for confirmation of awareness and risk ownership validation. IT Audit found all of the Executive Advisor and/or key Deployment 2 Stakeholder risks identified were formally acknowledged by the NiFiT Project Executive as mid-level risks with ownership/alignment already assumed by NiFiT Project team Management.

Overall, IT Audit noted one of the most significant ongoing risks for NiFiT Deployment 2 is the increased number of impacted users and locations in relation to Deployment 1. As such, NiFiT organizational change management activities encompassing communications, training and stakeholder management are paramount to successful Deployment 2 implementation and resulting user uptake of the solution. IT Audit believes this inherent risk is being tracked, communicated and managed by the NiFiT Project team through enhancements made in the supporting Deployment 2 Change Champion Network (CCN), both in CCN member composition (type of personnel skills) and expectations (preparing for go-live and deployment support). IT Audit will continue to monitor this area throughout Deployment 2 and provide independent assessments through our 2014 NiFiT Deployment 2 Phase Assurance and Post-Deployment reviews.



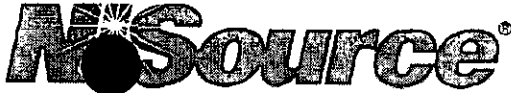
# NiFiT Deployment 2 - Risk Assessment Review

## Executive Overview (Cont'd)

Findings (Cont'd)

As part of NiFiT Deployment 2 planning, IT Audit obtained the most current versions of the NiFiT Deployment 2 Risk and Controls Matrixes (as of November 2013) and found two (2) net, new automated SOX controls were added post Deployment 1. For both automated controls added, IT Audit found corresponding Process Owner approval of the automated control along with a corresponding control test script created within NiSource's HP ALM (Application Lifecycle Management) testing tool. IT Audit also inspected the HP ALM testing tool during December 2013 and noted both of the new automated SOX controls were included as part of the NiFiT Project team's System Pass (II) testing effort with their corresponding testing script successfully executed prior to the start of Deployment 2 User Acceptance Testing (UAT) in December 2013.

IT Audit obtained the Q4 2013 NiFiT Deployment 2 Risk and Control Matrix-to-Risk Navigator Reconciliation performed by the NiSource Controls team and noted the reconciliation took place, comparing the most up-to-date versions of the four (4) Deployment 2 RCMs (as of November 2013) and cross-referencing both primary and key secondary automated and manual controls appearing with the NiSource Risk Navigator SOX controls database.





## NiFiT Deployment 2 - Risk Assessment Review

# REVIEW RESULTS

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS

### Objective 1.

**Review relevant documentation to obtain a perspective on related risks to NiFiT Deployment 2 and how those risks may impact release timing and quality.**

The NiFiT Project team categorizes risk at three (3) unique levels: tactical/technical, project operational (mid-level) and executive. Tactical/technical project risks are maintained on a NiFiT Project Risk Log which is updated weekly and shared as part of the NiFiT Weekly Status Report distributed to relevant parties. Operational (mid-level) risks are captured informally by the NiFiT Project team and managed by the NiFiT Project Executive, who reports ongoing status of these operational risks on an "as needed" basis during various NiFiT Project team Management and Leadership meetings. For top-level project risks, an Executive Risk Heat Map has been created by the NiFiT Project team to display the expected impact and likelihood of executive risks for NiFiT Project Sponsors and members of the NiSource Executive Committee.

#### Tactical/Technical Risks:

IT Audit found the NiFiT Project team has taken the standard Action/Issue/Risk (AIR) Log template from NiSource's Project Management Methodology (PMM) framework and created a specific NiFiT Project Risk Log, displayed below, to track both tactical and technical project risks at a detailed level. The NiFiT Project Risk Log is an ongoing tracker where deployment risks are captured by ID, Risk Title, Resolution Status, Impact to Project Success and Risk Mitigation Owner. IT Audit noted the NiFiT Project Risk Log is updated on a weekly basis by the NiFiT Project team with status reported on the corresponding NiFiT Weekly Status Report distributed to NiFiT Project team management and stakeholders.

ID	Title	AIR Status	Impact to Project Success	Mitigation Owner
112	PowerPlant to EPM 8.9 Interface	Resolved	Significant	Ken Smith
114	Resource contention may cause delays in meeting deliverable schedule	Resolved	Significant	Kenneth Smith
120	Payroll Testing - Resource Constraint	Resolved	Significant	Ken Smith
121	Resource constraint for System Testing	Resolved	Significant	Sandeep Rustagi
122	Schedule overlap with Workbrain 6 Green Pay project	Resolved	Significant	Troy Martin
124	Enhance Allocations for Prior Period Adjustments at Historical Allocation Rates	Resolved	Significant	Bob Kriner



# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 1. (Cont'd)

#### Project Operational (Mid-Level) Risks:

IT Audit noted project operational risks to the current NiFiT deployment are captured by the NiFiT Project team and maintained by the NiFiT Project Executive. Although there is no formal tracking performed for these mid-level risks, they are still reviewed on an ongoing basis by NiFiT Project team Management to determine trending patterns. These project operational risks are also shared as part of bi-weekly NiFiT Leadership discussions (where necessary) and with select NiSource management teams where applicable.

Deployment 2 - Risk Analysis

Risk	Description	Status
<b>Maintaining the Test Schedule</b>	System and User Acceptance Testing (UAT) must be completed by the end of the year.	
<b>Managing the Code Freeze</b>	Changes to the legacy systems that were tested during the first quarter of 2014 must be closely monitored and strictly limited.	
<b>Increasing reliance on the Change Champion Network (CCN)</b>	Increased number of employees dispersed across a larger geographic footprint (21 locations for D2 compared to 4 for D1). Increased responsibilities, such as training and testing, for CCN.	
<b>Maintaining the attention of NGD employees</b>	D2 Change Impacts are muted compared to D1. Must maintain the focus of D2 employees so that they are aware of what is changing and the actions they need to take.	

Positive   
 Neutral   
 Negative





# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

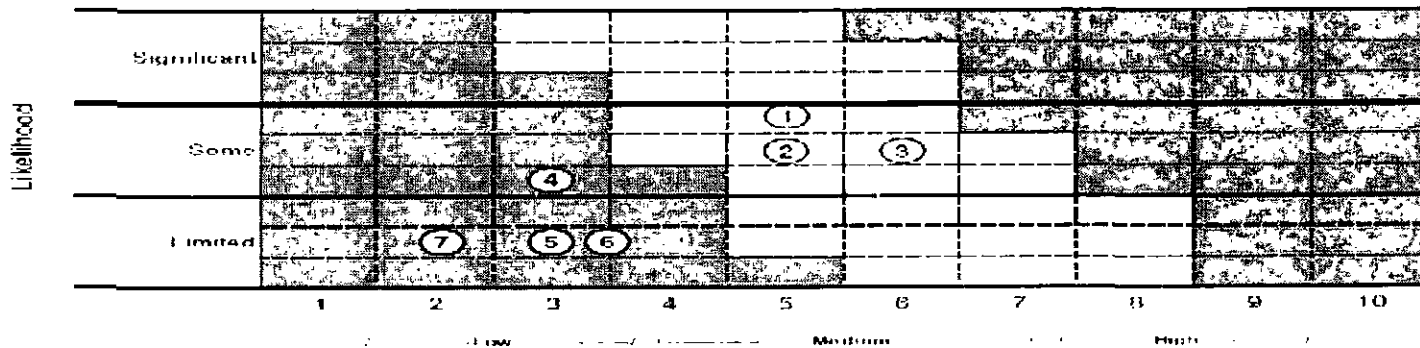
### Objective 1. (Cont'd)

#### Executive Risks:

IT Audit found known executive risks to the NiFiT project have been formally documented and are displayed on an Executive Risk Heat Map (shown below). This Executive Risk Heat Map charts seven (7) unique executive-level risks which have been identified for assessing both the likelihood and expected impact of the impending risk. IT Audit noted the Executive Risk Heat Map is updated by NiFiT Project team Management and shared periodically with NiFiT Project Sponsors and NiSource Executive Committee Members for visibility into ongoing project risk management practices instituted for NiFiT.

NiFiT Project Risks – Known and Managed

NiFiT



- |  |   |
|--|---|
| Expected Impact (budget, employee engagement, standardization/ simplification, etc.) |   |
| 1. Change Acceptance   | 5. Technical Environment                                    |
| 2. Meet Schedule   | 6. Scope Creep  |
| 3. Dependency on Completion of Other Projects  | 7. Delivered Solution Meets Delivered Business Requirements |
| 4. Team Productivity (ability to hit estimate)                                       |   |

Recommendations: None



# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 2.

**Review any relevant updates in the Deployment 2 risk management process used by NiFiT post Deployment 1.**

IT Audit noted both the NiFiT Project Risk Log (for tracking tactical/technical project risks) and the Executive Risk Heat Map (for tracking executive project-level risks) were created during Deployment 1 and are consistently being reviewed and updated as part of continuing project efforts for Deployment 2. IT Audit did find the review of project operational (mid-level) risks by NiFiT Project team Management is a newly implemented oversight procedure for Deployment 2 and encourages Project team Management to continue to evaluate and discuss these project operational risks and share with relevant parties where applicable.

**Recommendations:** None.

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 3.

**Review risk management process practiced by the NiFiT Project team for Deployment 2. IT Audit will provide an independent perspective on the processes used and provide feedback to NiFiT management.**

IT Audit reviewed NiFiT Project team risk management activities for Deployment 2 for each of the following categorized risk levels:

- Technical/Tactical (detailed-level)
- Project Operational (mid-level)
- Executive (high-level)

#### **Tactical/Technical Risks (detailed-level):**

IT Audit performed a review of randomly selected, technical/tactical risks appearing within the Deployment 2 NiFiT Project Risk Log, including analysis of Risk Log field entries related to risk impact, mitigation owner, mitigation strategy and resolution status. IT Audit found these Risk Log field entries, along with corresponding values input by the NiFiT Project team, were consistent with active risk management activity practices and were reasonable based on IT Audit attendance at regular NiFiT Project team status meetings where risk items appearing within the Risk Log were discussed for pending resolution.

IT Audit also obtained two (2) snap shots of the NiFiT Project Risk Log as of October 28 and November 20, 2013 and, of the aggregate six (6) tactical/technical risks appearing, selected two (2) Deployment 2 risks for determining whether corresponding NiFiT Risk Log field entries were completed with values input for risk description, ownership, mitigation strategy and resolution status. IT Audit noted that for each of the risks selected, risk values input by the NiFiT Project team appeared reasonable for tracking the risk mitigation process to resolution.

**Leading Practice Opportunity:** IT Audit identified an opportunity for the NiFiT Project team to add rationale for resolution within the risk journal field used to populate the NiFiT Project Risk Log. Updating the NiFiT Project Risk Log with detail in the risk journal field will help clarify risk closure and provide management enhanced visibility over closure action.

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 3. (Cont'd)

#### **Project Operational Risk (mid-level)**

IT Audit reviewed project operational (mid-level) risk activities by observing the Deployment 2 Risk Analysis update shared by NiFiT Project team Management at the NiSource Finance Director Roundtable on November 13, 2013. Of the four (4) project operational risks being tracked on the Deployment 2 Risk Analysis update, IT Audit noted each risk was previously shared by NiFiT Project team Management at relevant meetings for visibility to Executive Advisors and Project Sponsors. IT Audit encourages NiFiT Project team Management continue providing this visibility level of project operational risks to relevant NiFiT parties for the remainder of Deployment 2 and throughout Deployment 3.

#### **Executive Risk (high-level)**

In order to evaluate whether NiFiT Project team Management is updating the Executive Risk Heat Map on a periodic basis, IT Audit compared the Deployment 1 Executive Risk Heat Map published in Q1 2013 to the Deployment 2 Executive Risk Heat Map published in Q4 2013 and found the seven (7) executive risk areas reported in Q1 2013 continue to be tracked as of Q4 2013. IT Audit also noted NiFiT Project team Management is updating the Executive Risk Heat Map, as the Change Acceptance and Meet Schedule risks moved down in Likelihood while Change Acceptance and Delivered Solution Meets Defined Business Requirements moved down in Impact. As a result, IT Audit found Executive Risk Heat Map entries are being updated as needed and, based upon attendance at NiFiT Project team weekly status meetings and NiFiT Project Leadership meetings, are also being discussed with appropriate NiFiT Project Sponsors and NiSource Executive Committee Members.

**Recommendations:** None.

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 4.

**Review on-going NiFiT project management processes to provide reasonable assurance that processes instituted and adhered to for Deployment 1 continue to be executed for Deployment 2.**

NiFiT is required to use the NiSource Project Management Methodology (PMM) and has a dedicated Project Management Office (PMO) team for providing project management services/support to the NiFiT Project team. For purposes of testing project management controls owned and executed by both the NiFiT PMO and Project teams, IT Audit reviewed various NiFiT Weekly Status Reports to determine whether designated project management controls for Deployment 2 schedule, scope and cost modifications were operating as intended.

#### **Schedule Management:**

IT Audit noted the NiFiT PMO monitors time charged to the project within the PWA (Project Web Access) system and reports weekly any time submittal exceptions via email to NiFiT Project team leads for review and subsequent correction. For testing purposes, IT Audit selected two (2) weeks during Deployment 2 (weeks of October 26 and November 16, 2013) and found the NiFiT PMO appropriately performed the timely weekly email send of hours submittal exceptions to relevant NiFiT Project team leads for correction. IT Audit also noted the number of NiFiT Project team members who displayed time exceptions in PWA decreased from fifteen (15) the week of October 26, 2013 to four (4) for the week of November 16, 2013, lending credence to the continued emphasis from NiFiT Project team Management of the importance of proper time entry within PWA.

IT Audit also performed a review for project schedule control over actual Deployment 2 project hours charged vs. planned project hours. IT Audit inspected both the October 26 and November 15, 2013 NiFiT Weekly Status Reports and found the actual Deployment 2 project hours charged vs. planned project hours report created from PWA was consistent with actual Deployment 2 project hours charged vs. planned project hours reported in the NiFiT Weekly Status Reports.

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 4. (Cont'd)

#### **Schedule Management: (Cont'd)**

Finally, IT Audit noted any modifications associated with project schedule are required to have a corresponding PCR (Project Change Request) completed and authorized by an appropriate NiFiT Project team approver(s). For testing purposes, IT Audit obtained the listing of Deployment 2 PCRs presented within the October 18 and November 15, 2013 NiFiT Weekly Status Reports – six (6) from October 18 and four (4) from November 15 – and randomly selected two (2) PCRs to determine whether the corresponding Log entries for each PCR were completed with PCR approval obtained by the appropriate NiFiT Project team approver(s). IT found that for each PCR selected (#477 from October 18 and #479 from November 15), corresponding PCR Log entry detail was complete and proper NiFiT Project team Management approval was obtained prior to PCR execution

#### **Scope Management:**

In order to effectively monitor controls associated with project scope, the NiFiT PMO maintains a Deliverables RACI Matrix for each NiFiT Deployment. The Deliverables RACI Matrix contains NiFiT Project team tasks segmented by responsible group, deliverable type, approver and date completed and is updated on an ongoing basis by the NiFiT PMO for inclusion in the NiFiT Weekly Status Report. For testing purposes, IT Audit obtained two (2) NiFiT Weekly Status Reports (weeks of October 18 and November 1, 2013) and found the Deliverables RACI Matrix for Deployment 2 was both included within the NiFiT Weekly Status Report and was updated with deliverable metrics consistent with those reported to NiFiT Project team Management within weekly NiFiT Project Team status meetings.

Any modifications associated with project scope for the current deployment are also required to have a corresponding PCR (Project Change Request) completed and authorized by an appropriate NiFiT Project team approver(s). For testing purposes, IT Audit obtained the listing of Deployment 2 PCRs presented within the October 18 and November 1, 2013 NiFiT Weekly Status Reports – six (6) from October 18 and two (2) from November 1 – and randomly selected two (2) PCRs to determine whether the corresponding Log entries for each PCR were completed and overall PCR approval was obtained by the appropriate NiFiT Project team approver(s). IT found that for each PCR selected (#475 from October 18 and #483 from November 1), corresponding PCR Log entry detail was complete and proper NiFiT Project team Management approval was obtained prior to PCR execution.

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 4. (Cont'd)

#### **Cost Management:**

The NiFiT Project team has also created cost controls for the reporting of actual/estimated/budgeted project financials, along with tracking any observed project financial variances versus expectations. These project financials are maintained with the NiFiT Financial Model and are included for reporting within the NiFiT Weekly Status Report. As part of a recommendation from the NiFiT Deployment 1 Post-Deployment review, IT Audit noted NiFiT Project team Management is currently saving a copy of the NiFiT Financial Model (and it's related data) used to populate each NiFiT Weekly Status Report for reconciliation purposes.

For testing alignment between the NiFiT Financial Model and financial data presented within the NiFiT Weekly Status Report, IT Audit obtained snapshots of the Deployment 2 NiFiT Financial Model from November 15 and November 29, 2013 and compared financial totals displayed against financial data presented by NiFiT Project team Management within the November 15 and November 29, 2013 NiFiT Weekly Status Reports. IT Audit found that for both snapshots selected, the corresponding data within the NiFiT Financial Model agreed to financial data presented within the NiFiT Weekly Status Report.

As with project scope modifications, changes associated with project costing for the current deployment are also required to have a corresponding PCR (Project Change Request) completed and authorized by an appropriate NiFiT Project team approver(s). For testing purposes, IT Audit obtained the listing of Deployment 2 PCRs presented within the October 18 NiFiT Weekly Status Report – six (6) total – and randomly selected a single cost PCR (#468) to determine whether the corresponding Log entry was completed and overall PCR approval was obtained by the appropriate NiFiT Project team approver(s). IT found that for the single PCR related to a project cost change, corresponding PCR Log entry detail was complete and proper NiFiT Project team Management approval was obtained prior to the PCR being executed.

**Recommendation(s):** None.



# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW/ RESULTS (Cont'd)

### Objective 5.

**Provide an independent perspective to both the NiFiT Project team and relevant NiFiT Stakeholders on overall risk management practices and procedures used to guide Deployment 2 activities.**

The NiFiT project has a designated Executive Advisor team who are involved in overseeing the project in regards to enterprise governance and risk management. As part of internal change management and communications efforts, the NiFiT Project team has also identified and engaged key Stakeholders who have defined financial and/or operational responsibilities for the successful implementation of Deployment 2.

For gaining a perspective on project governance and risk management practices used to guide the Deployment 2 effort, IT Audit engaged both the NiFiT Executive Advisor team along with a selected sample of key Deployment 2 Stakeholders (displayed below) for inclusion in a formal risk assessment interview process. IT Audit performed a series of twelve (12) interviews throughout November and December 2013 in support of understanding risk management procedures used by the NiFiT Project team, as well as specific areas of project risk that NiFiT Project team Management is responsible for addressing. The Executive Advisor interviews focused on both high-level Deployment 2 risk categories defined by NiFiT Project Leadership and the project risk management/governance performance of the NiFiT Project team. The IT Audit interviews with key Deployment 2 Stakeholders included discussion of NiFiT project risk areas (as seen from a Stakeholder perspective) and questions identifying potential operational risks to CDC (Columbia Distribution Companies) that Deployment 2 may pose.

#### Executive Advisors

- VP – Financial Transformation
- VP – Corporate Controller/CAO
- VP – IT Service Delivery (NBCS/NIPSCO)
- VP – Financial Planning & Analysis

#### Stakeholder Members

- Segment Controller (NCBS)
- Segment Controller (NGD)
- VP – IT Service Delivery (NGD)
- SVP/COO (NGD)
- VP – Human Resources (NGD)
- COO (NGD Operations)
- VP & GM (COH)
- Director - HR Ops Delivery







## REVIEW/RESULTS (Cont'd)

### Objective 5. (Cont'd)

Upon consolidation of interview participant responses, IT Audit identified the following twelve (12) risk items which were reviewed with the NiFiT Project Executive for confirmation of awareness and risk ownership validation. See the following chart:

ID#	IT Audit Interview Risk Identified	Risk Owner
1	<b>NiFiT Staffing – Turnover</b> <i>Loss of project productivity due to staffing changes</i>	R. Fontaine
2	<b>NiFiT Staffing – Fatigue</b> <i>Loss of project productivity due to staffing fatigue</i>	R. Fontaine
3	<b>NGD Operational staff communication during D2 deployment/cutover events.</b> <i>Potential for errors during D2 cutover leading to NGD operational challenges.</i>	R. Fontaine , K. Smith
4	<b>D1 enhancements taking focus away from D2 activities</b> <i>D2 deployment is adversely impacted for cost, scope, quality or schedule.</i>	R. Fontaine
5	<b>System changes requested by NGD being delayed or deferred due to NiFiT</b> <i>Business operations are adversely impacted</i>	R. Fontaine
6	<b>System changes made between UAT completion and actual D2 deployment</b> <i>D2 deployment is adversely impacted for cost, scope, quality or schedule.</i>	R. Fontaine , T. Martin
7	<b>Inaccurate charging of NiFiT resource time</b> <i>Inaccurate actual cost causing both payment variances to vendors and cost recording for NiFiT</i>	R. Fontaine, G. Bane
8	<b>Inaccurate time classification between O&amp;M and Capital</b> <i>Inaccurate actual cost classification for NiFiT</i>	R. Fontaine , G. Bane
9	<b>Support for regulatory tracking and filing</b> <i>Could be adversely impacted by D2 deployment</i>	R. Fontaine
10	<b>Access to NGD operational data and reports</b> <i>Could be adversely impacted by D2 deployment</i>	R. Poe
11	<b>Closing NGD accounting periods for financial reporting</b> <i>Could be adversely impacted by D2 deployment</i>	J. Konold
12	<b>Responding to regulatory support and audit requests</b> <i>Could be adversely impacted by D2 deployment</i>	R. Fontaine, R. Kriner

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 5. (Cont'd)

IT Audit found the NiFiT Executive Advisors shared common perspectives on the following seven (7) executive risks areas identified within the NiFiT Executive Risk Heat Map. IT Audit additionally noted the Executive Advisor group believes the NiFiT Project team executes sound project governance and risk management practices based upon their observation and project participation:

- Change Acceptance
- Meeting Schedule
- Dependency on Completion of other Projects
- Team Productivity (Ability to Hit Estimate)
- Technical Environment
- Scope Creep
- Delivered Solution Meeting Defined Business Requirements

IT Audit also found the key Deployment 2 Stakeholder group interviewed had varying levels of awareness of these seven (7) executive risk items identified above. This level of awareness appears to be predicated on how involved in Deployment 2 each key Stakeholder (and their supporting team) had been up through the interview period. IT Audit also found certain key Stakeholders identified potential Deployment 2 operational risks yet noted they believe the NiFiT Project team is aware of these operational risks and willing to work with the Stakeholders group for risk mitigation exercises.

Finally, IT Audit found each of the twelve (12) Executive Advisor and/or key Deployment 2 Stakeholder risks identified) were acknowledged by the NiFiT Project Executive as mid-level risks with ownership already assumed for ten (10) items by NiFiT Project team Management the NiFiT team is aligned with the Process Owners to assist with managing the risk for the two (2) items identified as owned by Process Owners.

**Recommendation(s):** None.

**Management Comments:** Regarding risk #4 on the previous slide, there are no D1 enhancements in process or contemplated for the future. Therefore, there is no risk of such enhancements taking focus away from D2 activities. Procedurally, D1 was tendered from HyperCare to steady state in September, 2013 per NiFiT's documented processes thus ending NiFiT's role in D1. This shift to steady state was agreed to by each of the relevant steady state process owners, and was approved by the NiFiT Executive Advisors and Executive Sponsors.

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 6.

**Review KPMG Controls team activities to address modified or newly added automated controls for NiFiT Deployment 2 to ensure complete and accurate integration into NiFiT Risk and Control Matrixes (RCMs). Review NiFiT Project team testing plans for impacted Deployment 2 automated controls to determine whether new or modified automated controls are included and have been approved by Process Owners.**

As part of NiFiT Deployment 2 planning, the KPMG and NiSource Controls teams aligned to identify a total of nine (9) net new, automated control points for integration into Deployment 2 testing performed by the NiFiT Project team. Of the nine (9) automated control points added, two (2) were found to be automated SOX control activities in PeopleSoft Financials while seven (7) were noted as automated interfaces either into or out-of PeopleSoft Financials with a SOX impact.

IT Audit obtained the most current versions of the NiFiT Deployment 2 Risk and Controls Matrixes (as of November 2013) and found two (2) net, new automated SOX controls were added post lock-down of the Deployment 1 RCMs. For both automated controls added for Deployment 2, IT Audit found corresponding Process Owner approval of the automated control along with a corresponding control test script created within the HP ALM testing tool. IT Audit also inspected the HP ALM testing tool during December 2013 and noted both new, automated SOX controls were included as part of the NiFiT Project team's System Pass (II) testing effort with their corresponding testing script successfully executed prior to the start of Deployment 2 User Acceptance Testing (UAT).

IT Audit also obtained the Deployment 2 Interface listing (as of December 2013) and found seven (7) net, new automated interfaces for feeder systems into and out-of PeopleSoft Financials were added post NiFiT Deployment 1 go-live. For each of the seven (7) automated interfaces identified, IT Audit also found a corresponding SOX control testing script created within the HP ALM testing tool that was successfully executed prior to the start of Deployment 2 User Acceptance Testing (UAT) – as automated interfaces aren't required to have corresponding Process Owner approval prior to deployment.



# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 6. (Cont'd)

#	Test Script	Control/Process	SOX Type	Team	System Test Status (HP/ALM)
New Automated SOX Interfaces (D2)					
1	SCM.S.003.02	DIS (Cash) > PS AP	SOX Interface	Supply Chain	Passed
2	SCM.S.005.02	Lease-Rental Control System > PS AP	SOX Interface	Supply Chain	Passed
3	SCM.029.03	PNC (Disbursements) > PS AP	SOX Interface	Supply Chain	Passed
4	ACT.I.003.01	DIS (Choice) > PS GL	SOX Interface	Accounting	Passed
5	ACT.I.004.01	DIS (Non-Choice) > PS GL	SOX Interface	Accounting	Passed
6	ACT.I.021.05	OSS > PS GL	SOX Interface	Accounting	Passed
7	ACT.I.002.04	DIS JV > PS GL	SOX Interface	Accounting	Passed
New Automated SOX Controls (D2)					
8	ACT.FIT.010.23	ALLOC.01: Allocations Security	SOX Control	Accounting	Passed
9	ACT.01.W.01.04	INTCO.03: Intercompany Journal Approvals	SOX Control	Accounting	Passed

For additional review whether NiFiT Deployment 2 RCMs are being actively managed and kept current, IT Audit obtained RCM Change Logs maintained by the NiSource Controls team as of December 2013. IT Audit noted that for each of the four (4) individual Deployment 2 RCM's, a corresponding Change Log is being updated on a month-by-month basis for any modified control data (i.e. control activity description, process owner, process owner approval, etc.). IT Audit encourages the NiSource Controls team continue this RCM Change Log update practice as it helps ensure modifications to the each of the four (4) Deployment 2 RCMs is tracked, readily visible and able to be reconciled back to the current Deployment 2 RCM versions maintained.

**Recommendations:** None.

# NiFiT Deployment 2 - Risk Assessment Review

## REVIEW / RESULTS (Cont'd)

### Objective 7.

**Review activities to update the NiSource Risk Navigator SOX controls database with new or updated controls for NiFiT Deployment 2 to provide assurance that relevant controls documentation is aligned with Deployment 2 RCMs.**

IT Audit obtained the Q4 2013 NiFiT Deployment 2 RCM-to-Risk Navigator Reconciliation performed by the NiSource Controls team and noted the reconciliation took place, comparing the most up-to-date versions of the four (4) Deployment 2 RCMs (as of November 2013) and cross-referencing both primary and key secondary automated and manual controls appearing with the NiSource Risk Navigator SOX controls database. Based on the November 2013 reconciliation performed, the NiSource Controls team found the following statistics:

- 881 Primary and Key Secondary Controls present within Risk Navigator
- 496 Primary and Key Secondary Controls appearing in the NiFiT Deployment 2 RCM's (as of November 2013)
- 474 Primary and Key Secondary Controls appearing in Risk Navigator related to NiFiT (as of November 2013)
- 22 Primary and Key Secondary Controls with variance – located in the Deployment 2 RCM's but not located in Risk Navigator

IT Audit determined the twenty-two (22) primary/key secondary SOX control variance was due to these controls being newly added to the RCM's for NiFiT Deployment 2, with the update to include those controls in the Risk Navigator SOX database taking place in April 2014 post go-live of NiFiT Deployment 2.

**Recommendations:** None.

# NiFiT Deployment 2 - Risk Assessment Review

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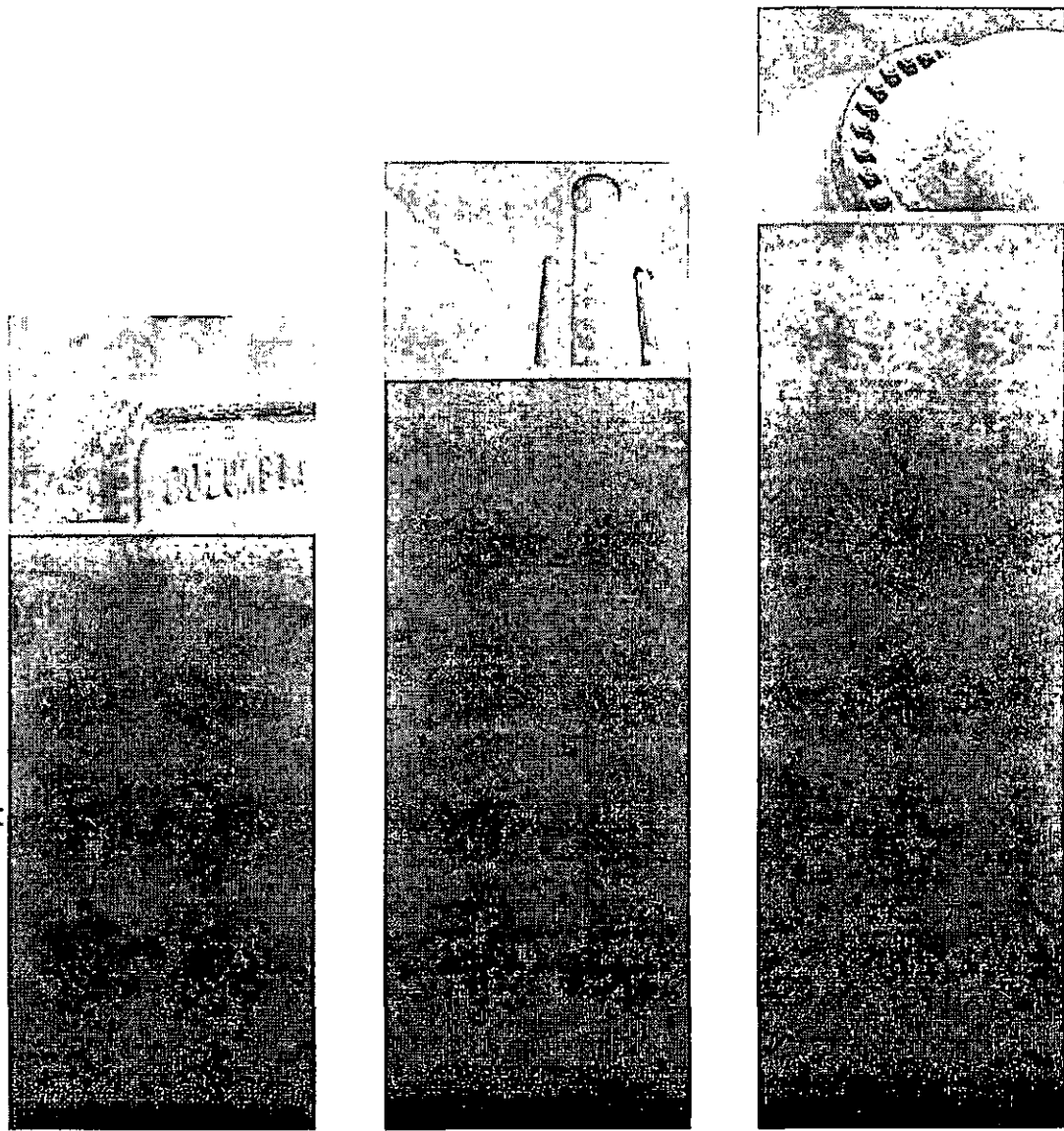
# NiFiT Financial Review

January 13, 2014

**\*\* CONFIDENTIAL \*\***  
**NOT FOR DISTRIBUTION**

**To: Richard Fontaine, Vice President  
Financial Transformation**

**From: Chris Marlatt, Senior Internal Audit  
Brady Waite, Senior IT Auditor  
John Manfreda, Project Manager IT Audit  
Jaclyn Callahan, Manager Internal Audit  
Greg Wancheck, Manager IT Audit  
Ryan Binkley, Audit Director  
Ray Irvin, Director IT Audit**



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# Executive Summary

Internal Audit has completed a review of the NiFiT financials for the period January 2013 to July 2013 to ensure costs are accurately recorded. Internal Audit also reviewed the forecasting and budgeting process over the entire NiFiT project.

- The total spend reviewed as part of this audit was approximately **\$33.1 million** (see *slide 27*).

**Audit Objective 1:** Ensure NiFiT project costs are complete, accurate and properly accounted for in the Company's financial statements.

## ***Audit Results:***

- NiFiT project costs tracked and reported by the NiFiT Project team through the Financial Model (Excel workbook) are reconciled to accounting records and financial statements;
- The Financial Model appears to be mathematically accurate with numbers properly linking within the tabs of the model;
- Costs reported by the NiFiT Project team are consistent with reports distributed to NiFiT sponsors and management;
- NiFiT project modifications submitted through the change management process for budget and forecast balances are properly approved, supported and communicated;

## Executive Summary (Cont'd)

### ***Audit Results (Cont'd):***

- Third-party program invoices reviewed were properly approved in accordance with Company policies;
- The Capital/Operating and Maintenance (O&M) classification per all invoices reviewed agreed to Accounting records;
- Invoiced rates and hours are reconciled to applicable Statements of Work (SOW) and Microsoft Project Web Access (PWA) respectively, with the exception of IBM and F1 invoices; and
- Non-labor charges appear to be properly approved for payment, accurately recorded through review of supporting invoices and accurately reflected in the Financial Model, including the Capital/O&M split.

### ***Internal Audit Recommendations:***

- NiSource management should consider modifying processes and procedures around the IBM/F1 invoice reconciliation process to allow the NiFiT Project team to reconcile IBM and F1 invoice detail to PWA for both hours worked and invoiced rates on executed SOWs; and
- Accounting should perform the reconciliation of Workbrain to PWA hours on a cumulative basis, as adjustments can be made to prior period labor data in PWA. This would help to ensure the reconciliation uses the latest PWA hours for the Accounting review period and reflects any changes made to PWA subsequent to an employees' initial time entry.

**Note:** See **slide 16** for management's response to recommendation.

## Executive Summary (Cont'd)

**Audit Objective 2:** Ensure third-party vendors are providing services and deliverables to the Company in accordance with the established contract terms.

### ***Audit Results:***

- Third-party invoice charges do not appear to exceed the contracted “not to exceed amount” unless properly approved; and
- Terms of the SOWs, which include contract conditions, fees for services (i.e. rates) and “not to exceed thresholds”, were properly calculated and/or applied to invoices.

***Internal Audit Recommendations:*** None.

**Audit Objective 3:** Perform an analysis on Deployment 1 to determine if forecasted estimates for Deployment 2 and 3 will meet overall budget requirements.

### ***Audit Results:***

- Variances are investigated and factored into future planning of the NiFiT project; and
- PWA is utilized to monitor the NiFiT Project schedule, actuals hours, resource tasks, and forecast.

***Internal Audit Recommendations:*** None.

## Executive Summary (Cont'd)

In conjunction with the testing outlined on the previous slides, Internal Audit has made the following observations that could enhance current processes and procedures:

- The NiFiT Project team should leave comments in cells that contain hard-keyed balances within their Financial Model to ensure Excel formulas are consistent, accurate and maintain data integrity in future Model updates;
- The NiFiT Project team should classify the roles listed on the Accenture bill reconciliation to align with the Accenture SOW; and

*Note: See slide 18 for management's response to observation.*

- The NiFiT Project team should consider including contractor rates within the PWA tool to help provide a financial impact when overages are incurred.

*Note: See slide 25 for management's response to observation.*

# Background

## NiFiT Financial Background

The NiFiT Project team tracks/reports all NiFiT budget, forecast and actual expenditures within their Excel-based Financial Model, including the O&M/Capital breakout. There are two (2) main Financial Model reporting tabs that track budget to actual comparisons:

- The Tracking Summary tab reports a monthly and annual deployment analysis comparing the estimate (budget) to both actual expenditures and forecast expenditures (where forecast is a mix of actual (to-date) and forecast balances).
- The Total Budget Summary tab tracks the total project cost from both a budget and actual/forecast perspective. This summary ensures costs are under the overall budget total of **\$125 million**.

***Note:** The remaining outputs of the Financial Model were outside Internal Audit's review as they represent ad hoc reports that summarize data already included within the summaries referenced above.*

## Background (Cont'd)

### Financial Model Data

- **Actual Expenditures:** Updated monthly by the NiFiT Project team from support obtained from Accounting through an intercompany convenience billing process – which primarily includes third party expenditures and internal labor charges; refer to **Slide 9** for details of these expenditures. The NiFiT Project team ensures the O&M and Capital totals within the Financial Model tie to Accounting support.
- **Budget Expenditures:** Represents a point-in-time estimation of forecast balances. The budget is generally updated prior to the start of a new NiFiT deployment and represents a detailed analysis of estimating project costs, taking into account performance of previous deployments and known changes since the prior budget determination. The budget is saved until another detailed expenditure analysis is performed.
- **Forecast Expenditures:** Represents the current budget plus weekly updates reflecting Project Change Requests (PCRs). PCRs are formally approved changes in the project that can increase/decrease the forecast (i.e. add/remove/change resources or non-labor purchases).

### Time Entry for Labor Costs

- **Microsoft Project Web Access (PWA):** Represents the application used to record time for all internal and external NiFiT resources; Microsoft Project Server warehouses all PWA time and is the supporting application used to report PWA time for analysis purposes. Resources are required to submit their time worked to established charge codes, whereby all NiFiT activities have a corresponding charge code indicating the business unit and Capital/O&M classification. NiSource Workstream Leads are required to approve all time entered into PWA, and only approved time within PWA will be reflected within Microsoft Project Server. PWA is further utilized to maintain the overall project schedule by assigned tasks and deliverable check points by individual resources. This allows NiFiT Project team management to ensure adequate resources have been allocated to each task to warrant deadlines are met.

## Background (Cont'd)

### Third-Party Expenditures

- Third-party expenditures are invoiced in accordance with executed SOWs, include labor and non-labor expenses (i.e. travel, etc.) and have approval of invoiced charges performed by the NiFiT Project team. Before payment is released for third-party invoices, rates are agreed to executed SOWs and hours submitted are reconciled to PWA. If invoiced hours are greater than hours reflected in PWA, the NiFiT Project team will short pay the vendor by the amount of the excess hours until they can reconcile the invoiced hours to PWA. SOWs also contain a **“not to exceed”** amount for stated services which is entered to the purchase order through NiSource’s Maximo procurement system. System controls are built into Maximo to ensure payments will not go over the SOW **“not to exceed”** amount without proper approval.

### Internal Labor Expenditures

- Internal resources must enter their time into both PWA and Workbrain, whereby Workbrain is the system that generates the internal labor cost. Accounting has created a quarterly control that compares the hours charged by charge code in Workbrain to PWA. Any necessary adjusting entries are made to properly apply the O&M/Capital split percentages to Workbrain hours based on O&M/Capital split in PWA.

# Audit Procedures, Results and Recommendations

**Audit Objective 1:** NiFiT Project Costs are complete, accurate and properly accounted for in the Company's financial statements.

## **Audit Procedures – Objective 1:**

1. Verify that monthly convenience bill detail (Accounting support) ties to the NiFiT Project team's Financial Model;
2. Perform an integrity test over the Financial Model to determine whether it is accurately reporting budget, forecast and actual expenditures;
3. Ensure reports provided to NiFiT project sponsors agree to the Financial Model;
4. Perform walkthroughs to understand the change management process for budget and forecast balances to ensure modifications are properly approved, supported and communicated;
5. Review internal labor expenses and check if they are complete, accurate and properly supported;
6. Ensure third-party labor charges are properly approved and agree to the correct SOW. Also ensure labor hours charged reconcile to PWA and are accurately classified; and
7. Determine if non-labor charges are properly supported and accounted for appropriately.



## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 1, Procedure 1:** Verify that monthly convenience bill detail (Accounting support) ties to the NiFiT Project team's Financial Model.

### **Audit Results:**

Internal Audit traced the Capital and O&M totals per the monthly convenience bill for the months of January 2013 through July 2013 to the Financial Model. As there were no variances greater than the established threshold of **\$10 thousand**, it appears that accounting detail is being properly entered into the Financial Model.

**Internal Audit Recommendation(s):** None.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 1, Procedure 2:** Perform an integrity test over the Financial Model to determine whether it is accurately reporting budget, forecast and actual expenditures.

### **Audit Results:**

To determine Financial Model data was properly linked from the data input tabs, Internal Audit performed integrity tests for the following:

- Data within the Staffing Plan tab flowing accurately to the Budget/Actual tab;
- Budget detail on the Budget/Actual tab for the current Financial Model agreeing to the budget detail when the budget was set; and
- Detail from the Budget/Actual tab flowed accurately to the Tracking Summary tab.

Data appeared to be properly linked for the tests performed above; however, Internal Audit noted the following:

- Hard-keyed balances were identified within the Budget/Actual tab for August Forecast Accenture labor hours that were deemed appropriate; however, these balances were not “flagged” within the Financial Model to support the change or to ensure data integrity on future updates.

### **Internal Audit Recommendations:**

Management should leave review comments within the Financial Model for hard-key adjustments to prevent data integrity issues on subsequent Financial Model versions.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 1, Procedure 3:** Ensure reports provided to NiFiT project sponsors agree to the Financial Model

### **Audit Results:**

Bi-monthly, the NiFiT Project team issues a Project Sponsor Report. Every Sponsor Report includes a slide detailing actual expenditures and remaining forecast.

- For a sample of three (3) Project Sponsor Reports (February, March and September of 2013), Internal Audit performed an independent reconciliation of both actual expenditures and forecast for the applicable 2013 period to the Financial Model. Internal Audit determined all three (3) Project Sponsor Reports reconciled appropriately and accurately reflected expenditures and forecast appearing within the Financial Model.

**Internal Audit Recommendations:** None.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 1, Procedure 4:** Perform walkthroughs to understand the change management process for budget and forecast balances to ensure modifications are properly approved, supported and communicated.

### **Audit Results:**

Internal Audit performed walkthroughs with NiFiT Project team management, noting controls are in place to ensure changes made to the forecast and budget are approved, supported and communicated through Project Change Requests (PCRs) which are formally approved and retained through SharePoint.

*Note: Not all PCRs have a financial impact (i.e. a PCR could be issued to replace a resource with another resource that has the same billable rate).*

**Internal Audit Recommendations:** None.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 1, Procedure 5:** Review internal labor expenses and verify they are complete, accurate and properly supported.

### **Audit Results:**

Internal Audit selected ten (10) employees from the monthly convenience bill support and verified the following for one month for each employee:

- Hours worked per the convenience bill agreed to Workbrain
- Hours were approved in Workbrain
- Hours were approved in PWA
- Hours within the quarterly reconciliation completed by Accounting, comparing hours reporting in Workbrain to PWA. (See **Slides 8 and 9** for further detail of time entry and internal labor.)
  - Internal Audit observed that PWA hours listed within the quarterly reconciliation did not agree to PWA at the time of our review due to changes made by employees in the PWA system subsequent to the quarterly reconciliation. **Note:** *Monthly selections for June and July 2013 (3 total) were not reviewed by Internal Audit as the June - August 2013 quarterly reconciliation was being completed at the time of testing in early October.*

## Audit Procedures, Results and Recommendations (Cont'd)

### ***Internal Audit Recommendations:***

NiSource Corporate Services Accounting should perform the reconciliation of Workbrain to PWA hours on a cumulative basis, as adjustments can be made to prior period labor data in PWA. This would help to ensure the reconciliation uses the latest PWA hours for the Accounting review period and reflects any changes made to PWA subsequent to an employees' initial time entry.

### ***Management Response & Comments:***

NiSource Corporate Services Accounting agrees to reevaluate the current quarterly reconciliation to include cumulative review of Workbrain against PWA to ensure proper system reconciliation of all adjustments. The revised reconciliation process will begin in the first quarter of 2014.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 1, Procedure 6:** Ensure third-party labor charges are properly approved and agree to the correct SOW. Also ensure labor hours charged reconcile to PWA and are accurately classified.

### **Audit Results:**

Internal Audit selected ten (10) invoices from convenience bill support. For each invoice selected, the following tests were performed:

- Verified the invoice was properly approved;
- Determined that rates per the invoice agreed to the applicable SOW (Statement of Work);
- Verified that hours per the invoice reconciled to PWA; and
- Determined that O&M/Capital split per the invoice agreed to the convenience bill classification.

Based on the procedures performed above the following exceptions were noted:

Internal Audit observed that for the IBM and F1 invoice selections (3 of 10 selections), hours and rates were not agreed to PWA and the SOW, respectively.

Internal Audit observed that for the two (2) Accenture invoices selected, we were unable to confirm if invoiced rates agreed to the SOW. Internal Audit found the file used to reconcile Accenture invoices (which list hours and rates by person) contains "**sub roles**" instead of the "**role descriptions**" defined within Accenture's SOW. Through discussions with the NiFiT Project team member who performs the reconciliation, management is able to verify that billed rates are accurate based on the day-to-day involvement with Accenture resources assigned to the project.

## Audit Procedures, Results and Recommendations (Cont'd)

### ***Audit Results (Cont'd):***

For the two (2) Accenture and two (2) HMB invoices selected, Internal Audit noted multiple resources had variances when comparing hours per the invoice to PWA for the invoiced time period. The net variance for all resources included on the invoice showed PWA hours in excess of what was billed on the invoice. The NiFiT Project Team noted that when PWA hours are greater than invoiced hours, no further investigation is performed.

### ***Internal Audit Recommendations:***

NiSource management should consider changing processes and procedures around the IBM/F1 invoice reconciliation process to allow the NiFiT Project team to reconcile IBM and F1 invoice detail to PWA for both hours worked and invoiced rates on executed SOWs; and

NiFiT Project team management should have sub roles, which are listed in the Accenture reconciliation, changed to roles that match the Accenture SOW. This would ensure another NiFiT Project team resource could perform the invoice reconciliation if needed.

### ***Management Response & Comments:***

The NiFiT team agrees with the recommendation to align role names between the Accenture invoice and SOW. This change is currently being implemented. For clarity, we have always reconciled the invoice, the SOW, and the approved hours worked recorded in PWA on a person-by-person basis. Occasionally, though, the title associated with a person has not been maintained synchronously across these documents which makes the reconciliation more complex than necessary.



## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 1, Procedure 7:** Determine if non-labor charges are properly supported and accounted for appropriately.

### **Audit Results:**

Internal Audit selected five (5) non-labor expenditures from the monthly convenience bill support for testing purposes. Internal Audit reviewed each selection to:

- Ensure it agreed to supporting documentation (i.e. invoice);
- Expenses were properly approved;
- The expenses were allocated to an appropriate charge code (O&M or Capital); and
- Expenses were directly traceable to the Financial Model.

Internal Audit did not identify any exceptions in our procedures.

**Internal Audit Recommendations:** None.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 2:** Third-party vendors are providing services and deliverables to the Company in accordance with established contract terms.

### **Audit Procedures:**

1. Verify that third-party invoices do not exceed the contracted "not to exceed amount" unless properly approved; and
2. Ensure contract terms stated in Accenture SOW #16 are properly applied.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 2, Procedure 1:** Verify that third-party invoices do not exceed the contracted “not to exceed amount” unless properly approved.

### **Audit Results:**

Within each SOW for third-party service providers, it is typically stated there is a “not to exceed amount” unless it is approved by NiFiT management. For a selection of two (2) purchase orders, Internal Audit verified that total payments processed through Catalyst agreed to the total approved fees per the related SOWs. Internal Audit noted one of the purchase order selections did exceed the SOW’s stated “not to exceed amount”; however, it was properly approved by NiFiT Project team and NiSource Supply Chain management and was correctly updated within the Maximo purchase order system.

**Internal Audit Recommendations:** None.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 2, Procedure 2:** Ensure contract terms stated in Accenture SOW #16 are properly applied.

### **Audit Results:**

Internal Audit noted the Accenture SOW's are the only contracts that have additional terms in addition to fees for services (i.e. rates) and not to exceed amounts. Accenture SOW #16 was the contract covering the time period under Internal Audit's review (January 2013 – July 2013) and where Internal Audit verified the following:

- Cost of Living Adjustment (COLA) rates were accurately calculated within the SOW;
- Travel expenses were accurately applied to invoices at the agreed upon rate of 15% of total labor charges;
- Holdbacks, which are monies held from payment until completion of the project, were properly applied to the March and June invoices;
- Completion bonus amounts were properly accrued; and
- A **\$100 thousand** credit fee was applied to each invoice.

Internal Audit did not identify any exceptions in our procedures.

**Internal Audit Recommendations:** None.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 3:** Perform an analysis on Deployment 1 to determine if forecasted estimates for Deployment 2 and 3 will meet overall budget requirements.

### **Audit Procedures:**

1. Review the usage of PWA to ensure the application is being utilized to track the overall project schedule, specific tasks, deliverable check point dates and actual hours incurred to date; and
2. Ensure PWA actual hours are being utilized to forecast the estimated remaining time to complete the project on schedule and budget.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 3, Procedure 1:** Review the usage of PWA to ensure the application is being utilized to track the overall project schedule, specific tasks, deliverable check point dates and actual hours incurred to date.

### **Audit Results:**

Internal Audit determined the PWA tool tracks the overall project schedule by utilizing a phased approach (i.e. Build, Test, Implementation, etc.) to assign resources specific tasks and hour estimates for completing each NiFiT project deliverable. On a weekly basis, resources are required to enter their actual hours worked within the PWA application, with PWA configured to allocate hours worked to either a Capital or Operating & Maintenance (O&M) charge code. Internal Audit noted PWA is also utilized as the central repository for tracking the current status of the NiFiT project and the remaining schedule.

During review of the PWA tool, Internal Audit noted contractor rates are not included within the tool. This decision was made because all contractors (i.e. IBM) are not required to enter hours into PWA.

### **Internal Audit Recommendations:**

NiFiT Project team should consider including contractor rates within the PWA tool to help provide a financial impact when overages are incurred. Additionally, including rates within PWA would assist Management with performing reconciliations.

## Audit Procedures, Results and Recommendations (Cont'd)

### ***Management Response & Comments:***

The NiFiT team does not agree with the recommendation to include contractor rates in PWA because it is unnecessary and inefficient. By design, the scope of PWA is specific to a time-slice of the project and therefore does not contain a comprehensive view of the NiFiT project; it only contains data for the current and past phases of work. Future phases (e.g. Deployment 3 Build, Test and Deploy phases) are not yet planned at the detail task / deliverable / date / person level of detail contained in PWA because the large variability in this detail data for future phases would make this an inefficient practice. In addition, PWA does not contain non-labor data, like travel expenses, which are an important component of our cost management processes. Therefore, we have a separate financial model, which includes all phases of the project - past and future, labor and non-labor. This financial model includes contractor rates and provides the detail needed to analyze specific cost variances, reconcile invoices, and manage the current project estimate. Duplicating the rate data in PWA for the current phase provides no incremental value beyond what the financial model provides, and would create extra work to keep the rates synchronized between the tools. We also have concerns about the effort to maintain confidentiality of contractor rate information, which we have a ethical business responsibility to do, if we include this data in a tool that has wide-spread access on the project, like PWA. Further, as evidenced by this Internal Audit report, we have experienced no cost integrity issues with our current processes that warrant a change. While including rates in PWA might be useful in a small, single-phase, single-contractor project, it is not appropriate in a large, multi-phase, multi-contractor initiative like NiFiT.

## Audit Procedures, Results and Recommendations (Cont'd)

**Audit Objective 3, Procedure 2:** Ensure PWA actual hours are being utilized as a tool to facilitate the process for planning hours going forward.

### **Audit Results:**

After the conclusion of each NiFiT project phase, NiFiT Project management team analyzes actual hours incurred during that phase versus planned hours for the corresponding phase in the next deployment (i.e. Deployment 1 Hypercare versus Deployment 2 Hypercare). NiFiT Project management team utilizes this information, in conjunction with their experience and the Accenture forecasting model, as a starting point to gain reasonable assurance the planned hours for the next deployment cycle are appropriate. Additionally, this analysis provides NiFiT Project management team with the planned split between Capital and O&M for the next deployment.

Internal Audit noted NiFiT Project management team is performing this analysis after the completion of each phase, just prior to the beginning of the same phase in the next deployment. The analysis is being performed close to the beginning of the phase in the next deployment due to the amount of resource changes and variances in the process which occur right up until the phase initiates.

Once the analysis is complete and the staffing plan is locked, any changes to the planned hours are required to follow the NiFiT change management process by completing a PCR.

**Internal Audit Recommendations:** None.



# NiFiT Actual Expenditure Breakdown

The following chart compares actual expenditures reviewed by Internal Audit (period of January 2013 – July 2013) to total project expenditures as of July 2013 (testing cut-off date). Totals displayed were taken from the Tracking Summary tab of the NiFiT Financial Model.

<b>NiFiT Financials</b>									
	<b>Actual Costs within Audit Scope (Jan - Jul 2013)</b>			<b>Total Project Actual Costs to Date (as of Jul 2013)</b>			<b>Amount Not Subject to Audit Procedures pre-Jan 2013</b>		
	<b>O&amp;M</b>	<b>Capital</b>	<b>Total</b>	<b>O&amp;M</b>	<b>Capital</b>	<b>Total</b>	<b>O&amp;M</b>	<b>Capital</b>	<b>Total</b>
<b>Internal Labor</b>	2,009	2,714	4,723	3,898	5,272	9,169	1,889	2,558	4,446
<b>IBM</b>	746	2,889	3,635	1,080	4,278	5,357	334	1,389	1,723
<b>External</b>	3,976	16,106	20,083	9,146	28,905	38,050	5,169	12,798	17,968
<b>Total Labor</b>	<b>6,732</b>	<b>21,709</b>	<b>28,441</b>	<b>14,123</b>	<b>38,454</b>	<b>52,577</b>	<b>7,392</b>	<b>16,745</b>	<b>24,137</b>
<b>Non Labor</b>	1,820	2,809	4,629	2,603	3,941	6,544	783	1,132	1,915
<b>TOTAL</b>	<b>8,551</b>	<b>24,518</b>	<b>33,070</b>	<b>16,726</b>	<b>42,395</b>	<b>59,121</b>	<b>8,174</b>	<b>17,877</b>	<b>26,052</b>

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**TO:** Susan Taylor, Controller Corporate Services

**FROM:** Shelley Duling, Audit Senior *Shelley Duling*  
Jaclyn Callahan, Audit Manager *Jaclyn Callahan*  
Ryan Binkley, Audit Director *Ryan Binkley*

**DATE:** February 18, 2014

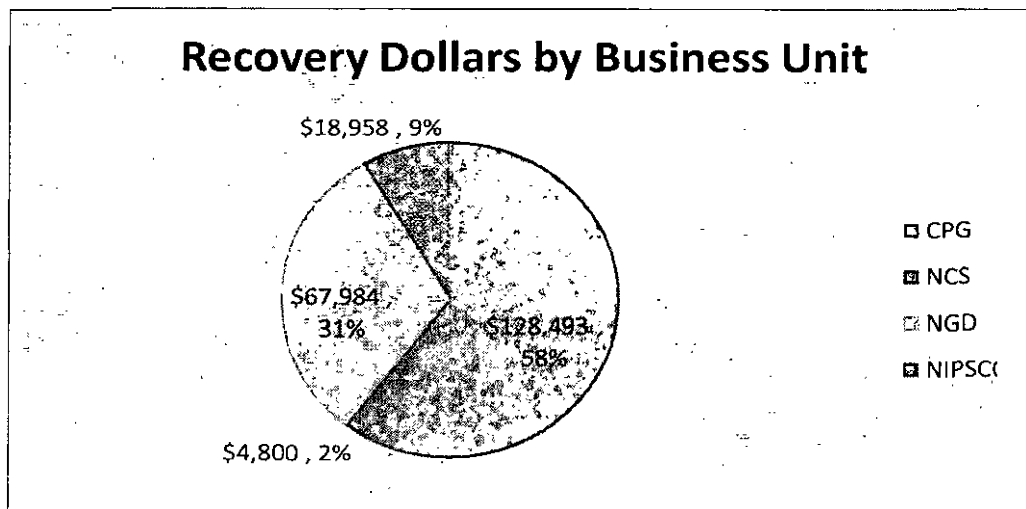
**SUBJECT:** Accounts Payable Recovery Audit (NiSource)

We have completed an Accounts Payable recovery audit for the period June 1, 2011 through May 31, 2013. This review is jointly conducted between NiSource Internal Audit and Renew International, LLC (Renew) and is completed on a bi-annual basis to identify and recover duplicate payments, erroneous payments, and outstanding credits on the books and records of NiSource vendors. The total spend was approximately \$4.5 billion across all NiSource business units for the period under review.

**Scope of Work / Audit Results**

NiSource's payment data along with Renew's proprietary software was used to analyze payable data to generate audit exception reports. A summarized listing of expenditures by vendor was used as a basis to solicit statements of account for open items with key suppliers of NiSource. Overall, the scope of the audit encompassed approximately 738K invoices with nearly \$4.5B in trade payable spending with the solicitation of statements from 2,752 selected vendors. The total amount of overpayments identified during the audit was ~\$220K (38 total claims). Of the total ~\$220K in overpayments confirmed as payable to NiSource by vendors, the Company has received a total of ~\$195K in reimbursements as of the date of this audit report; NiSource is still awaiting the receipt of refunds for the remaining confirmed ~\$25K of vendor overpayments.

The following graph illustrates the portion of the total recovery amount for each business unit that had recoveries:

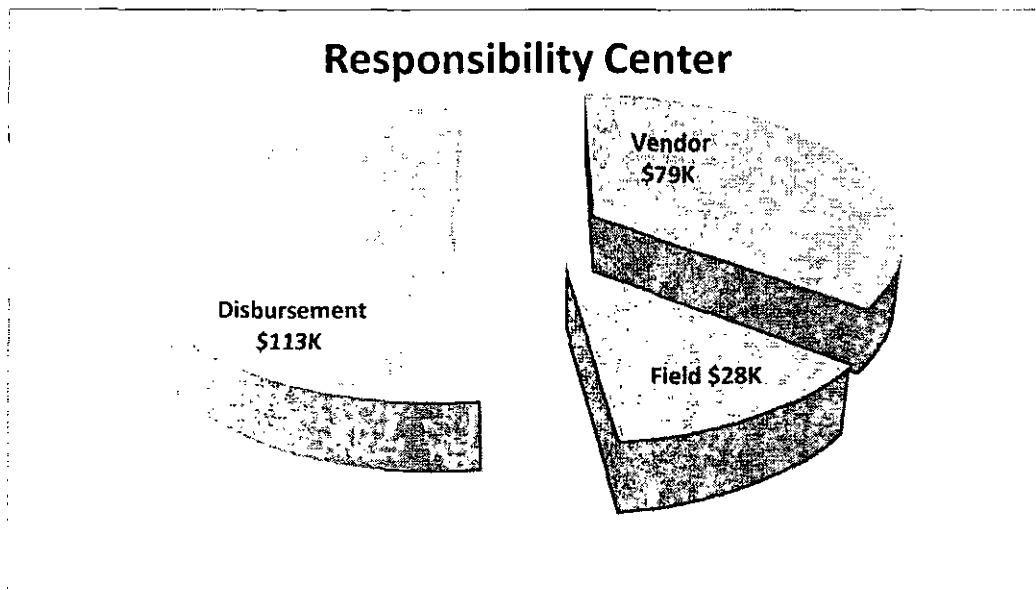


\*\* These recoveries were processed by the individual business units.

The following chart represents the types of errors noted during the review by Renewal, including the root cause for the 38 claims submitted:

Key Responsibility Center	Type of Error	Root Cause	Claims	%	\$(000's)	%
Vendor	Overcharges	Pricing Error / Miscellaneous	4	10.5%	15	6.8%
	Rebates	Warranty Settlement	1	2.6%	2	0.9%
	Duplicate Billing	Revised Amount / Two Different Invoices	7	18.4%	59	26.8%
	Other	Renewal Did Not Determine R.C.	1	2.6%	3	1.4%
Field	Returned Items	Cancelled Order / Surplus Repurchased / Wrong Items	9	23.7%	28	12.7%
<b>Non-Disbursement Error Types</b>			<b>22</b>	<b>57.9%</b>	<b>107</b>	<b>48.6%</b>
Disbursement	Duplicate Payment	Different Invoice Number	5	13.2%	15	6.8%
		Different Vendor Number	2	5.3%	3	1.4%
		Different Amounts	1	2.6%	6	2.7%
		Different Dates	1	2.6%	3	1.4%
	Paid Credit Memo	Entered Credit Memo in Wrong Sign	2	5.3%	19	8.6%
	Paid Wrong Vendor	Lookup Error	1	2.6%	10	4.5%
	Overpayment	Paid Incorrect Invoice / Other	2	5.1%	19	8.2%
	Other	Renewal Did Not Determine R.C.	2	5.3%	38	17.3%
<b>Disbursement Error Types</b>			<b>16</b>	<b>42.1%</b>	<b>113</b>	<b>51.4%</b>
<b>Totals</b>			<b>38</b>	<b>100.0%</b>	<b>220</b>	<b>100.0%</b>

The following graph illustrates the responsibility center and the associated dollar amounts for the types of errors noted. (The color-coded "Key" field located in the chart above, lists the error types included in each of the graph segments below):



### **Conclusion**

Internal controls appear to be effective in mitigating the risks specific to identifying vendor overpayments. Total recoveries of ~\$220K for the current audit period represent a significant decrease from ~\$555K for the prior audit period August 2009 through May 2011. However, awareness should be brought to personnel approving invoices to stress the importance of diligence in the invoice review and approval process to prevent "non-disbursement" error types (such as duplicate billings and overcharges).

### **Management Response**

Accounts Payable has made strides with reducing duplicate payments by enhancing training and developing the internal AP team, customers, and outsourced provider on ensuring accuracy with invoice processing. This has been done with daily interactions with our stakeholders, as well as on-site training classes. We have also partnered with SourceNet on exception processing to ensure duplicates are quickly identified and resolved.

As always, we appreciate the cooperation and assistance that your staff provided during this review. Should you have any questions or require additional information, please do not hesitate to contact Ryan Binkley at (614) 460-5985, Jaclyn Callahan at (614) 460-5493 or Shelley Duling at (614) 460-6062.

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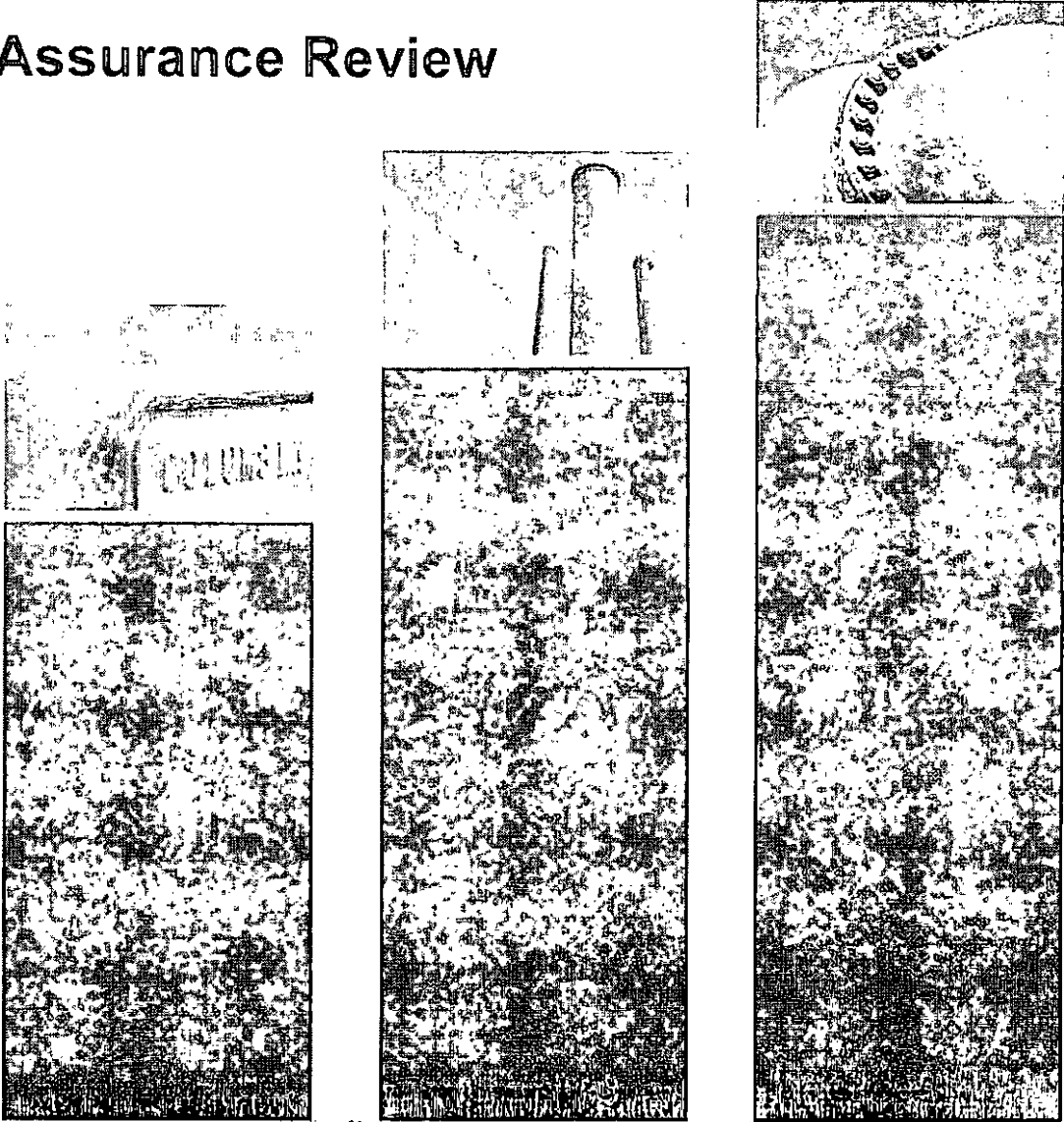
B U I L D I N G

# NiFiT Deployment 2 - Phase Assurance Review NiSource IT Audit

March 19, 2014

To:  
Rick Fontaine, VP - Financial Transformation  
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Jon Veurink, VP - Chief Accounting Officer  
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From:  
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NiFiT Deployment 2 - Phase Assurance Review

# EXECUTIVE OVERVIEW



# NiFiT Deployment 2 - Phase Assurance Review

## Executive Overview

Phase Assurance Objectives

The objective of IT Audit's Deployment 2 Phase Assurance Review was to provide management with an overall evaluation of the policies, procedures and processes used to manage activities associated with the NiFiT Deployment 2. Test phase, specifically focusing on the following areas:

**1) Project Management Controls**

Review project management controls in the areas of budget, schedule and scope to ensure that NiSource corporate policy and/or NiFiT standards are followed.

**2) Business Process Controls**

Review automated and manual business process control test status to provide an opinion on the adequacy of management's inclusion and testing. Also, independently test the effectiveness of both automated and manual business process controls.

**3) Project Conduct Controls**

Review conduct of the NiFiT Project Team in its achievement of program objectives.

**4) Deliverable Quality Controls**

Review phase deliverable quality assurance practices and key deliverables by the NiFiT Project Team to provide an independent perspective on quality measures.

# NiFiT Deployment 2 - Phase Assurance Review

## Executive Overview (Cont.)

Phase Assurance Background

The NiFiT Deployment 2 Phase Assurance Review covers activities supporting the NiFiT Test phase as conducted between September 2013 and January 2014 by the NiFiT Project and Controls Teams, post IT Audit's issuance of the NiFiT Deployment 2 Risk Assessment in December 2013.

During the Deployment 2 Test phase, NiFiT Project Team leadership continued internal initiatives to help ensure alignment over test streams being executed by team members. These efforts included maintaining oversight and reporting diligence associated with project scope, schedule and financial cost controls in accordance with both NiSource corporate policy and documented NiFiT project standards.

The NiFiT Project Team also undertook significant System and User Acceptance Test (UAT) efforts as part of the Deployment 2 Test phase to create individual business process test scripts within the HPALM (Hewlett Packard Application Lifecycle Management) software, whereby both NiFiT Project Team members and participants from the NGD end-user community could re-perform newly implemented automated and manual business processes for operating assurance prior to Deployment 2 go-live in April 2014. As part of Deployment 2 System and UAT testing efforts, the NiFiT Controls Team additionally aligned with the NiFiT Project Team to pinpoint specific test steps within the business process test scripts that impacted NiSource's Sarbanes-Oxley (SOX) financial controls.

Throughout the duration of the Deployment 2 Test phase, the NiFiT Project Team also created detailed internal documentation and analytic metrics to help with information sharing amongst project stakeholders and to ensure oversight in the quality of project deliverables reported to management.

# NiFiT Deployment 2 - Phase Assurance Review

## Executive Overview (Cont.)

Phase Assurance Findings

### Project Management Controls:

IT Audit identified numerous positive practices and consistent control reviews being performed by the NiFiT Project Team in the overall management of the Test phase gate associated with Deployment 2. Specifically, IT Audit noted the NiFiT Project Team is using the standardized project change request (PCR) process to both initiate and approve any scope modifications to the NiFiT Project Charter, hours and staffing plan adjustments within the NiSource PWA scheduling system and project costing variances observed between budgeted/actual/forecasted costs in the NiFiT Financial Tracking Model.

IT Audit found the NiFiT Project Team continues to proactively manage project steps associated with the reporting and remediation of both test defects and project deliverables observed within the Deployment 2 Test phase gate. Noted test defects and project deliverables were addressed by the NiFiT Project Team in a timely manner, with status reporting being regularly updated to the stakeholder community. IT Audit also found relevant parties involved in the Deployment 2 project management effort are aligned with one another through regularly scheduled status updates, reporting metric discussions and required conference calls.

### Business Process Controls:

IT Audit also determined efforts by the NiFiT Project Team to fully test business process controls associated with Deployment 2 were completed. IT Audit observed the two (2) automated controls newly defined within the locked, December 31, 2013 NiFiT Risk and Controls Matrices (RCMs) were both tied to a corresponding NiFiT Project Team test script within Hewlett Packard Application Lifecycle Management (HPALM), which is the enterprise testing software utilized by both NiFiT and NiSource enterprise IT for software deployment quality assurance. To ensure the accuracy of legacy Financial Statement information, the Columbus Internal Audit team reviewed the PeopleSoft Balance Sheet and Income Statement variation reports along with other selected Financial Statement reports for each of the five (5) Columbia Distribution Companies for the December 2013 time period and verified that key line items agreed to legacy system data, noting no exceptions.

# NiFiT Deployment 2 - Phase Assurance Review

## Executive Overview (Cont.)

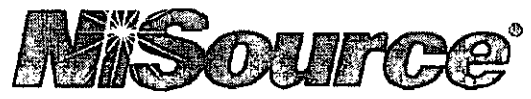
Phase Assurance Findings (Cont.)

IT Audit continued testing efforts for Deployment 2 by performing independent test script execution of the two (2) scripts developed to test the two (2) new, automated controls present in the locked December 31, 2013 NiFiT RCM's. IT Audit found both automated control scripts to be "effective" post testing performed during January 2014. IT Audit also re-executed twenty-two (22) automated control scripts from Deployment 1 associated with primary SOX controls and noted all twenty-two (22) continue to operate effectively prior to Deployment 2 go-live.

IT Audit performed additional Deployment 2 testing efforts within the PeopleSoft Financials 9.1 test environment staged by the NiFiT Project Team for independent analysis of system robustness and quality. This exercise involved IT Audit team members performing various ad hoc testing techniques in a non-scripted manner to assert whether the NiFiT PeopleSoft Financials 9.1 environment would be able to withstand "unplanned" actions that could occur during the course of normal business action. Based on the single, automated control test script identified for independent IT Audit testing, IT Audit noted the corresponding test passed with no defect.

For coverage of the four (4) NGD data conversion streams migrated into both PeopleSoft Financials 9.1 and PowerPlant via NiFiT Project Team transport/translation initiatives, IT Audit found a robust plan and test/deployment strategy in place by the NiFiT Project Team to formally review and authorize legacy data conversion efforts for "completeness" and "accuracy." IT Audit also noted that for the Deployment 2 data conversion efforts performed as of January 2014 (for 2012 income statement and balance sheet financials between NGD's GEAC system and PeopleSoft Financials 9.1), all appropriate NiFiT and NiSource management authorizations were obtained on a corresponding Data Approval Sheet to help ensure legacy data was both transported and translated in a complete and accurate manner.

In relation to Deployment 2, IT Audit reviewed all seven (7) interfaces associated with automated SOX controls as determined by the NiSource Controls Team and determined all seven (7) SOX-related interfaces were tested and labeled as "passed" by the NiFiT Project Team prior to deployment, with adequate results documentation included in HPALM to support a "pass" conclusion of a controls-related script.





# NiFiT Deployment 2 - Phase Assurance Review

## Executive Overview (Cont.)

Phase Assurance Findings (Cont.)

IT Audit observed various communication points and pre-scheduled reporting meetings occurring between the NiFiT Project and Controls Teams, NiFiT Process Owners, NiSource's IT Audit and Columbus Internal Audit teams, and Deloitte regarding assessment activities associated with the design/effectiveness testing of both automated and manual controls impacted by Deployment 2. Besides being an active participant in discussion coordination between the multiple parties listed above, IT Audit attended regularly scheduled communication streams throughout duration of the Deployment 2 Test phase to help ensure alignment between all relevant meeting attendees.

### Program Conduct Controls:

IT Audit noted adequate controls in place by the NiFiT Project Team in relation to program conduct, as various solution test efforts and continuous test result reporting were both incorporated and distributed through project status reports and management test summaries. IT Audit additionally found the NiFiT Project Team regularly communicated project scope, status and requirements to Deployment 2 stakeholders using numerous means of information distribution. IT Audit noted these stakeholder update mechanisms are integral to maintaining alignment and knowledge dissemination amongst active parties and encourages the NiFiT Project Team to continue these ongoing communication efforts as part of Deployment 3.

### Deliverable Quality Controls:

IT Audit reviewed quality assurance activities enacted by the NiFiT Project Team for quality definition and standards adherence and found quality and standards well-defined and included within Deployment 2 Test phase gate documentation. IT Audit also found the NiFiT Project Team instituted internal defect reporting for both identification and severity tracking of testing defects encountered within the Deployment 2 Test phase gate. IT Audit additionally noted that, as of Deployment 2 Test phase gate closure, no deliverable exceptions were reported as all previously reported defects met the defined gate exit criteria of required review and remediation prior to gate closure.



# NiFiT Deployment 2 - Phase Assurance Review Assurance Objectives

# REVIEW RESULTS



# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1

**Review project management controls in the areas of scope , schedule and budget to ensure NiSource corporate policy, good practice and NiFiT standards are followed.**

#### **Results:**

IT Audit reviewed three (3) key project management control areas as part of the Deployment 2 Phase Assurance Review:

- Scope Controls - Is the NiFiT Project Team managing what it delivers is appropriate and approved by management?
- Schedule Controls - Is the NiFiT Project Team managing a schedule to ensure on-time project delivery?
- Cost Controls - Is the NiFiT Project Team managing costs to ensure delivery occurs within a defined and approved cost structure?

#### **Scope Controls:**

NiFiT has an approved Project Charter used as the key control document for establishment of project scope. IT Audit noted all project scope changes, including Project Charter modifications, are required to be reviewed and approved through the Project Change Request (PCR) process. This PCR process helps ensure any alterations in project deliverables are communicated, reviewed and approved by appropriate parties. For testing purposes, IT Audit reviewed a selected sample of Deployment 2 project scope changes documented in weekly NiFiT Status Reports and found the changes were reviewed and approved by appropriate parties using the defined process.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Management Controls – Objective 1 (Cont.)

#### **Schedule Controls:**

IT Audit found NiFiT has a project schedule in place for Deployment 2, which is enabled by the NiSource Project Web App (PWA) system. The project schedule is updated during planning activities for each NiFiT phase and tracks all work performed in regards to both planned and actual hours. NiFiT project personnel are required to enter their time into the PWA system in order for the NiFiT Project Management Office (PMO) to perform the following:

- Weekly variance analysis between planned and actual hours for performance tracking.
- Weekly comparison of scheduled hours to the overall project staffing model.

Once the NiFiT PMO has completed their weekly activities and aligned with NiFiT Project Team leads on both missing hours in the PWA system and staffing plan adjustments, the NiFiT PMO reports this information in the weekly NiFiT Status Report and approves the project schedule. IT Audit noted that once the project schedule is approved, subsequent changes are also required to use the project change request (PCR) process.

For testing purposes, IT Audit reviewed a sample of Deployment 2 project schedule changes as reported in weekly NiFiT Status Reports and found that each selected change was reviewed and approved on a corresponding PCR form. IT Audit also reviewed a sample of both weekly variance analysis and comparison reports conducted by the NiFiT PMO out of PWA and noted differences observed were appropriately communicated to NiFiT Project Leads with corresponding information required either for correction or further detailed explanation.



# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Management Controls – Objective 1 (Cont.)

#### **Cost Controls:**

The NiFiT project has an approved budget used as the primary control for project costing. IT Audit noted the NiFiT Financial Tracking Model reported in the weekly NiFiT Status Report includes the following items, types and categories used by the NiFiT Project Team for project costing efforts associated with Deployment 2:

#### Items:

- Actuals – Actual costs incurred for the NiFiT project as reported by NiSource Accounting (updated monthly).
- 0&12 Plan - Budgeted costs for the project as defined by the NiSource 0&12 plan.
- Variance – Reported differences between Budget-to-Actual information.

#### Types:

- Internal Labor - NiSource employees engaged on the NiFiT project.
- IBM - Specific NiFiT project vendor costs.
- External Labor - Consultants and contractors engaged on the NiFiT project.
- Non-Labor - Associated hardware and software costs for the NiFiT project.

#### Categories:

- Capital
- O&M (Operations & Maintenance)
- Total (combined Capital + O&M)

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Management Controls – Objective 1 (Cont.)

On a monthly basis, the NiFiT PMO uses the Financial Tracking Model to perform the following:

- Collection of project cost actuals from various sources by the NiFiT PMO at month end.
- Updating of actual O&M and Capital costs for the previous month.
- Based upon the project budget, a variance analysis is produced against actuals for the month.
- Variance analysis of budget-to-actuals is used by management to enable subsequent changes to budgeting information.

For testing purposes, IT Audit reviewed a sample of project cost-related changes, as reported in weekly NiFiT Status Reports, and found each selected cost change was reviewed and approved on a corresponding PCR by appropriate personnel, along with the PCR containing the appropriate support materials used for cost estimation. IT Audit also reviewed selected weekly NiFiT Status Reports and found reported project costing information was accurately reflected in the Financial Tracking Model for the period reviewed.

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Management Controls - Objective 2

Review identified exceptions to corporate policy and whether the exception process/steps were communicated and reviewed with the IT PMO and NiFiT Project Team management.

#### Results:

IT Audit reviewed associated Deployment 2 Test phase gate process documentation and concluded the NiFiT Project Team is following the prescribed Test phase gate review process as outlined within NiSource's IT Project Management Methodology.

IT Audit found that per Test phase gate exit criteria, of the five (5) High open defects reported in the January 2014 User Acceptance Test Summary report, all five (5) High defects were closed prior to phase gate completion on January 29, 2014. IT Audit also noted that no deliverable exceptions were found during the Test phase gate review and that appropriate review approvals were obtained for phase completion on the Testing Stage Completion Approval document required by NiSource's IT Project Management Methodology.

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Management Controls – Objective 3

Determine whether adequate alignment exists on project management control activities implemented by NiFiT across the NiFiT Project Team, Process Owners, NiSource SOX Compliance, KPMG Controls Team and Deloitte & Touche Audit personnel.

#### Results:

Between December 2013 and February 2014, IT Audit regularly attended the following NiFiT project meetings. Covered topics associated with Deployment 2 project management control activities included current project status (based upon relevant project management control metrics), project change request status, issue/risk identification and project updates.

- **NiFiT Project Leadership (Wednesday 10am EST)**  
*Type:* Weekly Project Leadership team meeting regarding NiFiT project progress, project status updates by the NiFiT PMO and agenda presentations by NiFiT Project Team leads and subject matter experts.  
*Attendees:* NiFiT Project Leadership and IT Audit.
- **NiFiT Weekly Deployment 2 and Deployment 3 Status (Tuesday 1:00pm EST)**  
*Type:* Weekly status meeting covering project work accomplished, deliverable(s) status, staffing updates and issue/risk metric reporting.  
*Attendees:* NiFiT PMO, NiFiT Project Team Leads and IT Audit

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Management Controls – Objective 3 (Cont.)

- **NiFiT Controls Status (Monday 10:30am EST)**

*Type:* Weekly status discussion regarding automated and manual controls inclusion within the NiFiT RCMs, System and UAT test script results communication between the NiFiT Controls and Project Teams and segregation of duties evaluation status between the NiFiT Project/Control Teams and Deloitte.

Attendees: NiFiT Project Team, NiFiT Controls Team and IT Audit.

IT Audit also engaged with key NiFiT Project Team personnel on a one-on-one basis to facilitate project management alignment. Project management controls were discussed, as needed, by IT Audit as part of the following reoccurring weekly meetings:

- IT Audit and NiFiT Program Manager ( Wednesday 2:00pm EST)
- IT Audit and NiFiT Deployment 3 Lead (Monday 9:00am EST)
- IT Audit and NiFiT Deployment 2 Lead (Thursday 4:00pm EST)

Based on routine NiFiT project status meeting attendance throughout Deployment 2, coupled with one-on-one IT Audit weekly engagement with NiFiT Project Team leadership and coordination facilitation between the NiFiT Project Team and Deloitte, IT Audit found adequate alignment exists on project management control activities implemented by NiFiT amongst relevant parties.

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## **REVIEW / RESULTS (Cont.)**

### **Business Process Controls - Objective 1**

**Review automated and manual business process controls status within the Build and Test phases to provide an opinion on the adequacy of management's inclusion and testing**

Prior to the System Test phase of Deployment 2, the NiFiT Controls Team and the NiFiT Project Team aligned to map controls, identified as "requirements," from the ongoing NiFiT RCMs (Risk and Control Matrices) to corresponding test scripts included in Hewlett Packard Application Lifecycle Management (HPALM). Consistent with Deployment 1, IT Audit noted the NiFiT Project Team continues to use HPALM as the enterprise testing software for managing project requirements (including controls), test plans, test execution steps and test results.

The diagram on the following page illustrates the requirements traceability and documentation process developed and used by NiFiT for Application Lifecycle Management (ALM). NiFiT controls, labeled within ALM as SOX, are traced by the NiFiT Controls Team to test requirements in HPALM and are then aligned with a corresponding test script (aka: Test Plan) to provide assurance controls are operating in the intended manner.

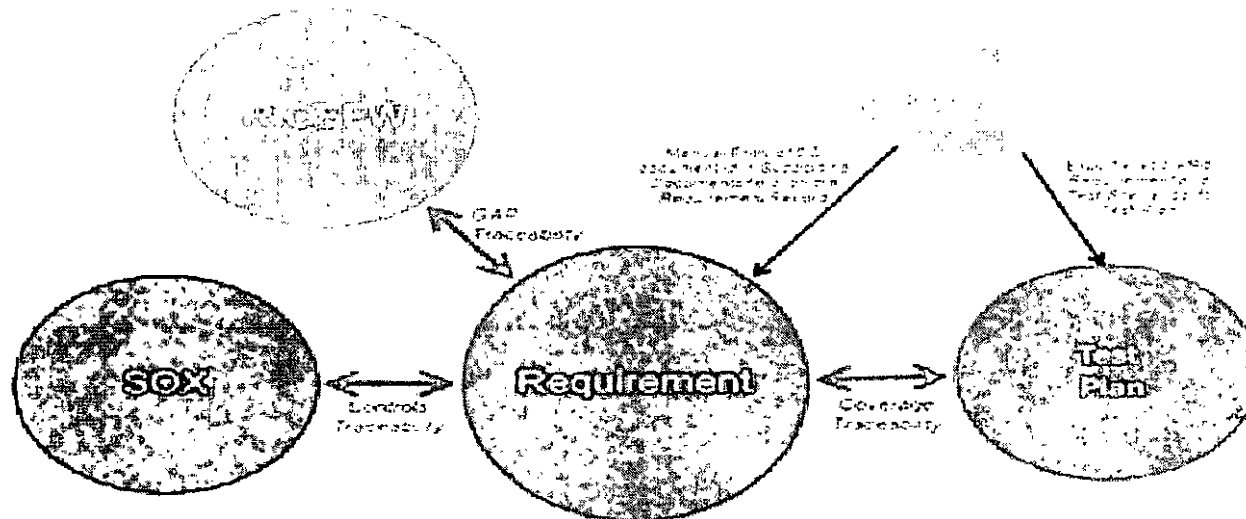
With guidance from the NiFiT Controls Team, the NiFiT Project Team developed unique, HPALM test scripts with specific action steps identified as Deployment 2 SOX controls. IT Audit noted Deployment 2 SOX control steps within the individual HPALM test scripts contained directions for NiFiT System and UAT testers to capture evidence of control performance. The NiFiT Controls Team also tracked results of NiFiT System and UAT test execution of controls-related scripts by the NiFiT Project Team and reported test execution status as part of their scheduled Deployment 2 reporting to NiFiT Project Team management.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 1 (Cont.)

#### Traceability in ALM



**Notes.**

1. Approved Design & Test artifacts loaded from Stakeholder artifacts
2. Base has been used to initiate change
3. Defects can be traced to all artifacts

NiSource

NiFiT - Test Design (Detailed Design Phase)

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 1 (Cont.)

#### Automated Controls:

For testing whether Deployment 2 automated controls identified within the ongoing NiFiT RCM's (Risk and Control Matrices) had corresponding test scripts mapped within HPALM, IT Audit analyzed locked versions of the December 31, 2013 NiFiT RCM's as supplied by the NiFiT Controls Team. Of the two (2) new, automated Deployment 2 controls identified within the December 31, 2013 RCM's, IT Audit found both controls were correctly mapped to a corresponding test script within HPALM.



# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 1 (Cont.)

#### Manual Controls:

Columbus Internal Audit reviewed the NiFiT Risk and Control Matrices (RCMs) provided by the NiFiT Controls Team, as of December 31, 2013, and identified no new manual controls being implemented as part of Deployment 2. Internal Audit also confirmed with NGD Accounting and Accounts Payable Management that they could generate all the necessary PeopleSoft queries and reports to execute existing NiSource manual controls, as User Acceptance Testing (UAT) performed during Deployment 1 covered all manual controls included as part of Deployment 2.

In addition, and to ensure the accuracy of legacy Financial Statement information, the Columbus Internal Audit team reviewed the newly generated PeopleSoft Balance Sheet and Income Statement variation reports for each of the five (5) Distribution Companies for the December 2013 time period and verified that Total Assets, Total Liabilities and Net Income line items agreed to legacy system data. Further, Internal Audit reviewed a selection of various other Financial Statement balances from the PeopleSoft Balance Sheet and Income Statements to legacy account information provided by NGD Accounting Management, noting no exceptions.

**Recommendation:** None.

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 2

**IT Audit will independently test the effectiveness of automated NiFiT business process controls.**

Per IT Audit's request to independently test automated business process controls associated with Deployment 2, the NiFiT Project Team staged a unique PeopleSoft Financials 9.1 application environment for IT Audit testing. Post staged environment completion, IT Audit and the NiFiT Project Team aligned for IT Audit usage of HPALM for independent automated control test execution using Deployment 2 test scripts created and approved by the NiFiT Controls Team.

Independent IT Audit testing efforts commenced during January 2014 using NiFiT's PeopleSoft Financials 9.1 FS91TST (i.e. System Test) environment, which IT Audit verified included relevant code updates and staged data utilized for the Deployment 2 System Test phase. Along with IT Audit testing, this FS91TST environment also formed the baseline for subsequent User Acceptance Testing (UAT) coordinated by the NiFiT Project Team in order to provide assurance NiSource end-users were able to validate NiFiT applications were operating in an effective manner.

Using the versions of the locked December 31, 2013 NiFiT RCMs already provided by the NiFiT Controls Team for Deployment 2 control-to-test script reconciliation, IT Audit identified two (2) unique automated control test scripts within HPALM for independent testing of the two (2) new, Deployment 2 automated NiFiT controls.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 2 (Cont.)

Based on independent testing of the two (2) Deployment 2 automated control test scripts performed between January 6-10, 2014, IT Audit noted an initial test script “success” rating of 100%, as both scripts passed successfully with no noted defects. As a result, IT Audit was able to conclude both new, automated control test scripts, or 100%, were operating effectively prior to Deployment 2 go-live.

Automated Control Scripts (D2)	Scripts Tested (D2)	Testing Percent (D2)	D2 Scripts Passed (Success)	D2 Script Pass Percent	D2 Scripts Failed (Defects)	D2 Script Fail Percent
2	2	100.00%	2	100.00%	0	0.00%

Also between January 6-10, 2014, IT Audit re-executed twenty-two (22) automated control test scripts for primary SOX controls originally tested for NiFiT Deployment 1. IT Audit noted an initial Deployment 1 test script re-execution “success” rating of 100%, as all twenty-two (22) scripts passed with no noted defects. As a result, IT Audit was able to conclude all automated control test scripts associated with primary SOX controls from Deployment 1 continue to operate effectively prior to Deployment 2 go-live.

Automated Control Scripts (D1 - SOX)	Scripts Tested (D1-SOX)	Testing Percent (D1-SOX)	D1-SOX Scripts Passed (Success)	D1-SOX Script Pass Percent	D1-SOX Scripts Failed (Defects)	D1-SOX Script Fail Percent
22	22	100.00%	22	100.00%	0	0.00%

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 3

**IT Audit will conduct independent testing of the application system for robustness and quality.**

Using the same PeopleSoft Financials 9.1 FS91TST environment staged by the NiFiT Project Team for previous IT Audit Deployment 2 control script testing, IT Audit also performed continued independent testing of the application for system robustness and quality. This testing effort involved IT Audit team members performing test exercises in a non-scripted manner using combinations of the testing techniques described below:

- Leaving required text fields with a null/blank or invalid value for attempted transaction processing.
- Attempting to access transactional areas with improper role-level security.
- Entry of transactional data amounts above/below pre-defined tolerance levels.
- Bypassing pre-configured transactional workflow steps by attempting to edit/modify standard approval parameters.

IT Audit performed their robustness and quality test exercise during the week of January 13, 2014 with the purpose of providing reasonable assurance the PeopleSoft Financials 9.1 environment would be able to withstand “unplanned” actions that could occur by Deployment 2 end-users during the course of normal business action. Based on the single (1) automated control test script defined for initial independent IT Audit testing, a corresponding exercise was identified for non-scripted testing as the second automated control test script in place for Deployment 2 did not require transactional data entry or workflow approval configuration.

# NiFiT Deployment - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 3 (Cont.)

Based on the single (1) robustness and quality test exercise performed for Deployment 2, IT Audit noted an initial “success” rating of 100%, as the test passed with no defect.

Total "Unscripted" Tests	Total "Unscripted" Tests Completed	Testing Percent	Scripts NOT Requiring "Unscripted" Testing	"Unscripted" Tests Passed (Success)	"Unscripted" Test Pass Percent	"Unscripted" Fails (Defects)	"Unscripted" Fail Percent
1	1	100.00%	23	1	100.00%	0	0.00%

**Recommendation:** None.

# NiFiT Deployment - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 4

Review NiFiT Data Conversion controls to provide a perspective on the considerations taken for security, test planning, execution, documentation and end-user sign-off on conversion results.

#### Results:

The NiFiT Project Team is executing the following four (4) data conversion efforts as part of Deployment 2:

- Chart of accounts conversion (general ledger) - GEAC to PeopleSoft Financials 9.1
- Vendor conversion (accounts payable) – GEAC to PeopleSoft Financials 9.1
- Cost repository account code conversion (asset management) - PowerPlant
- Work order number conversion (asset management) - PowerPlant

IT Audit noted data conversion efforts by the NiFiT Project Team contain both transport and translation elements required to ensure the “completeness” and “accuracy” of data within NiFiT. As the NGD GEAC system will be retired post Deployment 2, the chart of accounts and vendor conversion efforts have translation and transport components associated with legacy data migration into PeopleSoft Financials 9.1. With PowerPlant remaining as NiSource’s asset management system post NiFiT, the cost repository account conversion and work order numbering exercises for Deployment 2 were strictly performed for information translation purposes by the NiFiT Project Team.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 4 (Cont.)

IT Audit found the following control items in place for the four (4) Deployment 2 data conversion efforts post review of associated conversion documentation, observed conversion validation activities, participation in conversion sessions (work order number, cost repository accounts and vendors) and interviews with key NiFiT Project Team members involved in the data conversion process:

- Conversion Approach/Plan
- Conversion Tests
- Deployment Conversion Activities Plan
- Conversion Results – Business User Review/Approval

#### **Conversion Approach Plan**

As part of initial data conversion efforts, a Conversion Approach Plan is created for providing overall guidance and objectives related to the data input and output validation strategy. IT Audit noted that for each of the four (4) data conversion streams present within Deployment 2, a corresponding Conversion Approach Plan was generated by the NiFiT Project Team and shared with project members involved in the conversion exercise(s).

#### **Conversion Tests**

To help ensure data migration transport and translation occurs as planned during Deployment 2 go-live, the NiFiT Project Team performed a series of mock conversion tests for each conversion stream. IT Audit inspected mock testing plans and results for all four (4) Deployment 2 data conversion streams and found the NiFiT Project Team executed on performance of the mock tests, documented corresponding mock conversion test results and held consistent information sessions with relevant parties for status on mock test progress to date.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 4 (Cont.)

#### **Deployment Conversion Activities Plan**

The NiFiT Project Team has formulated a Deployment 2 Cutover Checklist for conversion activities planning. IT Audit inspected the Deployment 2 Cutover Checklist and found it incorporated the following planning metrics:

- Associated steps/tasks for the data conversion transport or translation migration.
- Team and individual owner responsible for each step in the conversion.
- Resource requirements plans(s) for the conversion effort.
- Timing/schedule for the conversion actions.
- Issue Log tracking for errors/anomalies experienced during conversion cutover exercises.

For testing purposes, IT Audit found all four (4) data conversion streams associated with Deployment 2 were included in a single Cutover Checklist maintained by the NiFiT Project Team. IT Audit also noted the Cutover Checklist is being updated and actively managed on a daily basis by the NiFiT Project Team in preparation for Deployment 2 go-live in April 2014.



# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 4 (Cont.)

#### **Conversion Results – Business User Review/Approval**

As part of Deployment 2 go-live approval, select members of NiSource and NiFiT Project Team management are responsible for authorizing whether data conversion exercises performed through the mock testing and Cutover Checklist planning activities led to “complete” and “accurate” data transport and/or translation for NiFiT systems. As of Deployment 2’s Test phase gate closure on January 29, 2014, the only scheduled data conversion having occurred was 2012 COA (Chart of Accounts) general ledger financials from the NGD GEAC system into PeopleSoft Financials 9.1. IT Audit noted that in support of management authorization for “completeness” and “accuracy” of GEAC to PeopleSoft Financials 2012 data, a review and sign-off process for the converted information was conducted by the NiFiT Project Team with NGD business SME’s (subject matter experts). IT Audit additionally found that a formal Data Conversion Approval document was created and authorized by the NGD Controller, NGD Assistant Controller and corresponding NGD Accounting Managers (CVG, CPA, CKY, CMD and COH) as evidence for data conversion “completeness” and “accuracy.”

IT Audit also noted subsequent data conversion efforts involving transport and/or translation between GEAC and PeopleSoft Financials 9.1, along with translation exercises planned for PowerPlant, have been scheduled during the Deployment phase in the late March/mid April 2014 timeframe by the NiFiT Project Team. As such, IT Audit will conduct further analysis of these data conversion streams as part of its Deployment 2 – Post Deployment Review.

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 5

**Review NiFiT Interface controls associated with Deployment 2 to provide a perspective on considerations taken for test planning, execution, documentation and end-user sign-off on interface operation.**

#### **Results:**

As part of NiFiT, interfaces exist for data transfer between legacy NiSource applications and the new PeopleSoft 9.1 solution. These interfaces, defined during the Plan and Build phases by the NiFiT Project Team, provide a platform for helping to ensure data is “completely” and “accurately” migrated from one system to another and that any errors/exceptions experienced are rectified by responsible parties in a timely manner.

In relation to Deployment 2, IT Audit reviewed all seven (7) interfaces associated with automated SOX controls as determined by the NiFiT Controls Team. For each of the seven (7) interfaces, IT Audit reviewed corresponding HPALM test script information to ensure the supporting automated SOX control was tested prior to production deployment. Through this review of test script documentation, IT Audit determined all seven (7) SOX-related interfaces were tested and labeled as “passed” by the NiFiT Project Team prior to deployment, with adequate results documentation included in HPALM to support a “pass” conclusion of a controls-related script (i.e. screen prints, reconciliation/error reports, etc.).

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 6

**Determine adequate alignment exists on automated and manual Deployment 2 control activities for associated parties (e.g. NiFiT Project Team, NiFiT Process Owners, NiFiT Controls Team, Internal Audit and Deloitte).**

IT Audit observed various communication points and pre-scheduled reporting meetings occurring between the NiFiT Project and Controls Teams, NiFiT Process Owners, NiSource's Columbus Internal Audit Team and Deloitte regarding assessment activities associated with the design/effectiveness testing of both automated and manual controls impacted by Deployment 2. Besides being an active participant in discussion coordination between the multiple parties listed above, IT Audit noted the following regularly scheduled communication streams throughout duration of the Deployment 2 Build and Test phases:

- **NiFiT Controls Status (Monday 10:30am EST)**

*Type:* Weekly status discussion regarding automated and manual controls inclusion within the NiFiT RCMs, System and UAT test script results communication for Deployment 2 between the NiFiT Controls and Project teams and segregation of duties evaluation status between the NiFiT Project/Control Teams and Deloitte.

*Attendees:* NiFiT Project Team, NiFiT Controls Team and IT Audit.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Business Process Controls – Objective 6 (Cont.)

Along with the scheduled, weekly NiFiT Controls and Deloitte NiFiT Status discussions, numerous ad hoc conversations also took place during both the Build and Test phases of Deployment 2 to align NiFiT Process Owners with the ongoing actions of the NiFiT Controls and NiSource Internal Audit Teams. IT Audit noted NiFiT Process Owners meet frequently with the NiFiT Controls Team to determine the viability of both legacy manual and new, automated PeopleSoft Financials 9.1 controls for population of the ongoing NiFiT RCMs. These Process Owners were also engaged by the NiFiT Controls Team to provide documented approval of the final December 31, 2013 versions of the RCMs prior to independent IT Audit and Columbus Internal Audit test efforts commencing in January 2014. IT Audit also held internal conversations on an ongoing basis with Columbus Internal Audit to coordinate individual test efforts during February 2013 for alignment on reporting metrics to both NiFiT Project Team management and Deloitte.

IT Audit also found the NiFiT Controls Team completed a quarterly reconciliation procedure in February 2014 to align SOX controls present within the NiSource Risk Navigator controls database with those SOX controls newly inherent within the December 31, 2013 RCMs for Deployment 2. IT Audit encourages the NiFiT Controls Team to continue usage of the quarterly Risk Navigator-to-NiFiT RCM recon as the NiFiT project moves into Deployment 3.

**Recommendation:** None.



NiFiT Deployment 2 - Phase Assurance Review  
Advisory Objectives

# REVIEW RESULTS

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS

### Project Conduct – Objective 1

**IT Audit will provide timely, objective feedback on project conduct to inform NiFiT Project Team management of improvement opportunities.**

#### **Results:**

IT Audit performed a review of NiFiT Project Team quality control (QC) activities and noted the primary effort conducted was solutions testing, as NiFiT conducted the following seven (7) key types of solution tests below in chronological order:

- Unit Testing – Validates developed solution components function as designed.
- Integration Testing – Validates the various technical systems in the solution communicate in the correct manner.
- System Testing – Validates the solution conforms to approved requirements and is fit for use.
- Performance Testing – Validates that technical components of the solution execute within expected timeframes.
- Deployment Testing – Validates the plan to deploy solution components (technical and functional) are accurate and complete.
- User Acceptance Testing (UAT) – Validates the solution conforms to approved requirements by using end-user test scenarios.
- Parallel Testing – Validates the solution provides a comparable result to the preceding system (limited to the T&L/Payroll area).

IT Audit noted each type of solution test effort performed above by the NiFiT Project Team, with the exception of initial Unit Test, had embedded test plans created and housed with HPALM as Unit Test had already been included within the NiFiT Build plan for Deployment 2. IT Audit also inspected the individual Summary Reports created for each solution test above and determined the Summary Reports specified the solution test scope, objective(s), results and any established entrance/exit criteria for the test.

# NiFiT Deployment 2 - Phase Assurance Review

## **REVIEW / RESULTS (Cont.)**

### **Project Conduct – Objective 1 (Cont.)**

IT Audit found all solution testing was conducted using HPALM with the NiFiT Project Team tracking metrics associated with both test script execution and defect remediation. IT Audit noted the NiFiT Project Team consistently reported test script execution (i.e. planned vs. actual/success vs. failure) and defect remediation status to the NiFiT PMO for proper inclusion in the weekly NiFiT Status Report.

#### **Quality Control - Report Review:**

For testing purposes related to Deployment 2 report quality, IT Audit reviewed the following reporting documentation:

1. Integration Test Summary Report
2. System Test Pass 2 Summary Report
3. Payroll Parallel Test Approach
4. UAT Summary Report

Post review, the following advisory recommendations were provided by IT Audit on the Payroll Parallel Test Approach document:

- Test Scope Clarification
- Responsible party identification for key testing processes
- Responsible party identification for functional reconciliation processes
- Functional Test Resource availability planning

These advisory recommendations were considered by NiFiT Project Team management and subsequently included in the Payroll Parallel Test Approach document prior to Test phase closure. For the remaining three (3) Deployment 2 documents reviewed, no additional advisory recommendations were noted by IT Audit as the reporting documentation appeared comprehensive and complete.



# NiFiT Deployment - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Conduct – Objective 1 (Cont.)

#### Quality Control - Execution Review:

In order to assess Deployment 2 quality control activities performed by the NiFiT Project Team, IT Audit re-executed a management testing documentation review for a sample of thirty (30) non-Sox related System Test Pass 1 test scripts over the five (5) unique System Test cycles. IT Audit re-performed the review using the defect types established by Project Team management. The results of the re-execution review were as follows:

Test Scripts/Results Sampled	Scripts where actual results not meeting expected results	Scripts with missing security role	Scripts with missing supporting documentation
30	0	0	2

Based upon this review, IT Audit found the NiFiT Project Team is appropriately reviewing test scripts and execution results for completeness and accuracy prior to Test phase closure. Although evidence attachment for non-Sox scripts is not a formal NiSource test execution requirement, IT Audit is encouraged that over 90% (28 of 30) of the sampled test scripts had supporting documentation attached.



# NiFiT Deployment - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Project Conduct – Objective 1 (Cont.)

#### **Quality Control - Defect Severity Change Review:**

A key risk in test results reporting is the possibility that open defect severity may be adjusted downward without management review and approval. This action could result in Test phase exit criteria being met, however without an accurate representation of the fitness of the solution to meet requirements. Post IT Audit's recommendation from the Deployment 1 Phase Assurance report, NiFiT Project Team management instituted a Defect Severity Change Report review process for the Deployment 2 Test phase. As part of the Defect Severity Change Report reviews performed in December 2013 and January 2014, NiFiT Project Team management reported a total of nine (9) open defect severity changes - all of which had management approval for the severity downgrade.

For testing purposes, IT Audit re-executed the Defect Severity Change Report reviews for December 2013 and January 2014 and found supporting evidence that all nine (9) defect severity downgrades had appropriate management approval documented in HPALM. IT Audit also noted that the downgrades appeared reasonable, as explained in the HPALM defect log entries. IT Audit concludes the NiFiT Project Team is conducting thorough defect severity change reviews on a consistent basis.

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## **REVIEW / RESULTS (Cont.)**

### Program Conduct – Objective 2

IT Audit will independently review the program alignment of project scope, business needs and requirements with stakeholders' expectations.

#### **Results:**

IT Audit found the NiFiT Project Team regularly communicated project scope, status and requirements to Deployment 2 stakeholders using the following means of information distribution:

- NiFiT Communications and Engagement Plan
- NiFiT Sponsor Meetings
- NiFiT Executive Advisor Updates
- NiFiT Project Announcements
- NiFiT MySource web portal
- NiFiT Change Champion Network

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Program Conduct – Objective 2 (Cont.)

#### **NiFiT Communications and Engagement Plan:**

IT Audit noted a formal NiFiT Communications and Engagement Plan continues to be maintained by the Project Team for tracking both *planned and due delivery dates of key messaging streams, along with identifying stakeholders for knowledge dissemination*. IT Audit also found the NiFiT Communications and Engagement Plan, in being a working document, is being charted and updated by the Project Team on a monthly basis to track Deployment 2 metrics related to communication type, demand requirements, activity estimates, project communication progress (both monthly and to-date), executive committee communication status and cancelled communications.

#### **NiFiT Sponsor Meetings:**

On a monthly basis, Executive Sponsors of the NiFiT program are presented a communication deck from NiFiT Project Team leadership detailing ongoing items requiring executive oversight. IT Audit noted that topical information included within the Sponsor Meeting presentations include both a rolling Budget and Contingency Status for NiFiT and Project Status for NGD Deployment 2 go-live (encompassing testing, training, change management communication and deployment updates). IT Audit also found these Project Sponsor Meetings are taking place as scheduled and with active participation/feedback from members of the Executive Sponsor group, thereby helping to ensure project sponsor alignment with the NiFiT Project Team.

# NiFiT Deployment 2 - Phase Assurance Review

## **REVIEW / RESULTS (Cont.)**

### **Program Conduct – Objective 2 (Cont.)**

#### **NiFiT Executive Advisor Updates:**

Weekly NiFiT Executive Advisor (EA) Update decks continue to be created by NiFiT Project Team leaders and distributed to the greater NiFiT Project community to provide insight and knowledge updates on topics required for successful implementation of Deployment 2. IT Audit noted these EA Updates are capturing relevant data and project themes that are inherent for collective NiFiT Project Team alignment and are being updated with themes pertinent to the specific NiFiT project stage to keep information targeted to both current and future action steps. IT Audit also found these EA Updates are being formally tracked by the NiFiT Project Team on a month-by-month basis by agenda items and are used to determine whether any previous talking points from prior EA Updates need revisited with refreshed information.

#### **NiFiT Project Announcements:**

On an "as needed" basis, IT Audit noted project announcements related to significant NiFiT Deployment 2 milestones are released by either NiFiT Project Team leadership or members of NGD executive leadership as a means of keeping parties effected by the pending release abreast of project happenings. IT Audit found these communication streams are helping to supplement more formal data distribution efforts by NiFiT Project Team leadership by providing stakeholders with frequent ad hoc updates regarding Deployment 2 project status and the effect those updates may have on day-to-day business operations.

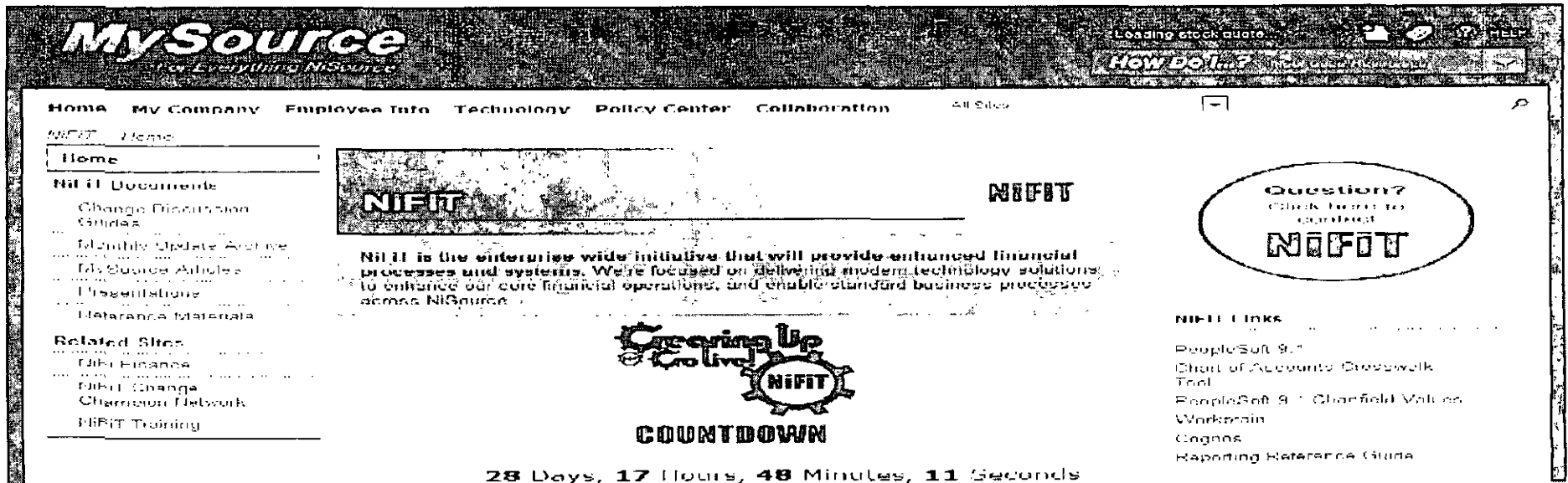
# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Program Conduct – Objective 2 (Cont.)

#### NiFiT MySource Web Portal:

The NiFiT Project Team continues to maintain a dedicated information site on Nisource's MySource intranet portal to provide Project Team members and interested NiSource employees with information on Deployment 2 timing, discussion guides and reference materials. IT Audit found the connection to the NiFiT MySource portal is easily located from the MySource "My Company" links and adequately provides a detailed repository of MySource articles, presentations and discussion threads to help guide the NiFiT Project Team and the broader NiSource user community with pertinent project information. IT Audit also noted the NiFiT MySource portal is continuously updated by the Project Team to keep information fresh and related to upcoming events impacting Deployment 2.



# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Program Conduct – Objective 2 (Cont.)

#### **NiFiT Change Champion Network:**

The NiFiT Change Champion Network (CCN) is comprised of project Change Champions from across NiSource whose areas will be impacted by the NiFiT solution. The NiFiT CCN is designed to enable two-way communication across the organization and to extend NiFiT project reach to impacted employees. The goal of the CCN is to provide NiFiT project stakeholders with the required information, support and guidance to help ensure a successful transition to the desired future state. Due to the larger number of users and number of locations impacted in Deployment 2, the Change Champion Network is also being relied upon to provide go-live prep sessions for assigned users during the Deployment phase and facilitate end-user support during the Hypercare period post go-live.

IT Audit found a list of the Deployment 2 Change Champions is displayed within the Change Champion portal on the NiFiT MySource website to identify those individuals with responsibility for NiFiT project communication back to their fellow business/operations team members. IT Audit observed the Deployment 2 Change Champion list is structured by physical location, personnel assigned and provides both the name and title of active members. IT Audit also noted the Change Champion portal maintains an up-to-date link to the NiFiT Training site. Post inspection, IT Audit determined the Deployment 2 Training site provides course support materials for classroom training and will contain finalized training material when delivered during the Deployment phase of IT PMM. IT Audit observed that training attendance for CCN go-live prep sessions is tracked and monitored by the NiFiT Change Management Team. IT Audit finally found the NiFiT Training site contained on-line training materials for reference that are being delivered via NiSource's Learning Management System (LMS) with completion of modules being tracked and monitored by the NiFiT Change Management Team. IT Audit will continue to monitor user acceptance of the Deployment 2 solution based upon on-going activities of the CCN and NiFiT Change Management Team post release.

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Deliverable Quality – Objective 1

**Review project deliverable quality assurance activities for the project phases under consideration.**

#### **Results:**

IT Audit reviewed Deployment 2 quality assurance activities enacted by the NiFiT Project Team for definition and standards adherence.

#### **Quality Definitions and Standards (Internal Quality Assurance)**

IT Audit found the NiFiT Project Team has defined and documented quality definitions and standards included within Deployment 2 Test phase gate documentation. IT Audit noted key quality definitions were resident within the following testing documentation created/maintained by the NiFiT Project Team:

- Quality definition for System & UAT (functional quality) – Included in System & UAT Test plans for Deployment 2
- Quality definition for Performance Testing (technical quality) – Included in Performance Test plans for Deployment 2
- Quality standards for Test Phase Entrance and Exit criteria – Included in System, UAT, & Performance Test documentation for Deployment 2
- Quality standards for Defect Severity Definitions – Included in System Test plans for Deployment 2

IT Audit noted that NiFiT's functional quality definition continues to be consistent with published best practice documentation as "... a test executed to completion to ensure the business solution meets identified business requirements deemed in Scope." IT Audit also found technical quality definitions were established in line with best practice as "... a test to determine end-to-end timings for time critical transactions and business processes to verify execution within an expected timeframe and in a dedicated, controlled and production-like environment."

# NiFiT Deployment 2 - Phase Assurance Review

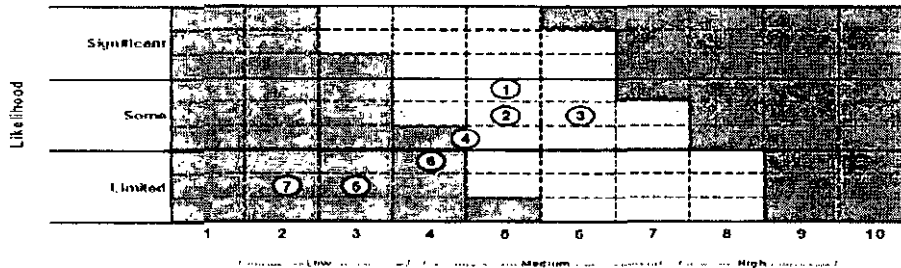
## REVIEW / RESULTS (Cont.)

### Deliverable Quality – Objective 1 (Cont.)

#### Quality Assurance Activities (Systems Integrator external)

IT Audit noted the NiFiT Project Team engaged the primary system integration partner firm (Accenture) to provide quality assurance reviews for the project. IT Audit found the system integration partner is performing regular quality assurance reviews of the project and reporting results to the Project Executive, Sponsors and Board in the form of an Executive Risk Matrix (see below).

### NiFiT Program Risks Known and Managed



- Expected Impact (budget, employee engagement, standardization/ simplification, etc.)**
1. Change Acceptance
  2. Meet Schedule
  3. Dependency on Completion of Other Projects
  4. Team Productivity (*D3 future* ability to hit estimate)
  5. Technical Environment
  6. Scope Creep (*focus on D3 complexity*)
  7. Delivered Solution Meets Defined Business Requirements

- Success of the D1 foundation provides confidence that NiFiT has a solid core finance solution.
- The D2 experience provides evidence that the project has matured into a efficient, high quality "delivery factory".
- The D2 experience also demonstrates the project has become a personnel "development factory".
- D2 expands the core solution to 5 additional geographic locations which requires a stronger emphasis on the CCN to deliver end-user training and Hypercare.
- D2 / D3 overlap during the April and May timeframe poses greater risk than D1 / D2 overlap due to the greater relative complexity of each.
- Risk 4: Strong management focus will be required to maintain team productivity; impact of missing schedule/budget is harder to recover.
- Risk 6: D3 complexity poses increased risk for unexpected scope changes.



# NiFiT Deployment 2 - Phase Assurance Review

## REVIEW / RESULTS (Cont.)

### Deliverable Quality – Objective 1 (Cont.)

IT Audit also performed a secondary review of quality assurance materials for Deployment 2 and found the materials to be adequate for a project of NiFiT's size and stature. IT Audit additionally interviewed the system integration firm's primary quality assurance resource and noted the resource possessed a comprehensive background for providing assurance services for NiFiT. Overall, IT Audit found the quality assurance updates provided appear to assist the NiFiT Project Team, Sponsors and Board by providing a perspective on the changing risks faced as the project progresses.

**Recommendation:** None.

# NiFiT Deployment 2 - Phase Assurance Review

Exhibit No. [REDACTED]  
Schedule No. 4  
Page 45 of 45  
Witness N. M. Palomares

**NiFiT**

## REPORT DISTRIBUTION

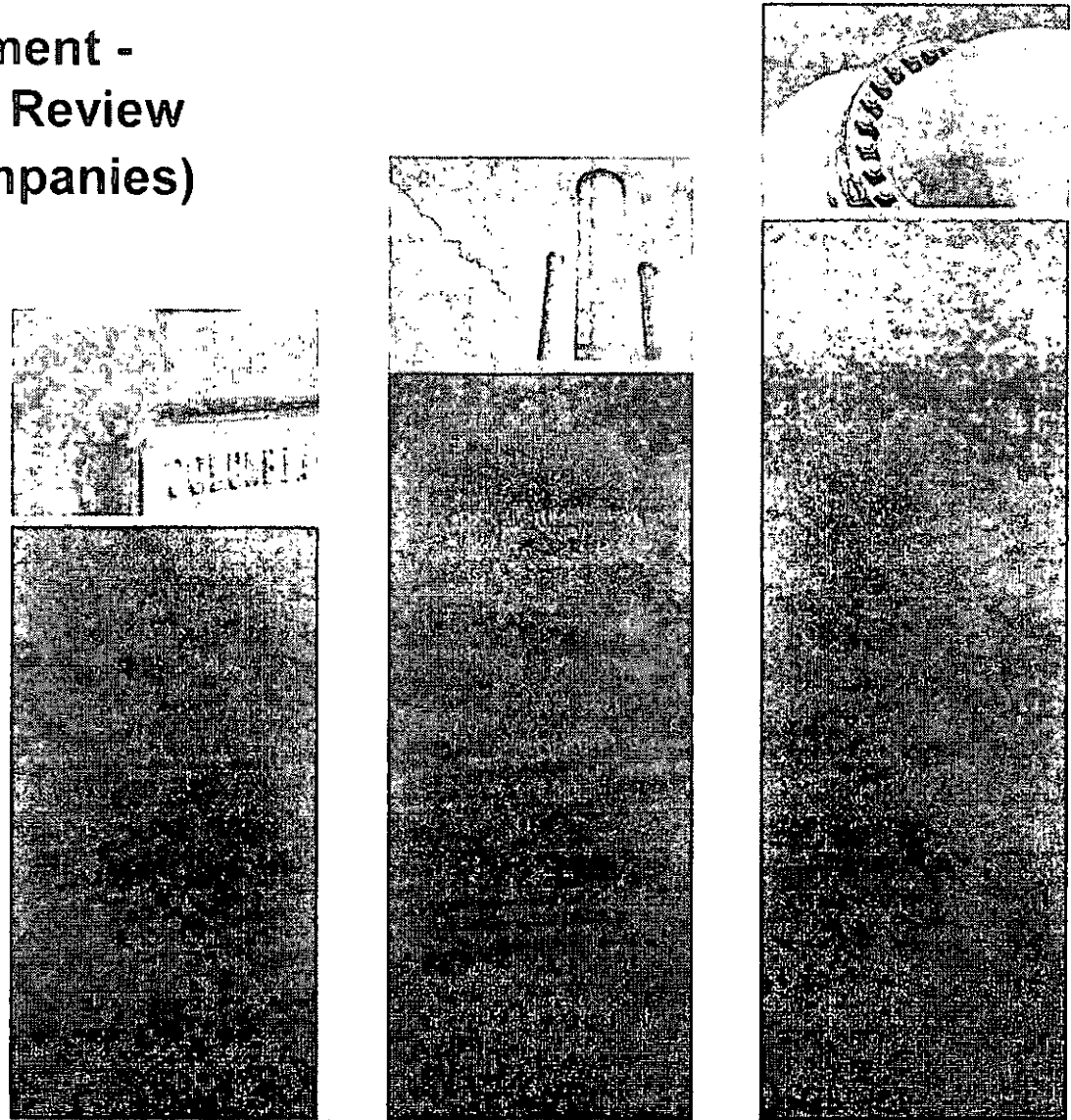
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S. Stern  
T. L. Tucker  
R. Binkley  
Deloitte & Touche LLP

# NiSource Internal Audit Department - Project Management Follow Up Review (NiSource Gas Distribution Companies)

May 28, 2014

To: C. E. Shafer, VP Engineering &  
Construction

From: J. M. Siget, Director Audit  
S. A. Titus, Audit Manager



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# NGD Project Management Follow-up Review

## Executive Summary

Internal Audit has completed a review of the conformance to the deliverables, policies, procedures and controls that were developed through the NiSource Project Excellence Action Plan. The action plan was developed as a response to the NiSource-wide project management assessment performed by PricewaterhouseCoopers (PwC). The assessment scaled each business unit's project management maturity, reported on gaps and gave recommendations for improvement.

Overall, NiSource Gas Distribution (NGD) management satisfactorily addressed the recommendations in the assessment and action plan. The evidence provided by NGD suggests a strong foundation of program management tools to execute programs and projects. The following observations were noted as a result of the audit and were reviewed with NGD management:

- The response to the action plan related to change management did not clearly address the PwC recommendation.
- The NGD Level 2 training class provided by project management is adequate.
- Internal Audit evidenced the incorporation of the newly developed NiSource Project Management Standard into NGD's capital programs.

As always, we appreciate the cooperation and assistance that your staff provided to the audit team during this review. Should you have any questions or require additional information, please do not hesitate to contact Joseph Siget at (614) 460-4847 or Stephen Titus at (202) 510-7425.

# NGD Project Management Follow-up Review

## Background

- PWC performed the assessment using a capital program maturity model. The maturity model rated all three business units on the following project elements: Governance, Organization, Procurement, Schedule, Scope and Change Management, Financial, Risk, Systems and Communication and Reporting. The assessment scaled each business unit, reported on gaps and gave recommendations on improvement. The organization and output of this team is in response to the recommendations on the assessment.
- As a result of the assessment, the NiSource Project Excellence Team was formed and charged with developing a governing structure with corresponding standards and guidelines as well as high-level plans and recommendations for construction and engineering projects. A subset of this group — a red team — went to the business units throughout 2013 and reviewed each one's respective responses to the recommendations provided by PwC in the assessment.
- The NiSource Project Excellence Team met on March 5, 2014 to review the status of each of the business units responses to the action plan.
- The purpose of our audit was to review the conformance to the deliverables, policies, procedures and controls that were developed as an outcome of the action plan.

# NGD Project Management Follow-up Review

## Scope Summary

# NGD Project Management Follow-up Review

## Scope Summary

**Objective: Assess the NGD governing structure, corresponding standards, guidelines and high level plans/strategy for construction and engineering projects.**

### **Audit Scope**

In order to achieve the audit objective, Internal Audit performed the following:

**Scope Area 1** - Reviewed the observations and recommendations issued by PwC in the assessment and NGD's corresponding responses.

**Scope Area 2** – Evaluated the NGD Level 2 Applied Project Management training class.

**Scope Area 3** - Reviewed the newly-developed NiSource Project Management Standard and assessed NGD's approach to implement the standard.

The Results, Recommendation & Management Responses section of this report links the three areas listed above.



# NGD Project Management Follow-up Review

## RESULTS, RECOMMENDATIONS & MANAGEMENT RESPONSES

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Scope Area 1 - Assess Responses to PwC Recommendations

#### Background:

As a result of the action plan, NGD formulated a detailed response to each of the PwC recommendations in the assessment. The responses — 44 in total — were captured in a tracking document. The tracking document consisted of the PwC observation, the corresponding recommendation, the responsible party in NGD to respond to the item and that party's detailed response.

As a supplement to the tracking document, a three-volume set of documents that corresponded to each of the respective line items in the tracking document was provided. It included supporting documentation for the responses.

#### Observation 1:

- Overall, NGD satisfactorily responded to each of the 44 items outlined in the action plan except as noted on the next page.

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Observation 2:

Internal Audit noted the following related to change management:

- There is no standard approach to processing a change order (or scope change) or defining what constitutes a change within the NGD Project Management Reference Guide (Reference Guide). PwC recommended, as part of its assessment, that NGD should establish a standard approach to monitor and control scope changes that includes:
  - Identification of scope change
  - Evaluation of scope change
  - Review and approval of change
  - Implementation of scope change
  - Management and recording of change
- The response to the action plan and supporting documentation provided in the supplemental information to the responses did not clearly address this recommendation.
- With the observation listed above, and the change management observation noted in the recently issued Bremono Bluff Financial Review Audit Report, dated May 14, 2014, the evidence suggests that the change order process, both internally and with NGD contractors and customers, could use enhancement.

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Observation 2 (continued):

- Specifically, NGD utilizes a Project Management Reference Guide, which has the stated purpose to provide the user "...with the tools and thought processes necessary to ensure the safe and successful completion of assigned projects. Throughout this reference material, you will find examples of forms, processes and other information based on years of practical experience that are used in the planning, estimating, installation and close-out of projects."
- Page 31 of the reference guide provides a template/form titled Change Order that is used in the event of a change. Additionally, the template provides the following narrative: "*All change orders shall be brought to the attention of the project manager as soon as it is known that a change is necessary. No work shall proceed under a change order until reviewed and approved by the project manager.*"
- No other information is provided in the reference guide that would aid a project manager to approach the five areas identified on page 9.

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Management Response:

- NGD management concurs with this observation and will take the following steps to address it:
  - Development and implementation of a integrated change control process within our project management group that meets the requirements identified in the PwC audit.
  - Coordination of this process with engineering leadership as well as construction leadership to ensure that all stakeholders have been involved.
  - Documentation of this process in the Project Management's Reference Guide.
- We anticipate that this corrective action will be completed within 90 days.

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Scope Area 2 - Level 2 Project Management Class

#### Background:

Internal Audit was asked to “audit” the class for content, delivery and comment on its effectiveness by the manager of project management operations at NGD. The three-day course is part of a four-part curriculum intended to prepare an individual to sit for and pass the Project Management Institute (PMI) Project Management Professional (PMP) exam, therefore earning the PMP credential. Key components of the curriculum are as follows:

**Level 1** – Online training, core-level subjects (including an overview of PMI’s Project Management Body of Knowledge or “PMBOK”), Project Planning & Control, Cost Control & Schedule Development, Communication and Human Resource Management.

**Level 2** – Classroom - Advanced subjects that cover the project life cycle specific to NGD’s type of projects and many hands-on classroom exercises.

**Level 3** – IN DEVELOPMENT – will cover Advanced Underground Construction Project Management.

**Level 4** – IN DEVELOPMENT – will cover advanced skill development, which focuses on the obtaining of the PMP Certification.

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Observation:

- The content and its delivery of the Level 2 PM Class was adequate. There was a balance of corporate-level information that is generally not seen or discussed at field engineer or coordinator level. The numerous class exercises were relevant to the roles and responsibilities of those in attendance. Additionally, Internal Audit reviewed the course surveys filled out by those in attendance and the feedback was overwhelmingly positive.

### Recommendation:

- None.

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Scope Area 3 – Review of the newly developed NiSource Project Management Standard

#### Background:

The NiSource Project Excellence Team was formed and charged with developing a governing structure, corresponding standards and guidelines and high level plans/recommendations for construction and engineering projects. An outcome of the establishment of this group was the NiSource Project Management Standard (the Standard).

The Standard was developed to give the NiSource organization a uniform way to evaluate and manage capital construction projects and programs across all business units. As its introduction indicates, the Standard should be used as a guideline for the organization and management of projects and programs, along with the documentation necessary for quality implementation success. This standard was developed within the context of the PMBOK and was adjusted accordingly by the NiSource Project Excellence Team to fit the NiSource organizational framework.



# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Background (continued):

The Standard is composed of nine Sections:

- Scope
- Terms and Definitions
- General Standard Requirements
- Project Management Requirements
- Portfolio Management Requirements
- Program Activities
- Training Requirements
- Technology Platform
- Governance

### **A key component of the Standard is Section 4, Project Management Requirements**

- Each business unit will designate the appropriate approval levels for the application of recommended components within the affected business unit. Please see page 16 for a matrix that defines what is required vs. what is recommended for each type of project.

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

Requirements and Recommendations for Program and Project Management Plans				
Document/ Management Plan	Major Project	Large Project	Project	Program
Charter	X	X	*	*
Scope	X	X	X	X
Requirements	X	*	n/a	*
Schedule	X	X	*	X
Cost	X	X	*	X
Quality	X	*	n/a	X
Human Resources	X	*	n/a	*
Communications	X	*	n/a	*
Risk	X	X	X	X
Procurement	X	*	n/a	X
Stakeholder	X	*	n/a	n/a
Safety	X	*	*	*
Scope Baseline	X	X	X	n/a
Schedule Baseline	X	X	X	*
Cost Baseline	X	X	X	*
Progress Reports	X	X	X	X
Project Information System	X	X	X	X
Metrics	X	X	X	X

X = Required; \* = Recommended

# NGD Project Management Follow-up Review

## Results, Recommendations & Management Responses

### Background (continued):

When the Standard was issued to the business units in 2013, our scope was only to assess NGD's approach to its implementation. Internal Audit plans to include in future annual audit plans, beginning in 2015, an assessment of conformance to the Standard and the quality of its execution against each of the required components listed in the matrix on page 16.

### Observation:

- After review of the documentation provided by project management within NGD, Internal Audit determined that project management, both at the program and project levels, is currently incorporating many aspects of the required information at each of the different project levels.

### Recommendation:

- None

# NGD Project Management Follow Up Review

## Report Distribution

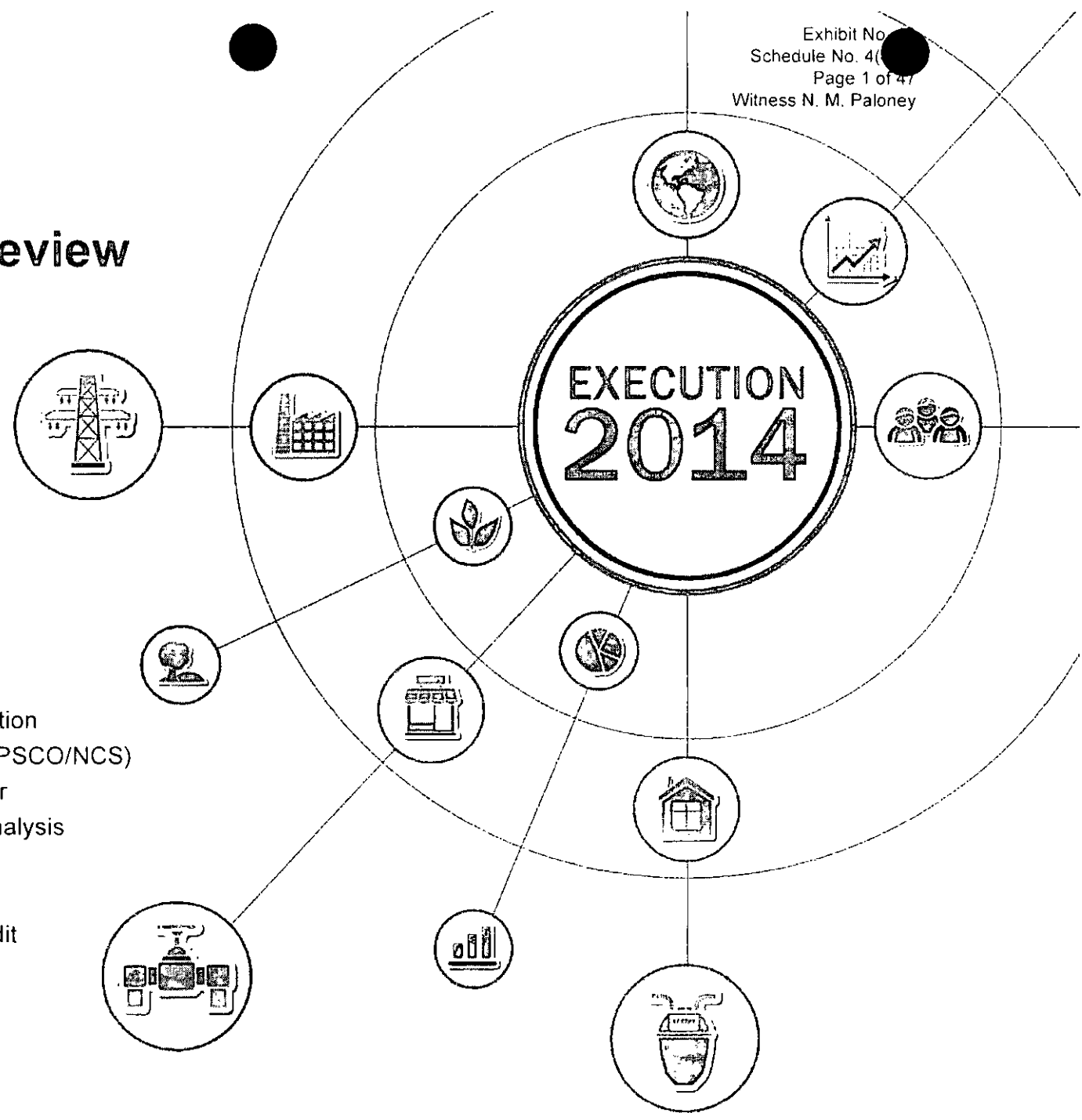
R. C. Skaggs  
S. P. Smith  
C. J. Hightman  
J. Hamrock  
D. A. Monte  
V. Sistovaris  
D. A. Eckstein  
L. J. Francisco  
J. L. Winterstein  
R. K. Smith  
R. V. Mooney  
K. D. Swiger  
S. J. Sagun  
J. M. Konold  
M. J. Finissi  
M. Hooper  
K. Anderson  
T. L. Tucker  
Deloitte and Touche, LLP

# NiFiT D2 – Post Deployment Review NiSource IT Audit

June 25, 2014

To:  
Rick Fontaine, VP - Financial Transformation  
Russ Viater, VP – IT Service Delivery (NIPSCO/NCS)  
Joe Mulpas, VP - Chief Accounting Officer  
Tim Tokish, VP – Financial Planning & Analysis

From:  
John Manfreda, Project Manager – IT Audit  
Greg Wancheck, Manager – IT Audit  
Ray Irvin, Director – IT Audit





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  - Approach, Objectives and Background
  - Summary Findings
  
- Review Results (Assurance). . . . . Page 10
  - Project Management Controls
  - Delivered Function / User Acceptance Controls
  - Business Process Controls
  - IT General Controls
  
- Review Results (Advisory). . . . . Page 35
  - Project Conduct / Deliverable Quality Controls
  
- Report Distribution . . . . . Page 47



NiFiT Deployment 2 - Post-Deployment Review

# EXECUTIVE OVERVIEW



# NiFiT Deployment 2 - Post-Deployment Review

## Executive Overview

NiFiT Approach

IT Audit continues to provide both advisory and assurance services during the current and future phases of NiFiT. These services will be divided between an overall Pre-Deployment Review, release specific Phase Assurance Review and a final phase Post-Deployment Review after go-live, which is this report. The purpose of each IT Audit review is as follows:

- Capture and report upon key information/data regarding NiFiT project delivery execution.
- Assess the effectiveness of adoption and usage of the system by NiSource.
- Conclude whether controls were considered and tested by relevant parties as part of NiFiT deployment.

The following terms are used to describe services provided by IT Audit throughout the duration of the NiFiT project:

### Assurance Services:

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusion regarding an entity, operation, function, process, system or other subject matter. (IIPF standards revised October 2010)

### Advisory Services:

Consulting services are advisory in nature and are performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. (IIPF standards revised October 2010)



# NiFiT Deployment 2 - Post-Deployment Review

## Executive Overview

The objective of IT Audit's D2 Post-Deployment Review was to provide management with an overall evaluation of the policies, procedures and processes used to manage activities associated with the Deployment and Turnover phases of NiFiT Deployment 2 for in-scope NGD companies, specifically focusing on the following areas:

### 1) Project Management Controls

Review project management controls in the areas of budget, schedule and scope to ensure that NiSource corporate policy and NiFiT standards are followed.

### 2) Deliverable Acceptance and Quality Controls

Review phase deliverable acceptance, quality assurance practices and key deliverables by the NiFiT Project Team to provide an independent perspective on quality measures.

### 3) Business Process Controls

Review automated and manual business process control test status to provide an opinion on the adequacy of management's inclusion and testing. Also independently test the effectiveness of both automated and manual business process controls post go-live.

### 4) IT General Controls

Review IT general controls in the areas of systems change management, systems operation, data validation, systems security, and backup and recovery to assess whether NiSource corporate policy is followed.

### 5) Program Conduct Controls

Review conduct of the NiFiT Project Team in its achievement of program objectives.

Post-Deployment Objectives

# NiFiT Deployment 2 - Post-Deployment Review

## Executive Overview

Post-Deployment Background

The NiFiT D2 Post-Deployment Review covers activities supporting the Deployment and Turnover phases of NiSource's IT Project Management Methodology (PMM) as conducted between March 2014 and June 2014 and post issuance of IT Audit's D2 Phase Assurance Review in March 2014.

NiFiT Project Team activities occurring during the Deployment and Turnover phases of D2 for NGD (excluding CMA) centered around both the decision process used to facilitate a go/no-go decision on the production release of the NiFiT solution, as well as steps planned and executed to help ensure the deployed NiFiT solution was functioning as intended and provided the benefits desired by NiSource management.

During the D2 Deployment and Turnover phases, NiFiT Project Team leadership continued its practice of requiring a Project Change Request (PCR) for any modification related to requirements and deliverables. This ongoing effort allowed NiFiT to continue oversight and reporting diligence associated with project scope, schedule and financial costing controls for alignment with NiSource corporate policy and documented NiFiT project standards.

The NiFiT Project Team also leveraged NiSource's Organizational Change Management (OCM) methodology to guide practices related to change readiness, end-user training and adoption of the D2 solution. The utilization of these existing practices, along with increased use of the Change Champion Network (CCN) to provide training and end-user support, allowed the NiFiT Project Team to engage the large NGD end-user community and supporting management to help ensure the system provide the benefits that NiFiT intended to deliver.

As with previous project phases, the effective operation of business process controls associated with D2 is of primary concern for the NiFiT Project Team. As such, the NiFiT Project Team continues to be engaged with the various parties who play a role in the definition, execution and independent evaluation of risk and controls associated with the NiFiT solution.

# NiFiT Deployment 2 - Post-Deployment Review

## Executive Overview

Post-Deployment Findings

### Assurance - Project Management Controls (PMC):

IT Audit noted the NiFiT Project Team continues to use positive practices and consistent control reviews to manage the Deployment and Turnover phases of D2. IT Audit found the Project Change Request (PCR) process continued to be used to initiate and approve changes to key project deliverables, scope and schedule adjustments, including modifications within the NiFiT PWA scheduling system and variances observed between actual, estimated and forecasted project hours as calculated in the NiFiT Financial Tracking Model.

### Assurance - Delivered Function User Acceptance Controls (DFUA):

As part of NiFiT D2, IT Audit noted the NiFiT Project Team used the HyperCare process enacted in D1 to facilitate production turnover and to help Columbia Distribution Companies (CDC) end-users both absorb usage of the new solution and assist with any business process or technical incidents arising. IT Audit found that along with daily D2 HyperCare meetings performed by the NiFiT Project Team, 264 of the 288 tickets associated with D2 HyperCare were "closed" or "resolved" at conclusion of the May 2014 CDC accounting close. IT Audit determined these 288 HyperCare items handled for D2 represented a net forty-six percent (46%) reduction from HyperCare items addressed for D1. IT Audit also found the twenty-four (24) "open" HyperCare tickets remaining were successfully being tracked by the IBM Steady-State Support and NiSource Business Application Support Teams for final closure. Additionally, the NGD Segment Controller raised concerns associated with both the Job Order Re-Class process and allocations system performance during the April and May 2014 CDC accounting closes and requested an extension of HyperCare support from the NiFiT Project Team through the June 2014 CDC accounting close. IT Audit found the NiFiT Project Team aligned with the NGD Segment Controller and is extending HyperCare support for relevant systems per the request.

IT Audit found the NiFiT Project Team is complying with NiSource Organizational Change Management (OCM) guidelines to facilitate communication, training and change management activities associated with D2. IT Audit also noted that various communications events and pre-planned meetings were conducted through the Deployment and Turnover phases to ensure timely notification of key D2 events were disseminated among relevant parties.

# NiFiT Deployment 2 - Post-Deployment Review

## Executive Overview

Post-Deployment Findings (Cont.)

### Assurance - Business Process Controls (BPC):

Columbus Internal Audit reviewed a select population of high-risk manual SOX controls impacted by NiFiT D2 and found controls appeared to be operating effectively post production release.

IT Audit found final management reviews and sign-offs were obtained by appropriate business unit personnel for the four (4) NGD data conversion streams included as part of D2. These reviews and approvals provided the oversight needed to ensure that data converted from legacy NiSource applications into the NiFiT solution were migrated in a complete and accurate manner. **IT Audit identified a leading practice opportunity for Vendor Conversion sign-off requirements to be documented in a manner consistent with the other data conversion streams for future NiFiT deployments.**

IT Audit noted the NiSource SOX Controls Team continued their effort developed during D1 to align business process controls included in NiFiT Risk and Control Matrixes (RCMs) to controls present within NiSource's global SOX Risk Navigator database and found all controls appearing in the D2 NiFiT RCMs were also correctly located within Risk Navigator. IT Audit also performed an independent reconciliation of the D2 NiFiT RCMs to Risk Navigator and achieved the same results as the NiSource SOX Controls Team.

Finally, IT Audit's previous recommendation from the D1 Post-Deployment Review that the NiFiT Project Team ensure corresponding HyperCare Support Team access into the production PeopleSoft environment be limited to a reduced level of individuals was remediated prior to the April 15, 2014 D2 go-live date.



# NiFiT Deployment 2 - Post-Deployment Review

## Executive Overview

Post-Deployment Findings (Cont.)

### Assurance – IT General Controls (ITGC):

IT Audit determined the NiSource IT and IBM PeopleSoft Steady-State Teams are following the defined Phire change management process, as the proper approval documentation is being included to support production PeopleSoft object migrations. IT Audit did however make a **recommendation that Phire change request tickets be clearly linked to a corresponding ISM change ticket to help ensure adequate accessibility and linkage to required change management documentation and approvals.** IT Audit also identified a leading practice opportunity for timely closure of Phire change request tickets by the NiSource IT and IBM PeopleSoft Steady-State Teams.

### Advisory – Program Conduct and Deliverable Quality Controls (PC DQ):

Upon review of key project deliverables and artifacts, IT Audit noted NiFiT is following sound practice in the areas of project management, deployment and turnover strategy. IT Audit also found good execution for delivered function user acceptance and change management, with feedback being gained from D2 business stakeholders and documented for future use.

Based on independent interview results with key D2 business stakeholder leaders, Change Champion members and end-users, IT Audit received positive feedback for the NiFiT Project Team's engagement and alignment activities. IT Audit further received interviewee suggestions for improvement to communications, Change Champion management and support performance and shared those with the NiFiT OCM Team Lead for consideration in future NiFiT deployments.

Finally, IT Audit found the NiFiT Project Team is using an Operational Measures Scorecard to track improvement and value realization metrics for the NiFiT solution. Based upon the results and benefits noted from this program, IT Audit identified a **leading practice opportunity for NiSource IT to consider partnering with their business customers to develop a standard business value realization process based upon NiFiT's Operational Measures Scorecard and integrate any relevant deliverable(s) into the NiSource IT Project Management Methodology (PMM).**

NiFiT Deployment 2 - Post-Deployment Review  
Assurance Objectives

# REVIEW/RESULTS

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1

Review on-going project management controls in the areas of scope, schedule and budget to ensure NiSource corporate policy, good practice and NiFiT standards are followed.

#### Results:

IT Audit reviewed three (3) key project management control areas as part of the D2 Post-Deployment Review for NiFiT:

- Scope Control - Is the NiFiT Project Team managing what it delivers is appropriate and approved?
- Schedule Control - Is the NiFiT Project Team managing a schedule to ensure on-time project delivery?
- Cost Control - Is the NiFiT Project Team managing costs to ensure delivery occurs within a defined and approved cost structure?

#### **Scope Controls:**

The NiFiT Project Team continues its usage of the Project Change Request (PCR) process as the primary means to manage NiFiT scope control, with alterations in project requirements and deliverables requiring review and approval by appropriate parties. IT Audit reviewed a sample of D2 project changes documented within weekly NiFiT Status Reports and found deliverable changes are being approved by appropriate parties using the related PCR process. IT Audit also found the NiFiT Project Team continues to track deliverable status using reports sourced from the PWA, Project Server system and provides weekly updates to the NiFiT PMO for independent review.

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

IT Audit also reviewed a sample of Deployment and Turnover phase project scope changes as reported in weekly NiFiT Status Reports and found each selected change was reviewed and approved on a corresponding PCR form. Finally, IT Audit inspected a sample of D2 deliverable tracker matrices sourced by the NiFiT PMO from NiSource's PWA system and found they were in alignment with corresponding deliverable matrices presented within the weekly NiFiT Status Report.

#### **Schedule Controls:**

IT Audit found NiFiT continues to use PWA as its primary scheduling control mechanism, with the project schedule updated during planning activities for each NiFiT phase. IT Audit noted PWA tracks all work performed to both planned and actual hours with NiFiT project personnel required to enter their time within PWA in order for the NiFiT PMO to perform the following actions:

- Weekly variance analysis between planned and actual hours for performance tracking.
- Weekly comparison of scheduled hours to the overall project staffing model.

Once the NiFiT PMO has completed their weekly activities and aligned with NiFiT Project Team Leads on both missing hours in PWA and staffing plan adjustments, the NiFiT PMO reports this information in the weekly NiFiT PMO Status Report and approves the project schedule. IT Audit found that once the project schedule is approved, subsequent changes are also required to follow the documented Project Change Request (PCR) process.



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

For schedule control testing purposes, IT Audit reviewed a sample of Deployment and Turnover phase project schedule changes as reported in weekly NiFiT Status Reports and found that each selected D2 change was reviewed and approved on a corresponding PCR form. IT Audit also inspected a sample of both weekly variance analysis and comparison reports conducted by the NiFiT PMO for the D2 Deployment and Turnover phases and noted differences observed were appropriately communicated to NiFiT Project Team Leads with corresponding information required either for correction or detailed explanation. Finally, and based on a previous Internal Audit finding regarding post-dated planned versus reported hours modifications, IT Audit performed additional planned versus hours testing using selected weekly NiFiT Status Reports from April 2014 and found no variances occurring.

#### **Cost Controls:**

IT Audit noted project costing continues to be updated monthly by the NiFiT PMO using the Financial Tracking Model and is also reported on the weekly NiFiT Status Report, as follows:

##### Items:

- Actuals – Actual costs incurred for the NiFiT project as reported by NiSource Accounting (updated monthly).
- Plan – Budgeted costs for the project.
- Variance – Reported differences between Budget-to-Actuals and/or Budget-to-Forecast information.

##### Types:

- Internal Labor- NiSource employees engaged on the NiFiT project.
- IBM - Specific NiFiT project vendor costs.
- External Labor- Consultants and contractors engaged on the NiFiT project.
- Non-Labor - Associated hardware and software costs for the NiFiT project.

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 1 (Cont.)

Categories:

- Capital
- O&M (Operations & Maintenance)
- Total (combined Capital + O&M)

On a monthly basis, the NiFiT PMO uses the Financial Tracking Model to perform the following activities:

- Project actual costs are collected from various sources by the NiFiT PMO at month end.
- Actual O&M and Capital costs are updated for the previous month.
- Based on the project budget, a variance analysis is produced against actuals for the month.
- Variance analysis of budget-to-actuals is used by management to enable subsequent changes to budgets.

For testing purposes, IT Audit reviewed a sample of project cost-related changes as reported in weekly NiFiT Status Reports and found each selected D2 cost change was reviewed and approved on a corresponding PCR by appropriate personnel, along with the PCR containing the appropriate support material used for cost estimation. IT Audit also reviewed select weekly NiFiT Status Reports and noted reported project costing information was aligned with costing data as reported in the Financial Tracking Model. Finally, IT Audit noted the Financial Tracking Models being used to populate the weekly NiFiT Status Report are now being saved on SharePoint in alignment with IT Audit's recommendation from the D1 Post-Deployment Review.

Recommendations: None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls - Objective 2

Review identified exceptions to corporate policy and whether the exception process/steps were communicated and reviewed with the IT PMO and NiFiT Project Team management.

#### Results:

##### **Deployment Phase (Required Documentation):**

IT Audit noted the following IT PMM/Sabanes-Oxley documentation required for the D2 Deployment phase gate was created, authorized and retained prior to transition to the Turnover Phase:

- User Documentation – created for NiFiT Deployment 2 to include user training guides and information on how to utilize the solution.
- Technical Documentation – included corresponding details associated with technical support information and requirements for NiFiT Deployment 2.
- Deployment Completion Approval – included overall phase approval and training plan inclusion for NiFiT Deployment 2.

##### **Turnover Phase (Required Documentation):**

IT Audit noted the following IT PMM/Sabanes-Oxley documentation required for the D2 Turnover phase gate was in process creation at the time of audit review. IT Audit will review the completed documentation at the time it becomes available:

- Lessons Learned – includes information on lessons learned during phase lifecycles of NiFiT Deployment 2.
- Turnover Stage Completion – includes the approval and authorization of Deployment 2 transition to steady state solution servicing.

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 3

Determine whether adequate alignment exists on project management control activities implemented by NiFiT across the NiFiT Project Team, Process Owners, NiSource SOX Controls Team and Deloitte & Touche Audit personnel.

#### Results:

IT Audit regularly attended the following NiFiT project meetings between March 2014 and June 2014. Covered topics associated with project management control activities included current project status (based on relevant project management control metrics), project change request status, issue/risk identification and project updates.

- **NiFiT Project Leadership (Every other Wednesday 10:00am ET)**

*Type:* Bi-Monthly Project Leadership team meeting regarding NiFiT project progress, project status updates by the NiFiT PMO and agenda presentations by NiFiT Project Team Leads and subject matter experts.

*Attendees:* NiFiT Project Leadership, NiFiT Project Executive Advisors and IT Audit.

- **NiFiT Weekly Deployment 2/3 Status Meeting (Tuesday 1:00pm ET)**

*Type:* Weekly status meeting covering project work accomplished, deliverable(s) status, staffing updates and issue/risk metric reporting.

*Attendees:* NiFiT PMO, NiFiT Project Deployment Leads, NiFiT Project Team members (topical) and IT Audit.

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Management Controls – Objective 3 (Cont.)

- **NiFiT Controls Status (Monday 10:30am ET)**

*Type:* Weekly status discussion regarding updates to both NiSource's SOX Risk Navigator database for impacted D2 controls and security controls associated with elevated D2 HyperCare access.

Attendees: NiFiT Project Team, NiSource SOX Controls Team and IT Audit.

IT Audit also engaged with key NiFiT Project Team personnel on a one-on-one basis to facilitate project management alignment. Project management controls were discussed, as needed, by IT Audit as part of the following reoccurring weekly meetings:

- IT Audit and NiFiT Program Manager (Wednesdays 2:00pm ET)
- IT Audit and NiFiT Deployment 2 Lead (Thursdays 4:00pm ET)
- IT Audit and NiFiT Organizational Change Management Lead (Mondays 8:30am ET)

Based on routine NiFiT project status meeting attendance throughout the D2 Deployment and Turnover phases, coupled with one-on-one IT Audit weekly engagement with NiFiT Project Team leadership and coordination facilitation between the NiFiT Project Team and Deloitte, IT Audit found adequate alignment exists on project management control activities implemented by NiFiT amongst relevant parties.

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 1

**Review NiFiT training, change management and communications practices to provide reasonable assurance NiSource corporate policy and/or NiFiT project standards are followed.**

#### Results:

Major portions of the Deployment and Turnover phases of NiFiT are focused on ensuring users of the solution know how to properly use the related systems and how the solution changes processes that users support. Accomplishing these tasks involves training, change management and communications created by the NiFiT Project Team as part of NiSource's Organizational Change Management (OCM) methodology for IT projects. IT Audit noted NiFiT has a dedicated OCM team that is responsible for communication, change management and training coordination.

In relation to D2, IT Audit noted no changes to the NiSource OCM playbook developed during D1 to serve as a NiSource project management phase guide for OCM deliverables. IT Audit also reviewed documented evidence of NiFiT's OCM-related plans and requirements and found the following D2 phase related deliverables were both consistent with NiSource enterprise OCM guidelines and were created, updated, reviewed and approved by appropriate parties:

- Change Readiness Assessment – Survey of users to gauge organizational readiness for project changes.
- Deployment Campaign - Coordinated communications activities for the project deployment phase.
- End-User Training – Delivery of training to impacted users and personnel.

# NiFiT Deployment 2 - Post-Deployment Review



## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 1 (Cont.)

As of this D2 Post-Deployment Review report date, IT Audit noted the following status of OCM deliverables for the D2 Turnover phase:

- Lessons Learned – Survey based reviews with NiFiT Project Team members conducted to gather good practices and improvement items for future phases. The Lessons Learned Survey is scheduled for the week of June 8, 2014 with the final Lessons Learned deliverable to be completed by June 30, 2014.
- Change Adoption Assessment – Survey based approach to identify any remaining barriers to change adoption. The D2 Change Adoption Survey is scheduled from June 16, 2014 through June 27, 2014 with results finalized and reviewed by the NiFiT OCM Lead on July 7, 2014.

Based on independent review, IT Audit concludes NiFiT is following the NiSource OCM methodology with deliverables being reviewed and approved by appropriate project-related parties.

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 2

**Review NiFiT delivered function user acceptance approval activities to provide reasonable assurance NiSource corporate policy or project standards are followed.**

#### Results:

IT Audit found the NiFiT Project Team continues to follow a structured approach to user acceptance activities. As preparation for Deployment phase entry, the NiFiT Project Team engaged supporting team members, Executive Advisors, Project Sponsors and constituent groups as part of the D2 go-live decision process. IT Audit also noted a three (3) checkpoint approach was created and adhered to for go-live decision activity, which included a readiness scorecard based upon key project indicators with allowance for review and input at the various checkpoint levels. Checkpoints were defined by the NiFiT Project Team, as follows:

- Deployment Initiation (Checkpoint 1) – Occurring Feb 5, 2014
- Pre-Deployment (Checkpoint 2) - Occurring March 5, 2014
- Go-Live Commitment (Checkpoint 3) - Occurring March 19, 2014



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 2 (Cont.)

IT Audit noted the NiFiT Project Team also used the following categories of readiness information and corresponding criteria to gauge D2 go/no-go decision activity:

- Project Readiness (Issues , Risks and Schedule)
- Business Solution Readiness (Requirements, Testing and Security)
- Data Conversion Readiness (Conversion status)
- SOX Readiness (Controls status)
- Legacy Readiness (Interfacing system components readiness)
- 3<sup>rd</sup> Party Readiness (Banks and other 3<sup>rd</sup> party readiness)
- Infrastructure Readiness (Hardware and software is available and ready)
- User Readiness (Training readiness)
- Deployment Readiness ( Deployment tests completed with plans and communications in place)
- Production Support Readiness (Production support teams, processes and tools ready)

Based on the categories of readiness information listed above and input from the NiFiT Project Team, Executive Advisors and selected Stakeholders as part of the checkpoint review process, the NiFiT Project Team gained agreement to proceed with D2 go-live deployment. IT Audit found this category readiness list and corresponding review process to be a good practice for this type of production deployment effort and encourages the NiFiT Project Team to continue these activities for Deployments 3 and 4.



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 2 (Cont.)

Upon Deployment phase entry, the NiFiT Project Team also executed it's step-based, go-live strategy to activate the NiFiT solution within production environments. As each system and/or system component was activated in production, the NiFiT Project Team partnered with Steady-State Support personnel to coordinate and orchestrate HyperCare activities, with HyperCare being a NiSource IT required set of activities to provide extended IT project team support for a period of time immediately following solution deployment. In NiFiT's case, HyperCare activities are being conducted for each effected systems between April 2014 and June 2014 with a total of 288 items handled by the HyperCare team as of June 6, 2014. IT Audit noted theses 288 HyperCare items handled for D2 represented a net forty-six percent (46%) reduction from the 538 items previously addressed for D1.

IT Audit noted the HyperCare team for D2 included personnel from the NiFiT Project and Steady-State Support Teams and selected Change Champions. IT Audit additionally interviewed selected stakeholders to gauge the level of engagement with NGD business teams affected by the NiFiT solution, finding positive results with stakeholders rating the level of engagement by NiFiT to be very good and commenting that support activities provided by the NiFiT Project Team were helpful and performed in a timely manner. IT Audit also noted the NGD Segment Controller raised concerns associated with Job Order Re-class processing and allocations performance and requested an extension of D2 HyperCare support from the NiFiT Project Team for the June 2014 CDC (Columbia Distribution Companies) accounting close. IT Audit found the NiFiT Project Team aligned with the NGD Segment Controller to support this request and, as a result, is extending HyperCare for relevant systems through the June 2014 accounting close timeframe via an in-process PCR. Based on review of relevant documentation, attendance at key meetings and stakeholder interview engagement, IT Audit concludes the NiFiT Project Team continues to follow NiSource enterprise project standards for delivered function user acceptance approval activities.

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 3

In cases where exceptions to NiSource corporate policy and/or NiFiT project standards are encountered in user acceptance, IT Audit will validate that proper review, sign-off and documentation are obtained by NiFiT Project Team.

#### Results:

Based on relevant documentation review and interviews with key personnel, IT Audit found no exceptions related to corporate policy or project standards as part of delivered function user acceptance activities for Deployment 2.

Recommendations: None



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance - Objective 4

**Determine whether adequate alignment exists between the NiFiT Project Team and NiFiT Process Owners, NiSource SOX Compliance, NiSource Finance, NGD Management and Deloitte & Touche Audit on user acceptance control activities associated with the Deployment and Turnover project phases.**

IT Audit attended the following meetings and/or planned communications where user acceptance activities and related controls were discussed and noted adequate alignment exists between the parties involved on user acceptance.

- **NiFiT Project Leadership (Wednesday 10:00am EST)**

*Type:* Weekly Project Leadership team meeting regarding NiFiT project progress, project status updates by the NiFiT PMO and agenda presentations by NiFiT Project Team Leads and subject matter experts.

*Attendees:* NiFiT Project Leadership and IT Audit.

- **NiFiT Weekly Deployment 2/3 NiFiT Status Meeting (Tuesday 1:00pm EST)**

*Type:* Weekly status meeting covering project work accomplished, deliverable(s) status, staffing updates and issue/risk metric reporting. Included items regarding change management and user acceptance.

*Attendees:* NiFiT PMO, NiFiT Project Team Leads and IT Audit.

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Delivered Function User Acceptance – Objective 4 (Cont.)

- **Planned NiFiT communications with NGD D2 In-Scope Company personnel**  
*Type:* E-mail, site visits and Change Champion communications.  
*Audience/Participants:* NiFiT Project Team Leads, Change Champion Network (CCN) members and NGD management.

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls - Objective 1

**Review manual business process controls status within the Deployment and Turnover phases to provide an opinion on the adequacy of management's inclusion and testing of the automated manual business process controls.**

#### Results:

To verify manual controls operated effectively as part of the April 2014 accounting close for the Columbia Distribution Companies (CDCs), Columbus Internal Audit made a selection of twenty-five (25) CDC-focused primary and key secondary manual SOX controls out of the total population of 122 NGD SOX-related manual controls from the locked NiFiT Deployment 2 Risk and Control Matrixes. The manual controls tested by Columbus Internal Audit were controls determined to be most impacted by NiFiT. Additionally, only monthly controls impacted by NiFiT Deployment 2 could be reviewed per Columbus Internal Audit's testing procedures as April is not a quarter or year-end timeframe for NiSource. For each of the twenty-five (25) manual controls selected, Columbus Internal Audit reviewed documentation supporting the execution of the SOX control for the month of April 2014. As of the date of this report, Columbus Internal Audit had completed testing on all 25 controls selected, noting each selected CDC control appeared to be operating effectively.

**Recommendations:** None



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 2

Review NiFiT data conversion controls for activities executed since NiFiT Deployment 2 go-live to provide a perspective on conversion process owner review and sign-off on the conversion results.

#### Results:

The NiFiT Project Team executed the following four (4) data conversion efforts as part of NiFiT Deployment 2:

- Chart of accounts and financial data conversion (general ledger) - GEAC to PeopleSoft Financials 9.1.
- Vendor conversion (accounts payable) - GEAC to PeopleSoft Financials 9.1.
- Cost repository account code conversion (asset management) – PowerPlant.
- Work order number conversion (asset management) – PowerPlant.

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 2 (Cont.)

IT Audit noted final review and sign-off for the following Deployment 2 data conversion streams were obtained by NiFiT:

- Chart of accounts and financial data conversion (general ledger) – GEAC to PeopleSoft Financials 9.1.
  - Final sign-off obtained April 14,2014 during the general ledger deployment weekend.
- Vendor conversion (accounts payable) - GEAC to PeopleSoft Financials 9.1.
  - Final sign-off obtained March 27,2014 prior to the April 1,2014 accounts payable deployment date.
- Cost repository account code conversion (asset management) – PowerPlant. (Refer to **Note** below)
  - Final review obtained April 15,2014 1 day post the asset management April 14,2014 deployment date.
- Work order number conversion (asset management) – PowerPlant. (Refer to **Note** below)
  - Final review obtained April 15,2014 1 day post the asset management April 14,2014 deployment date.

**Note:** Cost repository and work order number conversion review was obtained post PowerPlant deployment due to the conversions being executed during the weekend and final results dependent on deployment execution. Obtaining conversion reviews after deployment allowed NiSource Asset Management to review and validate conversion results in production, with any associated risk in having review and sign-off post production conversion mitigated by the execution of mock conversions during the D2 Testing phase.

**Leading Practice Opportunity:** IT Audit found the validation process related to supporting Vendor Conversion sign-off documentation was not consistent with conversion sign-off documentation requirements for the D2 Chart of Accounts, Cost Repository and Work Order streams. As a result, IT Audit sees an opportunity for Vendor Conversion sign-off requirements to be documented in a manner consistent with the other data conversion streams for future NiFiT deployments. IT Audit did note that as of this audit report date, the NiFiT Project Team has acted on this opportunity by creating a Vendor Conversion validation document that is aligned with the other conversion streams and which will be used during NiFiT Deployments 3 and 4.

**Recommendations:** None



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 3

IT Audit will review NiSource SOX Controls Team inclusion and testing plans created to help ensure business process controls associated with Deployment 2 are completely and accurately migrated from NiFiT RCMs (Risk & Control Matrixes) into the NiSource SOX Risk Navigator Database.

#### Results:

Spanning the D2 Deployment and Turnover phases, IT Audit noted the NiSource SOX Controls Team continued their effort commenced during D1 to align business process controls included in NiFiT Risk and Control Matrixes (RCMs) to controls present within NiSource's global SOX Risk Navigator database. Based on the D2 RCM versions locked as of April 2014, the NiSource SOX Controls team performed a controls reconciliation during May 2014 between the RCMs and Risk Navigator and noted all 477 controls appearing in the D2 NiFiT RCMs were also correctly located within Risk Navigator.

For independent testing purposes, IT Audit also performed a reconciliation between the locked NiFiT D2 RCMs as of April 2014 and the SOX Risk Navigator controls database and obtained the same results as the NiSource SOX Controls Team, with 477 aggregate controls appearing in the NiFiT RCMs and also documented within Risk Navigator for alignment purposes.

Recommendations: None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Business Process Controls – Objective 4

**Review alignment efforts on post go-live manual business process control testing activities between NiFiT Project Team, Process Owners, the NiSource SOX Controls Team and Deloitte & Touche Audit.**

#### Results:

IT Audit observed various communication points and pre-scheduled reporting meetings occurring between the NiFiT Project and SOX Controls Teams, NiSource Process Owners, NiSource's IT and Columbus Internal Audit Teams and Deloitte regarding assessment activities associated with the design/effectiveness testing of controls impacted by NiFiT. Besides being an active participant in discussion coordination between the multiple parties listed above, IT Audit noted the following regularly scheduled communication streams throughout the duration of the D2 Deployment and Turnover phases:

- **NiFiT Controls Status (Monday 10:30am EST)**

*Type:* Weekly status discussion regarding controls inclusion within the NiFiT RCMs and Segregation of Duties evaluation status between the NiFiT Project and Control Teams.

*Attendees:* NiFiT Project Team, NiSource SOX Controls Team and IT Audit.

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review



## REVIEW / RESULTS

### Business Process Controls - Objective 5

**Review NiFiT Project Team activities related to reducing temporary production access required for HyperCare support**

#### Results:

As part of the NiFiT D1 Post-Deployment Review, IT Audit included a recommendation that the NiFiT Project Team ensure corresponding HyperCare Support Team access into the production PeopleSoft environment be limited to a reduced level of individuals with Update, Add and/or Correction capability. By restricting access granted, the NiFiT Project Team would significantly reduce the risk of any improper activity occurring within the production PeopleSoft environment during the HyperCare period for future NiFiT deployments.

To ensure the NiFiT Project Team actioned IT Audit's recommendation for D2, the NiSource SOX Controls Team aligned with Deloitte to run independent PeopleSoft security extracts both pre D2 commencement (March 2014) and post D2 go-live (April 2014). IT Audit noted all items found by both the NiSource SOX Controls Team and Deloitte as a result of the pre D2 PeopleSoft security extracts were discussed for joint alignment and subsequently remediated by the NiFiT Project Team prior to the April 15, 2014 D2 go-live date.

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 1

**Perform independent effectiveness testing over select general IT computing controls presenting a heightened risk to NiFiT post go-live of Deployment 2.**

#### Results:

As part of the initial NiFiT D1 solution, the NiFiT Project Team implemented a version control tool, Phire, that is utilized both for migrating PeopleSoft 9.1 code into production and in providing systematic audit logging capabilities for defined PeopleSoft 9.1 code migrations. IT Audit found the Phire tool monitors all Peoplesoft application code changes, as well as specific operating system level changes (i.e. Crystal Reports, objects, etc.) which have an impact on application functionality. IT Audit additionally noted NiSource IT and IBM PeopleSoft Steady-State personnel document the tracking number (i.e. incident ticket, defect number or change request number) within a Phire Change Request ticket in order to link the change to NiSource's IT Change Management process via an ISM (Integrated Service Management) ticket. Details of the change approvals, description and documentation are then retained within ISM for overall audit and tracking purposes.

For independent D2 testing, IT Audit randomly sampled fifteen (15) of the forty-six (46) total PeopleSoft 9.1 objects migrated into production between January 1, 2014 and June 3, 2014. Upon review, IT Audit determined that although the defined Phire change management process is being followed, nine (9) of the fifteen (15) object migrations sampled within Phire did not include adequate documentation to link the Phire change request to the corresponding ISM change ticket containing supporting approval documentation. Additionally, IT Audit noted eleven (11) of the fifteen (15) sampled PeopleSoft 9.1 object migrations were left in an open status within Phire (i.e. 'Ready to Close', 'Post Migration', Etc.) for an extended period of time post the object migration being completed.

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 1 (Cont.)

**Recommendations:** Phire change request tickets should be clearly linked to the corresponding ISM change ticket to help ensure adequate accessibility and linkage to required change management documentation and approvals.

**Management Response:** NiSource IT Service Delivery and IT Planning & Operations will be meeting with the PeopleSoft Support Business Area Manager (BAM) to reinforce the need to tie the Phire tickets to ISM tickets in the future and going forward. IT Operations is planning for an update of the NiSource Applications Change Management Controls Procedure document and when published, the process to reference Phire tickets to ISM tickets will be included.

**Leading Practice Opportunity:** IT Audit recommends the timely closure of change request tickets within the Phire tool by the NiSource IT and IBM PeopleSoft Steady-State Teams.

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### IT General Controls – Objective 2

Determine whether adequate alignment exists on general IT computer control activities implemented by the NiFiT Project Team with NiSource IT Compliance, NiSource SOX Compliance and Deloitte & Touche Audit.

#### Results:

IT Audit found adequate alignment exists between the NiFiT Project Team, NiSource IT Compliance, NiSource SOX Compliance and Deloitte Audit. Besides noting frequent interaction between the required teams to address any current changes in the general IT computer controls environment. IT Audit additionally executed Phire object migration testing over PeopleSoft change management controls on behalf of Deloitte, with testing results discussed and leveraged by the Deloitte Audit team.

Recommendations: None



# NiFiT Deployment 2 - Post-Deployment Review

## Advisory Objectives

# REVIEW RESULTS

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 1

Review NiFiT D2 Deployment and Turnover phase process compared with industry practice and guidance to inform NiFiT Project Team management of relevant improvement opportunities.

#### Results:

IT Audit reviewed NiFiT D2 HyperCare delivery by attending daily HyperCare status meetings and both inspecting HyperCare Daily Status Reports along with HyperCare ticket information to gauge standards compliance by NiFiT. IT Audit noted the NiFiT Project Team continues to report comprehensive status, consistent with D1, of the following HyperCare delivery attributes within the HyperCare Daily Status Report:

- Batch processing status
- Incidents reported and handled
- Function status by solution area
- Monthly accounting close status

IT Audit also found that as of June 6, 2014 and post conclusion of the May 2014 CDC accounting close, the HyperCare team reported 264 of the 288 total HyperCare incidents (92%) raised were either "closed" or "resolved", with only twenty-four (24) incidents (8%) remaining in "open" status. IT Audit noted these twenty-four (24) "open" tickets were being tracked by the NiSource Business Applications Support and IBM Steady-State Support Teams for continued monitoring and closure progression through the remainder of D2 HyperCare.

Recommendations: None



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 2

Review stakeholder 's alignment and perspective on NiFiT solution Deployment and Turnover activities by interviewing selected Key D2 Stakeholders to provide feedback to NiFiT Project Team management of relevant improvement opportunities.

#### Results:

To provide a perspective on project alignment with NiFiT's D2 release, IT Audit conducted a series of interviews with the following eight (8) key business stakeholders to assess NiFiT Project Team engagement in the D2 Deployment process:

- NGD Segment Controller
- NCS Segment Controller
- NGD COO
- NGD CFO
- NGD SVP/Chief Commercial Officer
- CPA/CMA President Regulatory Rev
- NiFiT OCM Lead
- NiFiT OCM Executive Advisor

Based on interview results, IT Audit received positive feedback for the NiFiT Project Team's engagement and alignment with key business stakeholders and heard no user acceptance improvement items for the NiFiT Project Team from a leading practice perspective. IT Audit did note the NGD Segment Controller raised concerns associated with both Job Order Re-class processing and allocations system performance during the April and May 2014 CDC accounting closes. IT Audit noted both items are prompting the extension of HyperCare for the June 2014 CDC accounting close with IT Audit monitoring corresponding NiFiT Project Team performance.



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 2 (Cont.)

As part of the interview process, IT Audit additionally learned the NiFiT OCM (Organizational Change Management) Team had to provide enhanced support to a select number of D2 Change Champions to ensure their communication, training and support expectations were being accomplished. IT Audit noted that in order to address this item for D3 and D4, the NiFiT OCM team is planning on requiring more performance-based monitoring and continual feedback between Change Champions and their corresponding managers and supervisors.

The following slides highlight comments/suggestions resulting from IT Audit's interviews with key D2 business stakeholders:

Name	Comment/Suggestion	Change Approval
------	--------------------	-----------------

#### Stakeholder Comments

- |   |  |                          |
|---|--|--------------------------|
| 1 | ... NiFiT's practice of "Telling the people ahead of time why and what is changing rather than just changing things and then telling personnel" helped drive a higher acceptance rate for the project.   | CPA -President           |
| 2 | A large effort was demonstrated by NiFiT Project team to engage ... his team. ... felt that these efforts were proactive and that NiFiT Project team did an excellent job as the D2 effort was almost a "non-event" for his Operations organization.                 | NGD - Operations         |
| 3 | Just a thumbs-up ... that overall the D2 deployment was a success and any issues that came up are being addressed in a timely manner.  | NCS – Segment Controller |
| 4 | Very nice job by the NiFiT Project Team. Very impressed with the Team and the results delivered. Recognized that it took a tremendous amount of discipline and effort from the NiFiT team to accomplish transition. Also noted that the team was great to work with. | NGD – Segment Controller |

# NiFiT Deployment 2 – Post Deployment Review

## INTERVIEW RESULTS

### Project Conduct/Deliverable Quality – Objective 2 (Cont.)

Item#	Comments/Suggestions	Stakeholder/Comments
<b>Stakeholder Suggestions</b>		
1	... certain D2 communications during HyperCare were extremely detailed and lengthy, resulting in minor challenges for re-communication back out to our organization.	CPA – President
2	... the current level of change management and communications should be maintained by NiFiT for future deployments.	NGD Operations
3	...the impact of NiFiT on secondary systems may be an improvement consideration area for both D3 (NIPSCO/NCS and D4 (CPG).	NGD Operations
4	The testing performed by the NiFiT Project Team didn't seem to include enough transaction capacity for allocations to adequately test load on the system. At close ,the transactions posted were of a normal amount however the system still had capacity problems.	NGD Segment Controller
5	... disappointed with the WMS Job Order Re-class. ... felt the issue was minimized because the net total is not material. However, the jobs run and transactions handled have regulatory impacts and are critical to regulator review and rate cases.	NGD Segment Controller & NGD SVP/COO

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 3

Review the project's delivered functional solution acceptance activities (user acceptance) including training, change management and communications compared with industry practice and guidance to inform NiFiT Project Team management of relevant improvement opportunities.

#### Results:

IT Audit noted the NiFiT Project Team is using prescribed NiSource Organizational Change Management (OCM) tools and procedures to provide overall guidance for user training, change management and communications for NiFiT D2. For testing purposes, IT Audit reviewed the following, relevant NiFiT OCM project documentation:

- NiFiT OCM Work-plan.
- NiFiT Communications Plan.
- NiFiT Training schedules and attendance information.
- NiFiT Training Survey Feedback information.
- NiFiT Change Adoption Survey Plans

Post comparison with OCM materials available from the Association of Change Management Professionals (ACMP) and experienced-based project knowledge, IT Audit concluded the NiFiT Project Team is following best practices in this area and encourages continued usage of the prescribed OCM tools and procedures for future deployments.

Recommendations: None

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 4

Review the project's delivered functional solution acceptance activities (aka: user acceptance) focusing on CCN (Change Champion Network) effectiveness by comparing NiFiT Change Champion feedback results with independent Change Champion Network interview results to inform NiFiT Project Team management of relevant improvement opportunities.

#### Results:

Along with interviewing key D2 business stakeholders, IT Audit also conducted interviews with both selected Change Champions and End-Users impacted by NiFiT D2 to provide an independent opinion on user acceptance of the deployed solution and NiFiT Project Team engagement. Interviews were conducted during May 2014 in the following locations and functional areas:

Location	Functional Area(s)
• Canonsburg, PA	Operations, Engineering & Construction
• Washington, PA	Operations
• Lexington, KY	Regulatory, Operations
• MarbleCliff, OH	Engineering & Construction
• Columbus, OH	Commercial-CFO, Finance, Customer Operations, Regulatory

As with key D2 stakeholders, IT Audit again found positive responses from a majority of CCN participants and noted no user acceptance improvement items for the NiFiT Project Team from a leading practices perspective. The following slides highlight comments/suggestions resulting from IT Audit's interviews with selected D2 Change Champions and End-Users:



# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 4 (Cont.)

Item	Comments/Suggestions
------	----------------------

#### Change Champion Network Comments

- |   |  |     |
|---|--|-----|
| 1 | ... NiFiT project and Project Team is one of the best he has been involved with over his 35 year career at NiSource. He also mentioned that he would recommend participating as a change champion on other projects that used the same CCN process as NiFiT. He lastly mentioned that without the Change Management support provided by NiFiT he does not think that the project would have been successfully implemented. | CPA |
| 2 | The training and support provided was top-notch. It provided information and key steps to be a successful speaker. I felt confident and well-versed.   | CPA |
| 3 | ... enjoyed being part of the delivery process and was encouraged to see this type of effort on large projects.  | CKY |
| 4 | Best communication and change management effort that I've ever been involved in. The planning and execution was great.   | COH |
| 5 | ... thought that the NiFiT Project Team's organizational commitment to getting it "right" was really demonstrated by all the NiFiT Project Team members he worked with throughout the process. ... one of the smoothest go-lives he has experienced in his career. ... was impressed by the NGD Executive commitment and involvement in NiFiT.   | NGD |
| 6 | Lots of communications and teamwork were important to success. ... role as a change champion was a great opportunity to grow professionally.   | NGD |

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 4 (Cont.)

Item #	Comments/Suggestions	Source
--------	----------------------	--------

#### Change Champion Network Suggestions

- |   |   |     |
|---|---|-----|
| 1 | Consider having smaller CCN groups for Go-Live Prep-Sessions to allow both for more candid feedback back to the Change Champions and for more one-on-one work.  | CPA |
| 2 | Once the CE and Commodities are identified, an overview on how to code them properly in the Catalyst system would be beneficial. "Even though I understand the process and what was changed, the coding of the invoices is still an issue." | CKY |
| 3 | ... the NiFiT Project Team should consider sharing more details up front (i.e. in the beginning of the process ) and make new Change Champions aware of metric trackers earlier in the process.   | CKY |
| 4 | ... having Change Champions be back-ups to one another, in both user assignment and updates to tracking material, may be helpful for achieving better Change Champions coverage.  | CKY |
| 5 | The Project Team should consider using another tool besides Myers-Briggs  | NGD |
| 6 | The Project Team should consider adding a manager in FP&A to the Change Champion Network for D3.  | NGD |

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 4 (Cont.)

Name	Comments/Suggestions
------	----------------------

#### End-User Comments (General)

- 1 Felt training and/or communications materials were appropriate and timed well
- 2 Felt well-supported by NiFiT throughout the process
- 3 Felt that communications and training were key to the success of NiFiT in their area.

#### End-User Suggestions (General)

- 1 Include more detailed examples of new code use with more transactions - especially for the commodity codes within training and communications materials.
- 2 Include more repeated communications of locations/web links of Chart of Accounts mapping tools and lists.

**Recommendations:** None



# NiFiT Deployment 2 - Post-Deployment Review



## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 5

Review NiFiT Project Team activities and plans related to the criteria and metrics used to gauge adoption, usage and business value realization of the Deployment 2 solution and compare with industry practice to inform NiFiT Project Team management of relevant improvement opportunities.

#### Results:

IT Audit found the NiFiT Project Team is using an Operational Measures Scorecard to track improvement and value realization metrics for the NiFiT solution. IT Audit noted the Operational Measures Scorecard – shown on the following slide for April 2014 - uses a total of ten (10) metrics to gauge monthly value realization from the NiFiT project and follows a defined approach for both metric type(s) and success criteria based upon input from the NiFiT Project Team, related Process Owners and NiSource management.

**Leading Practice Opportunity:** NiSource IT should consider partnering with their business customers to develop a standard business value realization process based upon NiFiT's Operational Measures Scorecard and integrate any relevant deliverable(s) into the NiSource Project Management Methodology (PMM).

# NiFiT Deployment 2 - Post-Deployment Review

## REVIEW / RESULTS

### Project Conduct/Deliverable Quality – Objective 5 (Cont.)


The NiFiT Project Team reported the following operational metrics results after the first D2 accounting close of the NGD companies in April 2014. IT Audit also noted the NiFiT Project Team performed a detailed review of these Operational Measures for May 2014 and updated metrics as required.

**Note:** IT Audit found metrics within the Operational Scorecards for April and May 2014 related to Change Adoption Score (for User Acceptance), however the corresponding metric for Change Adoption was in process at the time of this audit report.

### D1 and D2 Operational Measures: April 2014 Actuals



Exceeds  
  Meets  
  Partially Meets  
  Not Met

Metric	Status	D1 / D2 / April Actual	D1 March 14 Actual	D1 / D2 14 Actual	Change Adoption
 <b>Month-End Close Duration (Day 1 to Hyperion)</b>	<input checked="" type="radio"/>	D1 - Workday 5 D2 - Workday 11	Workday 5	Workday 5	D1 - Workday 5 D2 - Workday 15 April, Workday 5 by Q2 Close
<b>Avg # BU Topside Entries (Hyperion)</b>	<input checked="" type="radio"/>	D1 and D2 - 0 topside entries	0 topside entries	0 topside entries	< 5 lines
<b>% New Account Additions, Annual</b>	<input checked="" type="radio"/>	8 additional YTD, 850% growth	2 additional YTD	0 additions	> 1% cumulative growth, annual
<b># Supplier Master Values</b>	<input checked="" type="radio"/>	41% reduction from new D2 baseline	25% reduction from D1 baseline	25% reduction from D1 baseline	> 15% reduction at Go-Live
<b>% Vendor Invoices Paid On Time</b>	<input checked="" type="radio"/>	D1 - 39% by terms, 75% within 30 days D2 - 40% by terms, 61% within 30 days	41% by terms, 78% within 30 days	46% by terms, 69% within 30 days	> 48% by terms, 73% within 30 days
<b>% Vendor Payments By ACH</b>	<input checked="" type="radio"/>	D1 - 18% ACH D2 - 15% ACH	30% ACH	23% ACH	> 15% ACH
<b>Avg # CR Reconciliation Entries</b>	<input checked="" type="radio"/>	D1 - 0 lines D2 - 3 lines	1 line	0 lines	D1 - 0 lines D2 - 0 lines by Q2 Close
<b># System Customizations With Potential Upgrade Impact (PeopleSoft)</b>	<input checked="" type="radio"/>	7 PeopleSoft Customizations	7 PeopleSoft Customizations	7 PeopleSoft Customizations	< 10 PeopleSoft Customizations
<b>Annual SOX Control Audit Exceptions</b>	<input checked="" type="radio"/>	3 Exceptions	NA	NA	< 5 Exceptions
<b>Change Adoption Score</b>	<input type="radio"/>	NA	NA	NA	> 80% Agree or Strongly Agree by Q2 Close

**Recommendations:** None

# NiFiT Deployment 2 - Post-Deployment Review



## REPORT DISTRIBUTION

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**TO:** James Hastings, Program Specialist – Operations Compliance NGD

**FROM:** Amar Patel, Senior Auditor *AP*  
Jaclyn Callahan, Audit Manager *Jaclyn Callahan*  
Ryan Binkley, Director Audit *R. Binkley*

**DATE:** June 27, 2014

**SUBJECT:** NGD Internal Operations Audit Program Process Review

In conjunction with the NiSource Gas Distribution (“NGD”) Pipeline Safety and Compliance Department (“Pipeline Safety”), Internal Audit conducted a walkthrough and ride along to gain an understanding of the processes and procedures undertaken during field audits (***see Background for detailed information on “field audit”***). The focus of our work was to review the policies, procedures, and execution of procedures associated with conducting on-site field audits.

The primary business risks associated with these activities are:

- Audit planning may not focus on the key risk areas identified by Senior Management;
- Field Audits may not adequately address the risk that field operation does not follow standards and practices established in the NGD Gas Standards or other applicable regulatory standards; and
- Pipeline Safety may not have the resources to adequately address risk associated with field work.

**Background**

The *Internal Operations Audit Program* provides a systematic, documented, periodic, and objective assessment of distribution operations to measure compliance with pipeline safety regulations and NGD Gas Standards. Auditing assessments are a recognized tool to validate the following:

- *Performance against regulatory requirements and NGD Gas Standards;*
- *The effectiveness of policies, management systems and best practice communications;*
- *Future risks to pipeline safety; and*
- *Documentation exists to support that appropriate Internal Operations Audits are conducted by the Pipeline Safety and Compliance Department.*

The Mission Statement of the Internal Operations Audit Program is to:

- *“Provide an effective Internal Operations Audit Program to all NiSource Gas Distribution Operating Companies that ensures compliance with pipeline safety regulations and company procedures. Partner with Distribution, System Operations/ GM&T and Engineering to provide safe, reliable service throughout NiSource operating territories.”*

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Pipeline safety has identified the following as key objectives in conducting field audits:

- To supply management with a view of day-to-day process effectiveness at the local level and assist in local implementation efforts to meet pipeline safety regulations;
- To identify and prioritize specific pipeline safety concerns;
- To identify, explain and document findings for specific issues that require corrective action to meet compliance regulations;
- To recommend corrective actions and timelines for mitigation of issues found to be out of compliance; and
- To provide pipeline safety and procedural compliance consultation services as issues are identified.

***Field Audits***

The scope of field audits has been developed by Pipeline Safety to encompass the day-to-day operations of NGD. The scope of field audits can include the following areas:

- |   |  |
|---|--|
| • Pressure Control                          | • Pipeline Facility Repair/Installation Observations |
| • Corrosion Control                         | • Fixed Pressure Factor Metering (FPFM)              |
| • Critical Valves                           | • Gas Measurement                                    |
| • Odorization                               | • Pipeline Integrity Management (TRIMP/DIMP)         |
| • Leakage Control                           | • Employee Training                                  |
| • DOT – Qualification of Pipeline Personnel |  |
| • O&M/Emergency Manual Review               |  |
| • Service Technician Observations           |  |

In 2014, Pipeline Safety is scheduled to perform nine field audits (refer to Appendix A for details of audit locations for 2013 and 2014). After a location is selected an audit notification is made 30 days in advance to the Operations Center/Local Operating Area. Two weeks prior to an audit, an offsite review of pertinent documentation is performed. The documentation review is then typically followed by a 14 day on-site field audit. During the on-site field audit the following is typically conducted:

- A meeting is held with the local leadership team to discuss the audit process and allow local management to communicate any special concerns or targeted focus recommendations;
- A review of local records maintained for regulatory and operating purposes for completeness and accuracy;
- Observation of both Company and contractor field personnel for compliance with regulatory requirements and NGD Gas Standards; and
- A closing meeting is held to inform local leadership team of audit findings.

Once the closing meeting is conducted, a report with all findings and corrective action plans is drafted and reviewed by NiSource Legal and provided to management. The final audit report includes the following information:

- An itemized summary of “open” findings and their significance/severity; and
- Corrective action recommendations and recommended timelines to “close” findings.

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**Conclusions**

Internal Audit completed a series of interviews and walkthroughs with Pipeline Safety during their field audit starting on May 5, 2014 at the Johnny Appleseed location in Columbus, Ohio (See Appendix A). While not included as reference in this report, the Pipeline Safety group will be issuing a separate report that will include the results of their review of the Columbus, Ohio Operations Center (1324, 1325) at a later date.

As part of the review, Internal Audit attended the field audit opening meetings, observed field audit procedures completed for a selection of locations, reviewed the documentation process completed by Pipeline Safety, and participated in the audit closing meeting. Based on the walkthroughs and interviews performed by Internal Audit, we noted the following:

- Pipeline Safety has formal processes, procedures, and policies to effectively plan, execute, and track audit results to address and correct identified exceptions.
  - While Pipeline Safety completes a documented and formal process to select audit locations, no formal sign-off is completed by senior Pipeline Safety Management to approve the annual audit plan. Internal Audit has made a minor process enhancement recommendation for management to consider revising their current process by obtaining formal sign-off and/or approval of the audit plan by Senior Management to ensure that Senior Management is in agreement with the scope of the annual audit plan.
- Field audits are conducted in accordance with NGD Gas Standards and other applicable governmental regulations. Field auditors were able to effectively reinforce training and development and provide guidance on areas in the Gas Standards which were ambiguous or unknown to field crews.
- While field audits reinforce training and development, Internal Audit noted instances where field auditors stopped field personnel while performing work due to activities that were not being executed in accordance with NGD Gas Standards and required correction. Feedback provided by field personnel indicated that the NGD Gas Standards were at times ambiguous to the work being performed, leading to confusion and the inappropriate execution of work.
  - Internal Audit recommends that Management consider the results of this process review as part of their NGD Training initiative and address any identified ambiguity in the Gas Standards and ensure all field crews are adequately trained.
- Current resources and Senior Management support of the Internal Operations Audit program are sufficient to carry out the annual audit plan.

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**Summary of Business Objective(s), Scope, and Results and Recommendation(s)**

***Business Objective:*** Perform a walkthrough with Pipeline Safety in order to understand the planning, execution, and completion of field audit work.

***Scope – Audit Planning:***

- *Audit planning may not focus on the key risk areas identified by Senior Management.*

***Internal Audit Results - Audit Planning:***

- Internal Audit discussed the field audit planning process with Pipeline Safety. As part of the planning processes, locations are selected each calendar year for audit. In 2013 and 2014, 11 and 9 locations were selected for audit procedures (See Appendix A for locations selected for audit by Pipeline Safety for 2013 and 2014). The process to select a site can include the following factors:
  - Size of local operation;
  - Extent of facilities;
  - Amount of work activity;
  - Local leadership/employee turnover;
  - Historic compliance level (past audit findings);
  - Targeted requests; and
  - Presence and schedule of utility commissions.
- Once locations are selected for the current year audit plan, the Manager of the Distribution Integrity Management Program signs off on the annual audit plan.
  - Internal Audit notes that only the Manager of the Distribution Integrity Management Program approves the annual audit plan. While Senior Management approval is not currently obtained, Senior Management is made aware of the audit plan and can make suggestions or changes as needed.

***Internal Audit Recommendation(s) – Audit Planning:***

- Senior leadership of the Pipeline Safety department should consider formally approving the annual plan to evidence to their agreement and acknowledgement of the audits being conducted.

***Scope – Audit Execution:***

- *Field audits may not adequately address the risk that field operations team do not follow standards and practices established in the NiSource Gas Standards or regulatory standards.*

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***Internal Audit Results – Audit Execution:***

- Prior to the start of audit work in a given location, a kickoff meeting is held with leadership of the location. Expectations, scope of work planned, and audit scheduling is discussed with field management. Field management is asked for input on potential risk areas or concerns.
- During the walkthrough conducted with Pipeline Safety, Internal Audit obtained all checklists and documentation used during a field audit.
- Pipeline Safety maintains an Internal Operations Protocol spreadsheet which outlines the audit plan for each location audit. The spreadsheet has three separate areas addressing *Pipeline Safety Audit Protocols*; *Security Review Protocols*; and *Risk-based Audit Protocols* (See Appendix B for a short excerpt of these protocols).
  - **Risk-Based Audit Protocols:** Utilized to help identify the highest risk areas around Damage Prevention, Leakage, Odorization, and Over Pressurization. Most of the work related to risk-based audit protocols relates to documentation reviews to ensure compliance with standards and to look for operating inconsistencies.
  - **Pipeline Safety Audit Protocols:** Address unique Compliance areas (i.e. Pressure Control; Construction Operations, Corrosion, etc.). Each Compliance area has a several protocol details which assist auditors in the field to assess specific risks/compliance areas. Those risk/compliance areas correspond to government or internal NiSource standards. As testing is completed, the comments section is filled out by the auditor with any identified findings. The pipeline safety audit protocol is utilized to help identify and address issues in documentation identified in the risk based audit protocol and to address risks based on actual work performed during on-site audits.
  - **Security Review Protocol:** Assesses the physical security of a location. During field audits, a security review is normally conducted. The review includes areas around Security Plan Administration, Physical Security, Security Incident reporting and other location security risks.
- Internal Audit noted the following observations while onsite with Pipeline Safety Field Auditors:
  - Field auditors were able to provide field crews instant guidance and feedback in regards to specific NGD Gas Standards;
  - If field crews conducted an activity that did not align with NGD Gas Standards or personnel were acting in a potentially unsafe manner, field auditors stopped the work of field personnel and provided immediate feedback and corrective actions; and
  - In certain instances, the NGD Gas Standards did not appear to be uniformly understood by field crews. Internal Audit noted several instances where field auditors stopped work in order to correct actions which were ambiguous in the



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NGD Gas Standards. In addition, Internal Audit noted instances where the Pipeline Safety auditor observed that new equipment was provided to field crews (*i.e. gas readers, anti-static spray*) without adequate training on the equipment.

- Once the documentation review and on-site inspections are completed, Pipeline Safety compiles all findings and recommendations into a draft document for a closing meeting with Management.
  - During the closing meeting, all findings and recommendations are discussed. Along with the discussions regarding findings and recommendations, responsible parties are identified and dates are confirmed for the resolution of corrective actions.
- Internal Audit noted that both positive findings and improvement opportunities are presented to field management during the closing meeting and in the final report.
- Pipeline Safety utilizes the following coding for each issue found during the audit:
  - **A** - Requires action to achieve, maintain or define compliance (30 day corrective action period);
  - **B** - Requires action to achieve, maintain or define compliance (90 day corrective action period);
  - **R** - Requires action to achieve, maintain or define compliance (30 day corrective action period – Repeat finding from a previous audit);
  - **H** - Requires local area notification and communication to third-party to achieve compliance (e.g. TCO) (90 day corrective action period); and
  - **X** - Revised “A” or “B” findings that cannot be closed by local operations due to external circumstances (Corrective action period to be determined).
- Audit findings are tracked in a Corrective Action Tracking System (CATS) database to monitor closure progress.
  - Compliance Managers for areas audited are responsible for “closing” audit findings in the CATS database once all required corrective actions for the findings have been entered in CATS.
- Summary reports of “open” audit findings are sent monthly to Operations Management (VP/GM/Director/Regional Mgr.) and Compliance Managers for follow-up.
- A semi-annual review of a random sample of “closed” findings is performed to determine if findings were properly “closed” in accordance identified corrective action recommendations.

***Internal Audit Recommendation(s) – Audit Execution:***

- While field auditors are able to provide instant, effective communication in regards to NGD Gas Standards and unsafe practices by field crews, NGD Management should consider the observations from this review as they develop and implement their NGD Training Initiative to ensure uniform understanding by all field crews.

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**Scope – Resources:**

- *Pipeline Safety may not have the resources to adequately address risk associated with field work.*

**Internal Audit Results – Resources:**

- Per discussion with Pipeline Safety, the Operations Compliance-Program Specialist leads all audit initiatives. The Program Specialist is responsible for staffing audits with appropriate resources and pulling in subject matter experts as needed for individual sites. Operations Compliance provides resources from other Operational Audit & Compliance areas to assist in the filed audits.
- As of the date of this report, Pipeline Safety views management support and resources to be appropriate to execute the Internal Operations Audit Program's mission statement and scope.

**Internal Audit Recommendation(s) - Resources:**

- None

As always, we appreciate the cooperation and assistance that your staff provided to the Audit Team during this review. Should you have any questions or require additional information, please do not hesitate to contact Ryan Binkley at (614) 460-5985, Jaclyn Callahan at (614) 460-5493, or Amar Patel at (614) 460-6394.

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**Appendix A**

<b>2013 Internal Operations Audit Schedule</b>		
11/28/2012	On Site Dates	
	Location (TCC's)	Begin                      End
	Springfield, Ohio Op. Ctr. (0651)	1/21/2013                      2/1/2013
	Suffolk, VA Op. Ctr. (3910)	2/18/2013                      3/1/2013
	CPA East Op. Ctr. - State College (2451)	3/25/2013                      3/29/2013
	CPA East Op. Ctr. - York (2421)	4/1/2013                      4/12/2013
	Valparaiso, IN LOA	4/29/2013                      5/10/2013
	Staunton, VA Op. Ctr. (3810)	6/10/2013                      6/21/2013
	North Pointe Op. Ctr. - Lorain, OH (1222)	7/22/2013                      8/2/2013
	North Pointe Op. Ctr. - Middleburg Hts., OH (1261)	8/5/2013                      8/16/2013
	Monticello, IN LOA	9/16/2013                      9/27/2013
	Brockton, MA Op. Ctr. (8100)	10/14/2013                      10/25/2013
	Toledo, Ohio Op. Ctr. (1121)	11/18/2013                      12/6/2013

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**Appendix A (Con't)**

<b>2014 Internal Operations Audit Schedule</b>		
<b>11/27/2013</b>	<b>On Site Dates</b>	
<b>Location (TCC's)</b>	<b>Begin</b>	<b>End</b>
<b>CPA South Op. Ctr. (2321)</b>	1/27/2014	2/7/2014
<b>Fort Wayne, IN LOA/GM&amp;T</b>	3/31/2014	4/11/2014
<b>Columbus, Ohio Op. Ctr. (1324, 1325)</b>	5/5/2014	5/16/2014
<b>Emlenton/New Bethlehem, PA (2232, 2234)</b>	6/16/2014	6/27/2014
<b>Gary, IN LOA/GM&amp;T</b>	7/21/2014	8/1/2014
<b>Great Trail (Ohio) Op. Ctr. (0971)</b>	8/18/2014	8/29/2014
<b>Lawrence, MA Op. Ctr. (8400)</b>	9/29/2014	10/10/2014
<b>Lynchburg, VA Op. Ctr. (3760)</b>	10/27/2014	11/7/2014
<b>Ohio Valley Op. Ctr. (0731, 0732, 0733)</b>	12/1/2014	12/12/2014

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**Appendix B – Sample Risk Based Audit Protocol (Excerpt Only)**

Risk Area	Code Ext	E-Engineering F-Field Ops S-System Ops P-Pipeline&C	Protocol Details	Off-site Review	On-site Review	Comments
Damage Prevention (DP)	1	S, E, F, P	Identify "high profile" lines in operating center that may or may not be transmission class, but have a combination of higher pressures and/or close proximity to customers/buildings and/or significant consequences anticipated due to either shut down, damages or both.	X		To determine what lines to review, an initial source for this should be a review conducted by Damage Prevention for Engineering. Contact A. Donnini. In addition, we should consult with the System Ops. Manager, Leakage FLL, the OCM and Engineering.  For offsite records reviews we will need to access WMS, Irtinet, DPTS, LMS and GIS.  For on-site efforts we will require locator equipment, leakage equipment, fluke meter and Personal Protective Equipment.
Damage Prevention (DP)	2	S, F	Review leak survey and patrolling records in WMS to understand the leak survey and patrolling frequencies assigned to "high priority" line segments and to identify leak history.	X		
Damage Prevention (DP)	3	F	Review ROW clearance history on "high priority" line segments to determine the frequency.	X		
Damage Prevention (DP)	4	F	Review locate history and leakage history due to damage including any related job orders and records to understand frequency of excavation activity around "high priority" line segments.	X		
Damage Prevention (DP)	5	S, F, E	Check all related critical valve inspection records, valve location records and valve maintenance history for valves located in "high priority" line segments.	X	X	
Damage Prevention (DP)	6	S, F	Check Operator Qualification records for personnel who recently performed activities <sup>1</sup> on "high priority" line segments.  <sup>1</sup> Leak surveys, patrolling, locates, CP monitoring, valve insp., line repairs.	X		
Damage Prevention (DP)	7	F	Call in a locate on a "high priority" line to understand the process followed and if the process varies from all other line segments.	X	X	
Damage Prevention (DP)	8	E, S	Walk the identified "high priority" line segments to verify right of way clearing, encroachment, exposure, line markers, test station access, actual location and general risks.		X	
Damage Prevention (DP)	9	S, F	Conduct QA/QC on recent activities <sup>1</sup> on "high priority" line segments.  <sup>1</sup> Leak surveys, patrolling, locates, CP monitoring, valve insp., line repairs.		X	
Odorization/Odorant Fade (O)	1	E	Review recent WMS 555, 557/558 job orders to identify where large pipe replacement and new main projects have been completed to target where to check for odorant fade.	X		We will need the following equipment while on site: odorator or odorometer and personal protective equipment. The on-site person taking readings must have proper DOT operator qualifications.
Odorization/Odorant Fade (O)	2	E	Determine where local production feeds into our systems (target systems that are predominately fed by local production).	X		
Odorization/Odorant Fade (O)	3	E, S	Review GIS maps to understand the placement/location of odorizers to determine odor level testing is being conducted at the proper locations/areas.	X		

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**Appendix B - Sample Pipeline Safety Audit Protocol (Excerpt Only)**

Compliance Area (Code)	Code Ext.	E:Engineering F:Field Ops S:System Ops C:Const Svcs	Protocol Details	49 CFR 192	NI OMP	CMA Gas Standards	COH, CKY, CPA, CMD, CGV Gas Standards	NIPSCO Gas Standards	Comments
Pressure Control (PC)	1	S	Verify regulators, pressure limiting devices and associated equipment at distribution system regulator stations are inspected as required  > Perform on-site observations of regulator station design and station condition at selected regulator stations.	192.739	1750	1750.010	1750.010	1750.010 740-0031 thru 740-0033 740-0060	
Pressure Control (PC)	2	E, S	Review control/operator regulator set points shown on inspection records to verify they do not exceed the current downstream MAOP.	192.621 192.623	1750	1750.010	1750.010	1750.010 740-0031 thru 740-0033	
Pressure Control (PC)	3	E, S	Review overpressure protection device set points shown on inspection records to verify they are set within tolerances of downstream MAOP.	192.201	1750	1750.010	1750.010	1750.010 740-0031 thru 740-0033 740-0060	
Pressure Control (PC)	4	E	Review primary relief valve capacity verifications to assure they are performed as required	192.743	1756	1756.010	1756.010	1756.010 320-0022	
Pressure Control (PC)	5	E	Verify pressure regulating station capacity reviews have been performed (and documented) at the required intervals.	192.739	1752	1752.010	1752.010	1752.010	
Pressure Control (PC)	6	S	Review pressure recording charts to verify operating pressures are within MAOP.	192.621 192.623	1750 1754 1754(IN) 1754(OH) 1754(PA)	1750.010 1754.010	1750.010 1754.010 1754.010 (OH, PA)	1754.010	
Pressure Control (PC)	7	E	Review MAOP Worksheets and related source documents to verify proper establishment of distribution system MAOPs.	192.619	1660 1660(PA)	1660.020	1660.020	1660.020	
Pressure Control (PC)	8	E, F, S, C	Verify proper udrate (pressure elevation) procedures/plans are followed	192.553 192.555 192.557	1660 1660(PA)	5500.200 (MA)	5500	480-0010 480-0020	
Pressure Control (PC)	9	S	Verify that each distribution system supplied by more than one district pressure regulating station is equipped with telemetering or recording pressure gauges to indicate the gas pressure in the system(s).	192.741	1754 1754(IN) 1754(OH) 1754(PA)	2300.020	2300.020	2300.020	
Pressure Control (PC)	10	S	Verify pressure gauges are checked for accuracy at required intervals.	N/A	1754 1754(IN) 1754(OH) 1754(PA)	1754.010	1754.010 1754.010 (OH, KY)	700-0400	
Pressure Control (PC)	11	E	Verify each vault or pit containing pressure control equipment is designed in accordance with regulatory procedure(s).	192.183 192.185 192.187 192.189	1762	1762.010	1762.010	1762.010	
Pressure Control (PC)	12	S	Verify: > Vaults/pits are inspected as required. > Proper procedures are followed while working in vaults. > Proper disposition of any abandoned vault/pit facilities.	192.749	1762	1762.010	1762.010	1762.010	
Pressure Control (PC)	13	S	Verify Large Volume service regulators are inspected as required.	N/A	N/A	1750.020	1750.020	N/A	

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**Appendix B – Sample Security Review Protocol (Excerpt Only)**

Security Review Subject Area		Security Review Details	Comments
Security Plan Administration	1	Has a Security Plan been developed and included as part of the local Emergency Manuals (Incident Manuals)? > Last review date of Security Plan: _____	
Security Plan Administration	2	Is the Security Plan available for authorized personnel, including contractors who have signed a non-disclosure agreement?	
Security Plan Administration	3	Have employees completed basic security and/or refresher training?	
Security Plan Administration	4	Are all employees and visitors displaying proper identification/ID badges?	
Physical Security	1	Is site/facility fenced? > Condition of fence/gate(s), and description > Are gate locks working properly? > Are there common keys for locks? - Key(s) number(s) _____	
Physical Security	2	Are materials/equipment stored at least three feet from either side of the site/facility fence?	
Physical Security	3	Are truck bins and equipment kept secured?	
Physical Security	4	Are critical valves secured?	
Physical Security	5	Are primary components inside of a locked building?	
Physical Security	6	Is valuable material stored in a secured location?	
Physical Security	7	Are unused tools, equipment and materials stored and secured?	
Physical Security	8	Is there outside lighting? > Are bulbs/lights in working order?	
Physical Security	9	Are contract security services used? > Name > Address > Telephone number > Point of contact	



**TO:** Susan Taylor, Controller, NiSource Corporate Services Company

**FROM:** Shelley Duling, Audit Senior *Shelley Duling*  
Jaclyn Callahan, Audit Manager *Jaclyn Callahan*  
Ryan Binkley, Audit Director *Ryan Binkley*

**DATE:** August 21, 2014

**SUBJECT:** NiSource Corporate Services Company Cost Allocation Audit

We have completed a review of the accounting systems, source documents, allocation methods, and billing procedures used by NiSource Corporate Services Company (NCSC) to allocate costs/expenses to the various subsidiary companies ("affiliates") including the holding company, for the period January 1, 2013 through December 31, 2013.

### **Background**

In February 2006, the Public Utility Holding Company Act (PUHCA) was repealed and replaced with the PUHCA of 2005. Prior to this date, NCSC was required to obtain prior approval from the Securities and Exchange Commission on new allocation methods used to allocate costs and expenses. The PUHCA of 2005 is primarily a "books and records" statute and provides the Federal Energy Regulatory Commission (FERC) with the authority over the books and records, the ability to prescribe standards, and gives access to the books and records of the holding company to the public utility commissions, but only to the extent relevant to the costs of the subsidiaries.

NCSC uses various allocation methods to assign expenses to companies (including the holding company), or groups of companies, to classify and disclose expenses in the financial statements. Such allocation methods are defined in the service agreements ("agreements") between NCSC and the affiliates. Affiliates are billed by NCSC via contract and convenience billings. Contract billings represent labor and expenses billed to an affiliate. These costs are identified by job order and represent costs incurred by NCSC to render services defined in the service agreements with affiliates. Convenience billings are accommodation payments that are rendered when NCSC makes a payment to a vendor for goods or services that are for the benefit of more than one or all affiliates, and can be made for an affiliate who may not have the means to wire money to outside vendors. Each affiliate is billed monthly for their proportional share of the payments made in that respective month.

Annually, Internal Audit conducts a review of the cost allocation methods and billing procedures used by NCSC and makes recommendations related to cost allocation and billing processes.

The primary business risks associated with these activities are:

- Allocation factors may not be updated properly to reflect current statistical data to ensure that NCSC charges are billed relative to current operations;
- Contract and convenience billings may not be properly billed to affiliates;



- Holding company costs incurred may not be properly segregated and paid by the holding company;
- Executive time allocation may not accurately reflect the companies benefiting from their services;
- Costs charged by department may not be in accordance with the NCSC cost allocation guidelines;
- Indirect costs may not be appropriately allocated to affiliates on a monthly basis;
- Intercompany payables and receivables may not be billed and settled accurately and timely; and
- Contract billings and accommodation payments may not be accurately reported in the annual FERC Form 60 Financial Report.

### **Conclusion**

Based on our audit results, the methods and procedures used to allocate costs/expenses and bill subsidiary companies, including the holding company, are reasonable. Amounts reported as accommodation and contract billing payments in the FERC Form 60 are proper. Instances of improper time allocation were identified that were subsequent to the 90 day transition period for which Management deems it appropriate to apply time to charge codes associated with a prior role. Internal Audit recommends that Management re-emphasize the importance of timely completion of time sheets and using appropriate charge codes in accordance with policy.

### **Summary of Audit Objectives, Scope, Results, and Recommendations**

**Audit Objective 1:** Costs are fairly and equitably allocated to all subsidiary companies including the holding company.

#### **Scope:**

- Determine if allocation factors are updated regularly to reflect current statistical data to ensure that NCSC charges are billed relative to current operations;
- Verify contract and convenience billings are properly billed to affiliates;
- Verify holding company costs incurred are properly segregated and paid by the holding company;
- Verify executive time allocation accurately reflects the companies benefiting from their services; and
- Verify costs charged by department are in accordance with the NCSC cost allocation guidelines.

## Results:

- Allocation factors are updated semiannually and reflect allocation bases as defined in the agreements between NCSC and the affiliates. A sample of allocation factors were recalculated using source data, noting no exceptions. Internal Audit verified that these factors were accurately updated in the Billing Mainframe ("mainframe").
- A sample of affiliate contract billings showed that direct charges are being properly allocated to affiliates based on actual costs and current allocation percentages for respective bases per the agreements between NCSC and affiliates with exception of the following:
  - One employee incorrectly charged time and expenses using an "AC" allocator, rather than an "AD" allocator. "AC" allocates costs to the CDCs, while "AD" allocates costs to the CDCs *and* Columbia Gas of Massachusetts (i.e. NiSource Gas Distribution (NGD)). The dollar impact of using the "AC" allocator compared to the "AD" allocator is presented in **Appendix A; Employee 4**. The net financial impact to NiSource Gas Distribution (NGD) is \$0.
  - One employee incorrectly charged 100% of their time to Columbia Gas of Maryland (CMD) for the period July 1, 2013 through October 21, 2013. During this timeframe, the employee was assisting another team on work benefitting CMA, thus CMA should have been allocated 100% of the employee's labor costs. The dollar impact related to this improper time allocation is presented in **Appendix A; Employee 5**. The net financial impact to NGD is \$0.

A sample of accommodation payments made by NCSC was also reviewed and charges to affiliates for accommodation billings were accurately billed to the affiliates.

- Holding company costs are required to be segregated and paid by the holding company. Examples of holding company costs include, but are not limited to:
  - Board of directors fees.
  - Consulting, legal and all other costs related to mergers, acquisitions and corporate restructuring.

A sample of costs charged to the holding company was tested and indicated that costs being charged to the holding company appeared proper.

- Executives are required to report time based on the affiliates receiving benefit from their services. A sample of executive timesheets indicated charges for executive labor appeared to be accurately allocated to the affiliates benefiting from their services.
- NCSC employees are required to report time based on the affiliates receiving benefit from their services and in accordance with the NiSource Cost Allocation Manual. A sample of NCSC employee timesheets was tested and indicated charges for labor appear to be charged in accordance with guidelines established in the Cost Allocation Manual with exception of the following:
  - One employee transitioned roles within Company 12 effective September 1, 2013 and continued to use the "KF" allocator associated with their prior position. Their

time should have been charged to Columbia Gas of Maryland (CMD), Columbia Gas of Pennsylvania (CPA), or Columbia Gas of Virginia (CGV) depending on the work performed each day. The dollar impact of using the "KF" allocator is presented at **Appendix A; Employee 1** with the assumption the employee spent time equally among CMD, CPA and CGV during the selected time period. Management has determined that it is reasonable for employees to utilize charge codes associated with a prior role for a period of 90 days subsequent to the transition date. Employees may assist in activities such as training new employees, completing a project, etc. As such, the amounts shown at **Appendix A** exclude the 90 day transition period. The net financial impact to each business unit is as follows: NGD \$(2,215); Columbia Pipeline Group (CPG) \$721; Northern Indiana Public Service Company (NIPSCO) \$1,478; and NCSC/Other \$16.

- For the period January 1, 2013 through August 1, 2013, one employee incorrectly charged their time to the "AD" allocator, which allocates expenses to NGD based on each company's proportion of gross fixed assets and operating expenses, rather than the "JI" allocator, which allocates expenses to NGD based on each company's proportion of total retail customers. Refer to **Appendix A; Employee 3**, for the dollar impact of using the "AD" allocator compared to the correct "JI" allocator. The net financial impact to NGD is \$0.
- One employee transitioned roles within Company 12 effective September 1, 2013 and continued to charge the "AQ" allocator associated with their prior role through December 9, 2013, at which time the "AD" allocator was utilized through December 31, 2013. The correct allocator for this employee's role for the period September 1, 2013 through December 31, 2013 is the "JI" allocator. The "AQ" and "AD" allocators utilize gross fixed assets and operating expenses to allocate charges, while the "JI" allocator utilizes total retail customers. Refer to **Appendix A; Employee 2**, for the dollar impact of using the "AQ" and "AD" allocators compared to the correct "JI" allocator. The amounts shown at **Appendix A** exclude the 90 day transition period discussed above. The net financial impact to NGD is \$0.

**Internal Audit Recommendation(s):**

Management should re-emphasize the importance of employees completing their time sheets timely in accordance with policy and charging time to the appropriate charge codes. Training sessions should be held as deemed necessary.

**Management Response:**

NCSC Accounting/Special Studies continually emphasizes the importance of employees completing their timesheets both appropriately and timely through on-going communications, proactive training sessions, and departmental reviews. In addition, NCSC Accounting/Special Studies implemented additional analysis and review practices at the beginning of 2014, as noted below. For the employees specifically noted above, NCSC reached out to the employees to educate them on the use of proper charge codes and assisted the employees on changing their codes prospectively.

***Please note that upon the implementation of Deployment 3 of the NiFiT Transformation on April 1, 2015, combo edits will be configured based on department and role to limit the employee's options of available billing pool allocation combinations. Project-based work will also have specific billing pool assignments. This will greatly mitigate the risk of improper allocation of costs charged by a department.***

NCSC Accounting/Special Studies conducts regular reviews of the accounting data, allocation methods, and billing processes to ensure accuracy, to identify internal training necessities, and to meet regulatory requirements. These reviews include, but are not limited to, the following activities:

- Department Review (effective 9/1/12): Semi-annually, a review of all NCSC billings is completed, by department, to ensure the accuracy of the account classification in its entirety.
- Management Fee Review (effective 1/1/14): Monthly, a review of NCSC billings, by regulated company, is completed in conjunction with the BU accounting departments to ensure cost allocation accuracy and to address billing questions or concern in a timely fashion, per section 2.3 of the service agreement.
- Headcount Analysis (effective 1/1/14): Monthly, reconciliations are performed to track NCSC headcount changes, including Company 12 transfers in, new hires, and NCSC department transfers. In conjunction with this analysis, a review of the labor associated with these changes is conducted. Further, new hire on-boarding, as well as targeted training, accompanies this analysis to promote understanding and awareness of appropriate time allocation.
- Regulatory Data Review (as needed): In preparation for a regulatory filing, all NCSC billings, by regulated company, are reviewed and thoroughly analyzed to ensure accuracy and recoverability of the costs.

**Audit Objective 2:** Processes and procedures are in place to verify monthly that all costs have been allocated and intercompany payables and receivables are billed and settled in a timely manner.

**Scope:**

- All costs are appropriately allocated to affiliates;
- Intercompany payables and receivables are billed and settled accurately and timely; and
- Verify contract billings and accommodation payments are accurately reported in the FERC Form 60 Financial Report.

**Results:**

- Summaries detailing costs to be billed to affiliates for contract and convenience billings are prepared monthly to ensure that all costs are allocated out to the affiliates. A sample of contract and accommodation billings was reviewed, and all costs were properly allocated to affiliates based on the allocator used.

- Monthly, summary and detail bills for contract and accommodation costs are generated for each affiliate. The receivable is immediately settled via a money pool transaction. For a selection of months, Internal Audit confirmed the intercompany contract and accommodation payable amount with the affiliated company noting that the amount agreed to the respective invoice for the selected month. As such, it appears that the intercompany amounts are being settled timely and accurately.
- FERC Form 60 is an annual regulatory support requirement for centralized service companies, designed to collect financial information from centralized service companies subject to the jurisdiction of the FERC. Within the Form 60, amounts related to contract and accommodation payments are disclosed. Internal Audit reviewed the most recent filing of the Form 60 (2013) and tested a sample of transactions included in the amounts disclosed for contract and accommodation payments. Amounts included in the filing for contract and accommodation payments appeared proper and reconciled to amounts billed to affiliates by NCSC.

**Internal Audit Recommendation(s):** None

We appreciate the cooperation and assistance that your staff provided to the Audit Team during this review. Should you have any questions or require additional information, please do not hesitate to contact Ryan Binkley at (614) 460-5985, Jaclyn Callahan at (614) 460-5493, or Shelley Duling at (614) 460-6062.

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**APPENDIX A**

The table below presents the impact of incorrect coding of time and expenses for 2013 by company for those employees identified in Audit Objective 1. For example, Columbia Gas of Kentucky was improperly allocated \$3.9K of time and expenses.

Company #	Company Name	Business Unit	Employee 1	Employee 2	Employee 3	Employee 4	Employee 5	Total
11	Columbia Energy Group	Corp/Other	1.10	-	-	-	-	1.10
14	Columbia Gulf Transmission Company	CPG	17.12	-	-	-	-	17.12
22	NiSource Insurance Corporation	Corp/Other	0.27	-	-	-	-	0.27
24	Energy USA - TPC Corp	Corp/Other	3.93	-	-	-	-	3.93
32	Columbia Gas of Kentucky	NGD	81.60	394.13	(165.60)	3,660.82	-	3,970.96
34	Columbia Gas of Ohio	NGD	676.12	1,520.66	(20,985.14)	28,333.66	-	9,545.29
35	Columbia Gas of Maryland	NGD	(1,241.63)	(61.24)	734.59	1,209.22	10,295.09	10,936.03
37	Columbia Gas of Pennsylvania	NGD	(947.52)	(919.09)	5,334.45	14,235.93	-	17,703.77
38	Columbia Gas of Virginia	NGD	(1,125.16)	(600.37)	1,530.96	7,379.47	-	7,184.91
44	Crossroads Pipeline Company	CPG	1.00	-	-	-	-	1.00
51	Columbia Gas Transmission	CPG	565.85	-	-	-	-	565.85
54	Columbia Remainder Corporation	Corp/Other	0.21	-	-	-	-	0.21
57	CNS Microwave	Corp/Other	0.89	-	-	-	-	0.89
58	NiSource, Inc.	Corp/Other	7.25	-	-	-	-	7.25
59	Northern Indiana Public Service Company	NIPSCO	1,462.04	-	-	-	-	1,462.04
60	NiSource Development Company	Corp/Other	1.63	-	-	-	-	1.63
62	NiSource Capital Markets	Corp/Other	0.01	-	-	-	-	0.01
68	EnergyUSA	Corp/Other	0.13	-	-	-	-	0.13
71	NiSource Retail Services	NGD	0.79	-	-	-	-	0.79
74	Service Protection Group	NGD	0.00	-	-	-	-	0.00
75	NiSource Finance Corporation	Corp/Other	0.27	-	-	-	-	0.27
78	NiSource Energy Technologies	Corp/Other	0.03	-	-	-	-	0.03
80	Columbia Gas of Massachusetts	NGD	340.38	(334.09)	13,550.75	(54,819.10)	(10,295.09)	(51,557.16)
82	NiSource Gas Transmission and Storage Company	CPG	120.95	-	-	-	-	120.95
89	Northern Indiana Public Service Company - Electric	NIPSCO	10.75	-	-	-	-	10.75
90	Northern Indiana Public Service Company - Gas	NIPSCO	5.73	-	-	-	-	5.73
92	NiSource Energy Ventures	CPG	1.14	-	-	-	-	1.14
93	Columbia Gas of Ohio Receivables Corporation	Corp/Other	0.07	-	-	-	-	0.07
94	Columbia Gas of Pennsylvania Receivables Corporation	Corp/Other	0.12	-	-	-	-	0.12
96	NiSource Midstream Services	CPG	14.92	-	-	-	-	14.92
<b>Grand Total</b>			-	-	-	-	-	-

**APPENDIX A (Cont'd)**

The table below presents the impact of incorrect coding of time and expenses for 2013 by business unit for those employees identified at Audit Objective 1. For example, NIPSCO was improperly allocated \$1.5K of time and expenses.

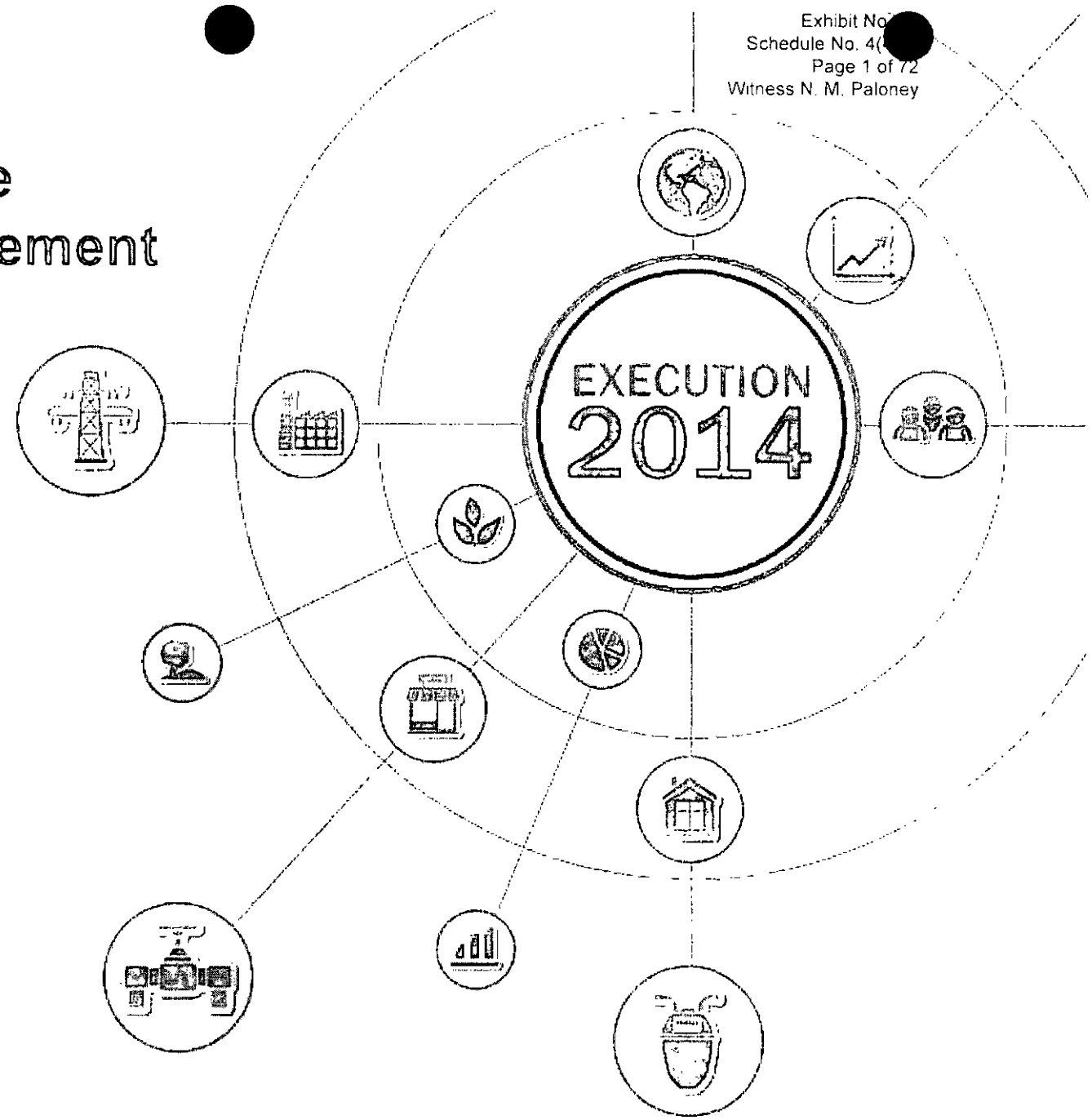
<b>Business Unit</b>	<b>Employee 1</b>	<b>Employee 2</b>	<b>Employee 3</b>	<b>Employee 4</b>	<b>Employee 5</b>	<b>Total</b>
Corp/Other	15.91	-	-	-	-	15.91
NGD	(2,215.42)	0.00	0.00	0.00	-	(2,215.42)
CPG	720.98	-	-	-	-	720.98
NIPSCO	1,478.53	-	-	-	-	1,478.53
<b>Grand Total</b>	-	-	-	-	-	-

# NiSource Employee Expense Reimbursement Audit

September 22, 2014

To: Susan Taylor, Corporate Controller

From: Ryan Binkley, Audit Director  
Jaclyn Callahan, Audit Manager  
Michelle Eich, Lead Data Analyst





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# NiSource Employee Expense Reimbursement Audit

*(Audit Period: July 1, 2013 through June 30, 2014)*

## EXECUTIVE OVERVIEW

# NiSource Employee Expense Reimbursement Audit

## Executive Overview

The Internal Audit Department began performing regular audits of the expense reimbursement process in 2009 by analyzing trends in employee spending to identify non-compliant expense transactions.

– The scope of the audit includes the following NiSource Business Units (BU):

- *NiSource Gas Distribution Companies (NGD)*
- *NiSource Corporate Services (NCS)*
- *Northern Indiana Public Service Company (NIPSCO)*
- *Columbia Pipeline Group (CPG)*

Executive Council (Officer) expense statement reviews are performed annually. Internal Audit issued a separate report for Officer expense reimbursements (audit period January 1, 2013 – December 31, 2013) on June 30, 2014.

In early 2014, the Internal Audit department embarked on an internal process improvement initiative to enhance our data analytic proficiencies. Through a formal RFP process, Internal Audit engaged *Protiviti*, a leading data analytics consulting organization, and on-boarded a permanent Lead Data Analyst to assist us in the pursuit of our efforts. The Employee Expense Reimbursement Audit was chosen to be a part of a “Pilot” effort by the audit group to utilize and showcase our enhanced data analytic process, procedures, and tools. In the future, the “Employee Expense Reimbursement Audit” will be a part of our continuous audit program and the audit period will be modified to align with the Company’s annual financial reporting period of January 1 through December 31. Additionally, by aligning our procedures with the calendar year, Internal Audit will have the ability to better ensure taxable costs are included in employee income at year-end.

# NiSource Employee Expense Reimbursement Audit

## Executive Overview

Specifically, the focus of our audit included the following:

- Perform analysis on employee expense reimbursement data to identify unusual items and/or trends and provide management with insights into employee expense activity across the four NiSource business units; and
- Based on the results of our data analysis, verify if employee expenses are incurred and reimbursed in accordance with Company Policy and Internal Revenue Service guidelines.

### **Overall Conclusions:**

As a result of our procedures, Internal Audit identified some minor exceptions to established Employee Expense policies and procedures and has made the following recommendations to management:

- Reinforce documentation requirements for Entertainment and Gift transactions to ensure compliance with Company policy;
- Ensure all taxable Gift transactions are properly identified and included in employees income for IRS reporting;
- Reinforce the communication and review of personal mileage requirements to ensure employees traveling more than 12,000 miles while using their personal vehicle are being considered for fleet transportation;
- Reinforce the policy requirements for the use of personal vehicles for business travel; and
- Ensure appropriate documentation is retained for employees with unique commuting arrangements for the identification of taxable travel.

# NiSource Employee Expense Reimbursement Audit

## Executive Overview

### Analytic Observations:

Perform analysis on employee expense reimbursement data to identify unusual items and/or trends and provide management with insights into employee expense activity across the four NiSource business units.

**NOTE:** Audit periods included in this review extend cover the twelve month period July 1 to June 30 of the given audit year (E.g. AYE 2014 = audit period of July 1, 2013 through June 30, 2014).

*As part of our analytical review, Internal Audit observed the following:*

- **NiSource\***: ERS expenses have increased in total over the last three (3) years, but the % increase year-over-year has steadily declined. From 2013 to 2014, Internal Audit noted a **~9% increase (~\$2.6M)** in total ERS expenses of ~\$28.5M to ~\$31.1M.
  - **NGD**: ERS expenses increased **~\$0.3M** or **~5.0%** from AYE 2013 of ~\$4.9M to AYE 2014 of ~\$5.2M
  - **NIPSCO**: ERS expenses increased **~\$0.1M** or **~3.5%** from AYE 2013 of ~\$3.6M to AYE 2014 of ~\$3.7M
  - **NCS**: ERS expenses increased **~\$0.9M** or **~7.4%** from AYE 2013 of ~\$11.8M to AYE 2014 of ~\$12.7M
  - **CPG**: ERS expenses increased **~\$1.4M** or **~16.9%** from AYE 2013 of ~\$8.1M to AYE 2014 of ~\$9.5M



\* The total number of NiSource employees submitting ERS expenses increased by ~5% from June 30, 2013 to June 30, 2014 – see slide 15 for more information.

# NiSource Employee Expense Reimbursement Audit

## Executive Overview

### Analytic Observations (Cont'd):

- The average total NiSource ERS expense per employee increased ~4% from AYE 2013 to AYE 2014 while overall total ERS expenses increased ~9% during the same time period (See slide 15);
- The total number of employees submitting expenses increased by ~5% during AYE 2014 (4,780 to 4,999; See slide 15);
- Hotel, Meals, and Air Travel expense categories have been consistent drivers of most ERS spend for the past three (3) years. These three (3) expense categories comprise ~70% of all ERS expenses during that time period. However, while overall ERS spending has increased ~9% from AYE 2013 to 2014, this increase is less than the increases in expenses from AYE 2012 to AYE 2013 of ~17% (See slide 22);
- Seven (7) primary ERS expense categories increased from AYE 2013 to AYE 2014; Gift transactions decreased ~38% year-over-year (See slide 22); and
- Personal mileage of ~3.6 Million miles was submitted for reimbursement during AYE 2014 and AYE 2013 (See slide 54).

# NiSource Employee Expense Reimbursement Audit

## Executive Overview

### Audit Objective :

**As a result of data analysis observations and through appropriate sampling methodology, determine if employee expenses are submitted timely and processed in accordance with Company Policy and Internal Revenue Service guidelines.**

### *Internal Audit identified the following:*

- Expenses are captured, processed and approved in the Expense Reporting System (ERS) maintained by IBM;
- Through a risk-based analytical sampling process, Internal Audit reviewed eighty-five (85) expense reports noting no significant policy violations. Internal Audit identified the following exceptions:
  - Two (2) taxable Gift transactions were not properly identified by current manual review processes and included in the respective employee's 2013 income;
  - Personal mileage reimbursements in excess of 12,000 miles were submitted by twenty-six (26) employees during AYE 2014;

**NOTE:** *Current policy requires receipt documentation for a limited set of transactions (i.e. "Room and Tax" & "Cash"). Internal Audit's assessment of the reasonableness of the expense in accordance with policy was limited to the information required to be input into ERS.*

# NiSource Employee Expense Reimbursement Audit

## Executive Overview

### Audit Objective (Cont'd):

- Accounts Payable (A/P) performs periodic audits of employee expenses based on consistent criteria and risk factors; A/P's assessment of whether an expense item is in accordance with policy can be affected by the limited amount of detail required to be input into ERS for some transactions;
- Generally, NiSource employees submit expenses within forty-five (45) days after incurring expenses, as required by policy. Internal Audit identified that employees have been submitting expenses more timely with 98% of all expenses being submitted within the forty-five (45) day requirement in AYE 2014 as compared to 97% in AYE 2013;
- Taxable travel for two (2) identified NiSource employees with unique commuting arrangements were tracked and reported in each employee's income by Management through December 31, 2013. Management is in process of reviewing taxable travel during 2014 for inclusion in the employee's income and W-2 for 2014. Internal Audit will validate the inclusion of taxable travel amounts in each employee's income for those costs incurred in 2014 in our employee expense reimbursement audit that will cover the twelve month calendar period ending December 31, 2014; and
- Taxable use of the Company-leased aircraft appears to be properly tracked and monitored. Internal Audit will validate the inclusion of taxable amounts in employee's income for those costs incurred in 2014 in our employee expense reimbursement audit that will cover the twelve month calendar period ending December 31, 2014.



# NiSource Employee Expense Reimbursement Audit

## Executive Overview

### Audit Objective (Cont'd):

### *Internal Audit Recommendation(s):*

Management should consider the following process enhancements to strengthen the current control environment:

- Reinforce the documentation requirements for employees submitting Entertainment and Gift expenses to ensure compliance with the "Business Expense Reimbursement and Reporting Policy" and the "Employee Gift and Award Accounting and Reporting Policy";
- Ensure that all taxable Gift transactions are properly identified and that taxable amounts included in employees income, as in accordance with IRS requirements;
- Reinforce the "Passenger Vehicle Policy" and the "Travel Policy" that define when fleet vehicles should be considered to be cost effective for the Company and rental cars should be utilized in place of personal vehicles;
- While the trend of submitted late transactions appears to be decreasing, reinforce expense policy for those employees who may consistently submit expense reports past forty-five (45) days; and
- Enhance current review processes and procedures to ensure an appropriate amount of supporting documentation is maintained to adequately support tax treatment conclusions (taxable vs. non-taxable) for all expenses submitted by employees with unique commuting arrangements.

# NiSource Employee Expense Reimbursement Audit

## Executive Overview

### Audit Objective (Cont'd):

**General Comment(s):** In order to improve documentation in ERS, all employees should consider providing as much information as practicable to support their expenses in the comments section of ERS (examples include mileage details, types of gifts to ensure appropriate tax treatment, and explanations for expenses that do not align with policy). If a future ERS system update is implemented, Management should consider enhancing current documentation requirements and/or system controls for Gift, Cash, and Car Rental expenses.

We have shared our analytic objective results with Management and they agree with our results.

# NiSource Employee Expense Reimbursement Audit Analytic Objective

## ANALYTIC OBSERVATIONS

Perform analysis on employee expense reimbursement data to identify unusual items and/or trends and provide management with insights into employee expense activity across the four NiSource business units.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

### Analytic Observations:

#### *Results:*

- For the current and prior audit periods, Internal Audit independently accessed ERS through its online reporting tool (GERS) and extracted all employee expense data from July 1, 2011 - June 30, 2014.
  - **NOTE:** Data accuracy is limited by potential data input errors by employees (i.e. coding an expense incorrectly).
- Internal Audit developed a new continuous review process regarding the audit of ERS data. In May of 2014, the department on-boarded a new Lead Data Analyst to assist in the development of data analytic processes and procedures. The department also invested in a data analytic tool “Tableau” that assisted us the in the execution of our data analysis and our audit testing sampling processes. For our data analytic observations, we imported all ERS data for the three (3) years presented; our audit procedures focused on the twelve months ending June 30, 2014.
- As part of future audits and on a go-forward basis, we will continue to import ERS data into the Tableau tool for data analysis purposes and to assist execution of audit procedures which will ensure both an efficient and consistent audit process going forward.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

### Analytic Observations (Cont'd):

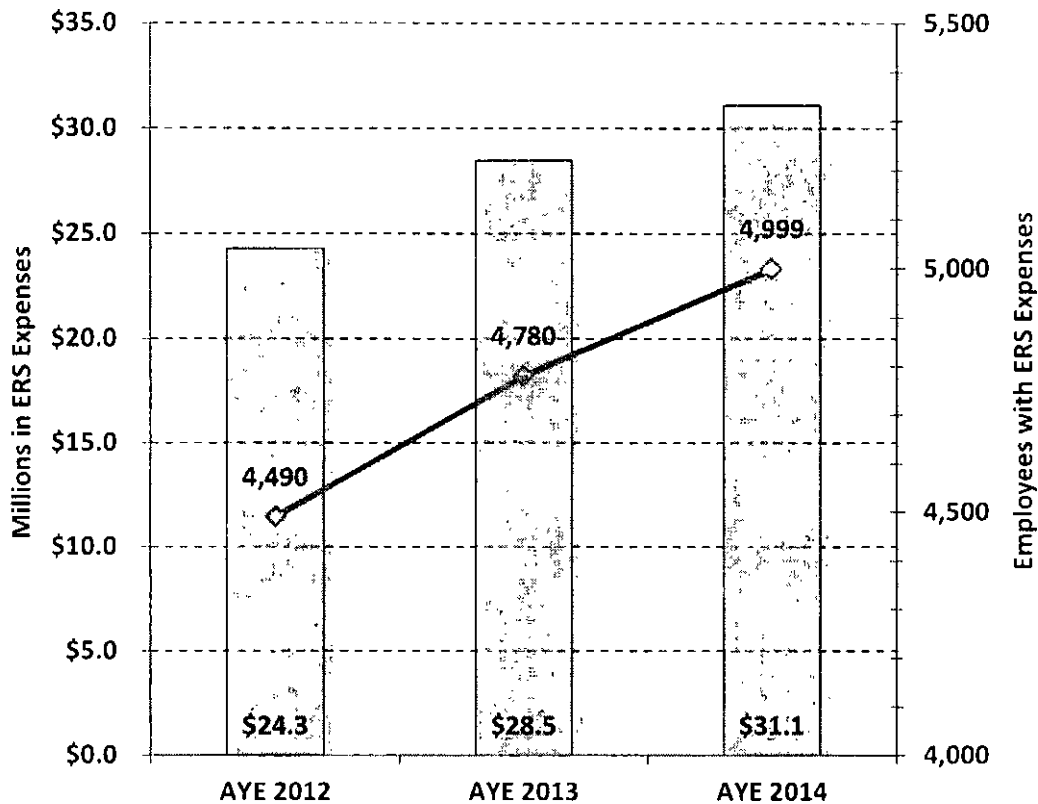
Key highlights and significant fluctuations identified from the analytics performed are as follows:

- **NiSource:** ERS expenses have increased in total over the last three (3) years, but the percentage increase year-over-year has steadily declined:
  - ~42% increase from 6/30/2011 to 6/30/2012 (AYE 2012) (~\$17.1M to ~\$24.3M)
  - ~17% increase from 6/30/2012 to 6/30/2013 (AYE 2013) (~\$24.3M to ~\$28.5M)
  - ~9% increase from 6/30/2013 to 6/30/2014 (AYE 2014) (~\$28.5M to ~\$31.1M)
- **NGD:** ERS expenses have increased ~\$0.3M or ~5.0% from AYE 2013 of ~\$4.9M to AYE 2014 of ~\$5.2M
  - Total average expense per NGD employee increased ~1.3% from AYE 2013-2014
- **NIPSCO:** ERS expenses have increased ~\$0.1M or ~3.5% from AYE 2013 of ~\$3.6M to AYE 2014 of ~\$3.7M
  - Total average expense per NIPSCO employee decreased ~1.5% from AYE 2013-2014
- **NCS:** ERS expenses have increased ~\$0.9M or ~7.4% from AYE 2013 of ~\$11.8M to AYE 2014 of ~\$12.7M
  - Total average expense per NCS employee decreased ~0.4% from AYE 2013-2014
- **CPG:** ERS expenses have increased ~\$1.4M or ~16.9% from AYE 2013 of ~\$8.1M to AYE 2014 of ~\$9.5M
  - Total average expense per CPG employee increased ~16.9% from AYE 2013-2014

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total NiSource ERS Expenses**  
 (AYE 2012 – AYE 2014)



**Observations:**

Internal Audit noted that the average total NiSource ERS spend per employee increased ~4% from AYE 2013 to AYE 2014 while overall total ERS spending increased ~9%. While the total number of employees submitting expenses increased by ~5% during AYE 2014 (4,780 to 4,999), total ERS expenses appear to have outpaced the overall increase in employees submitting expenses. See chart included and table below:

Audit Period	Average ERS Spend / Employee	% Increase in Spend / Employee Y/Y	% Increase in ERS Spend Y/Y
AYE 2012	\$5.406	N/A	N/A
AYE 2013	\$5.958	10%	17%
AYE 2014	\$6.220	4%	9%

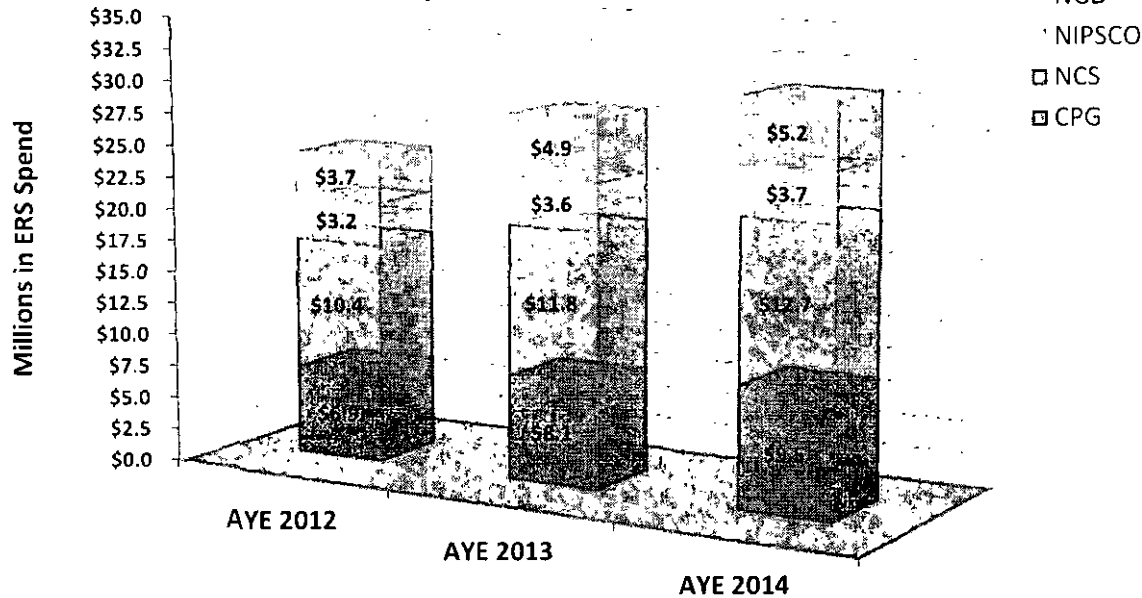


**NOTE:** Total Employee Spend in the table above includes "Officer" spend to properly illustrate overall NiSource employee expense spending.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total NiSource ERS Expenses / BU**  
 (AYE 2012 – AYE 2014)



**Observations:**

Internal Audit noted that total NiSource BU ERS costs have increased year-over-year for the periods under review.

- **NIPSCO** total ERS costs have slightly increased during the periods observed, while NIPSCO's total % of overall NiSource ERS costs slightly decreased during AYE 2014.
- While **NCS** total ERS costs comprise the largest proportion of overall ERS costs, their respective % of overall ERS costs slightly decreased during AYE 2013 and AYE 2014.
- **NGD** total ERS expenses have increased year-over-year, but NGD's % of overall costs remain steady from AYE 2013 to AYE 2014.
- **CPG** total ERS total costs and its % of overall costs have increased slightly year-over-year for all periods observed.

Business Unit	AYE 2012	% of Total	AYE 2013	% of Total	AYE 2014	% of Total
NGD	\$3,733,238	15%	\$4,922,172	17%	\$5,169,548	17%
NIPSCO	\$3,213,181	13%	\$3,579,065	13%	\$3,703,754	12%
NCS	\$10,428,858	43%	\$11,834,839	42%	\$12,704,431	41%
CPG	\$6,896,201	28%	\$8,141,854	29%	\$9,516,750	31%
<b>NiSource</b>	<b>\$24,271,478</b>		<b>\$28,477,930</b>		<b>\$31,094,483</b>	

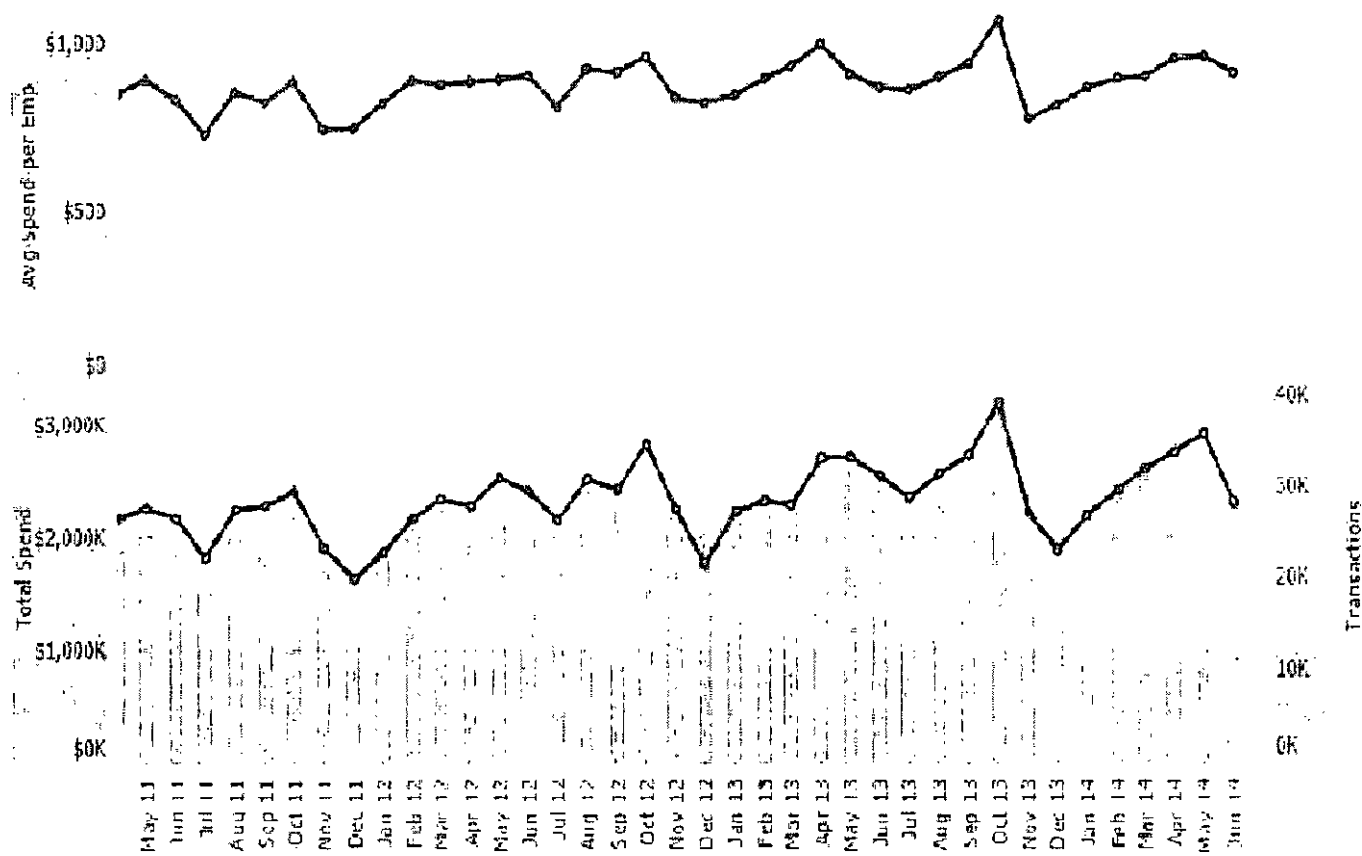
**NOTE:** Total Employee Spend in the table above includes "Officer" spend to properly illustrate overall NiSource employee expense spending.



# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total NiSource ERS Monthly Spend Trending\***  
 (AYE 2012 – AYE 2014)



- Avg Spend per Emp
- Total Spend
- Trans

**Observations:**

While total NiSource ERS spending has increased year-over-year, it appears monthly spending tends to spike during the September-October months and falls to the lowest levels in December of each of the periods observed.

Year-over-year, the total number of transactions appear to have greater peaks of activity throughout 2012 and 2013.



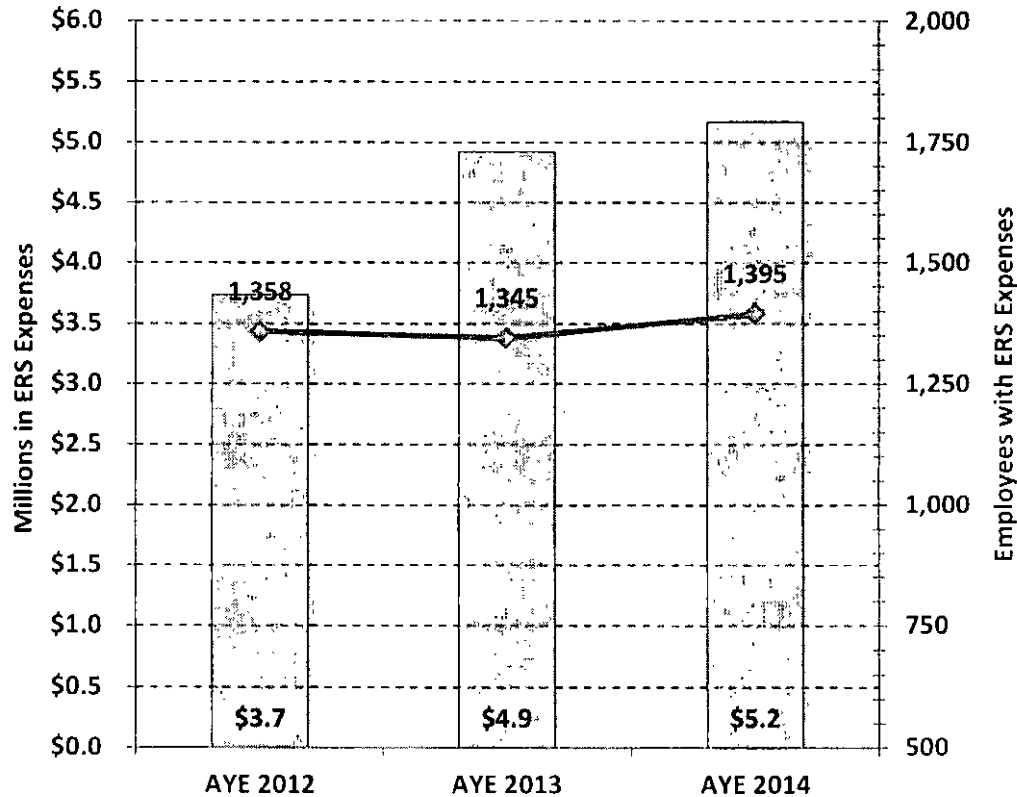
\*The chart included is an illustration from the Tableau tool, representing NiSource ERS monthly spend trending for the periods observed.



# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total NGD ERS Expenses**  
 (AYE 2012 – AYE 2014)



**Observations:**

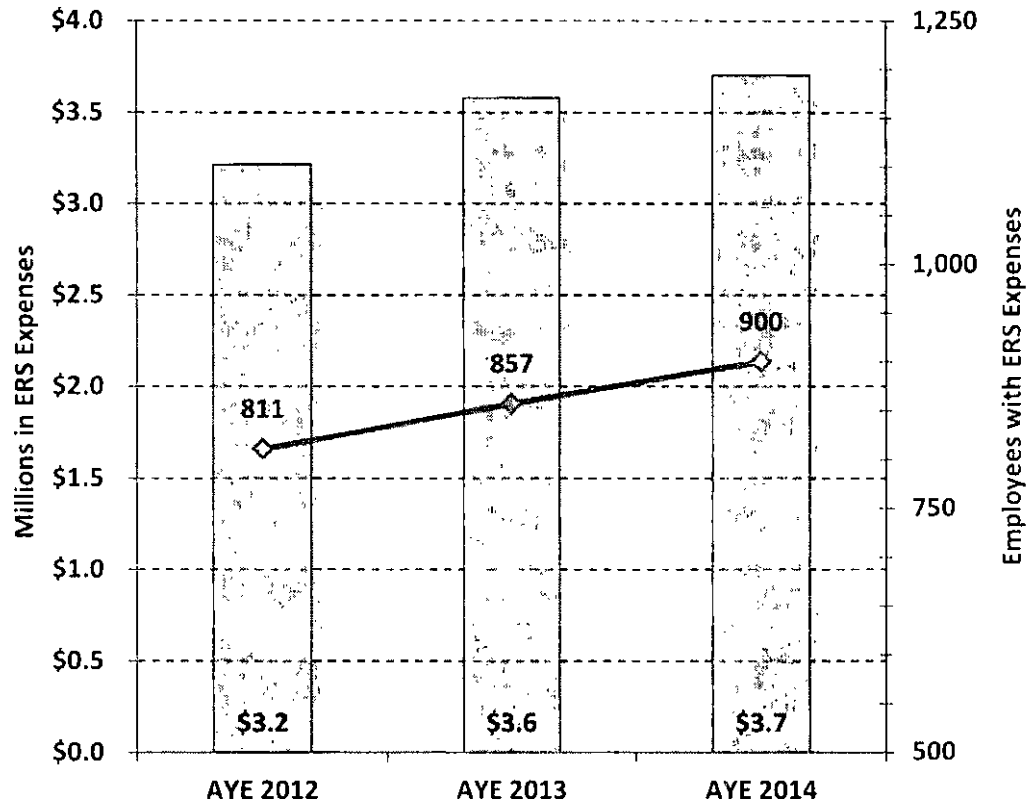
Internal Audit noted that the average total NGD ERS spend per employee increased ~33% from AYE 2012 to AYE 2013 and ~1% from AYE 2013 to AYE 2014. Overall, NGD ERS costs appear to have outpaced the increase in NGD employees submitting expenses during the audit periods, but appears to have proportionally decreased year-over-year from AYE 2013 to AYE 2014. See table below:

Audit Period	Average ERS Spend / Employee	% Increase in Spend / Employee Y/Y	% Increase in ERS Spend Y/Y
AYE 2012	\$2,749	N/A	N/A
AYE 2013	\$3,660	33%	32%
AYE 2014	\$3,706	1%	5%

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total NIPSCO ERS Expenses**  
 (AYE 2012 – AYE 2014)



**Observations:**

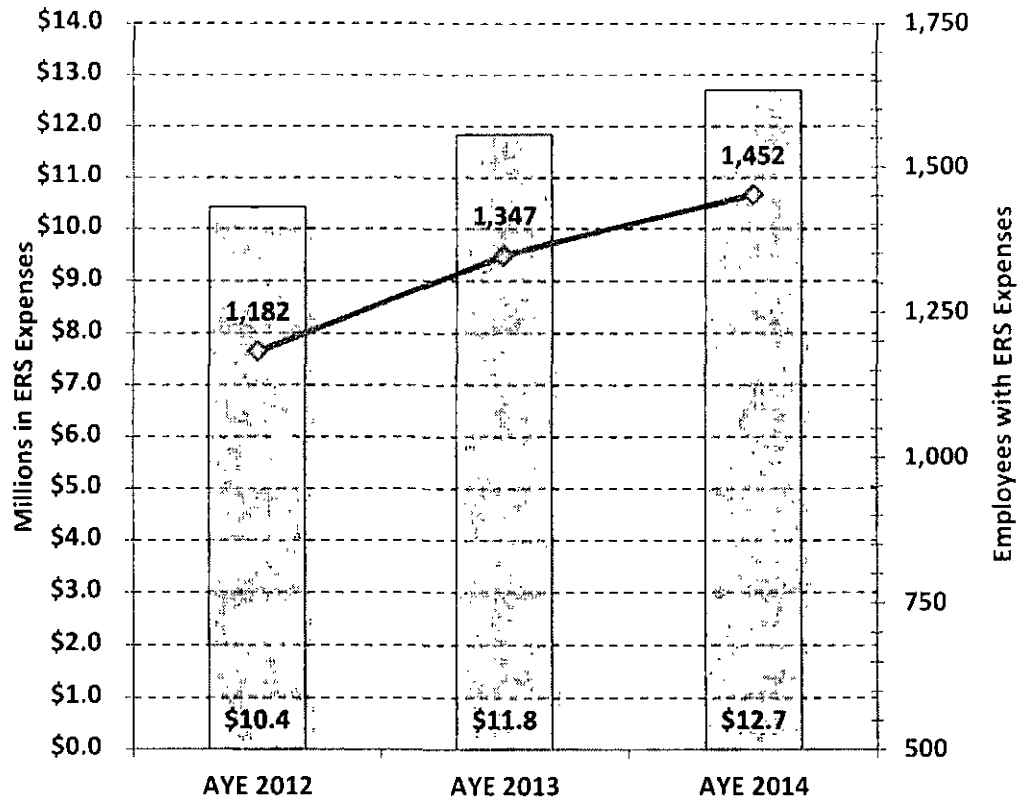
Internal Audit noted that the average total NIPSCO ERS spend per employee increased ~5% from AYE 2012 to AYE 2013 and decreased ~1% from AYE 2013 to AYE 2014. Overall, average employee ERS costs appear to be trending downward from AYE 2013 to AYE 2014 despite an overall increase in NIPSCO employee headcount. See table below:

Audit Period	Average ERS Spend / Employee	% Change in Spend / Employee Y/Y	% Change in ERS Spend Y/Y
AYE 2012	\$ 3,962	N/A	N/A
AYE 2013	\$ 4,176	5%	11%
AYE 2014	\$ 4,115	-1%	3%

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total NCS ERS Expenses**  
 (AYE 2012 – AYE 2014)



**Observations:**

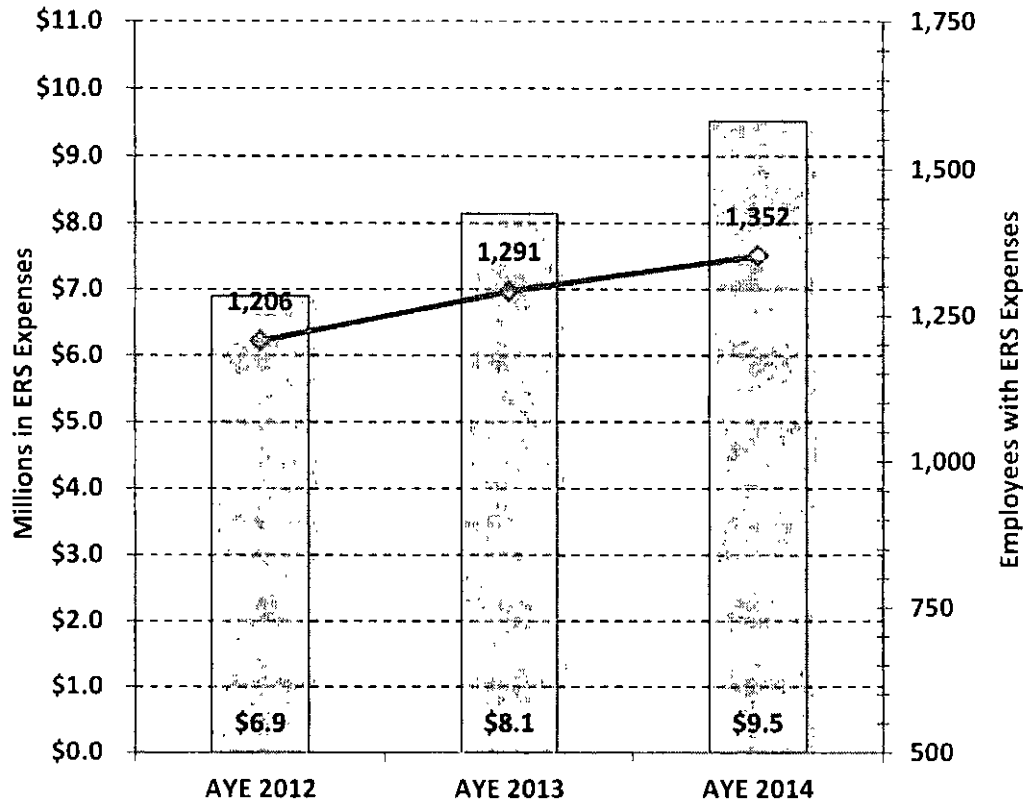
Internal Audit noted the average total NCS ERS spend per employee has remained steady year-over-year from AYE 2013 to AYE 2014. See table below:

Audit Period	Average ERS Spend / Employee	% Change in Spend / Employee YY	% Change in ERS Spend / Y
AYE 2012	\$ 8,823	N/A	N/A
AYE 2013	\$ 8,786	0%	13%
AYE 2014	\$ 8,750	0%	7%

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total CPG ERS Expenses**  
 (AYE 2012 – AYE 2014)



**Observations:**

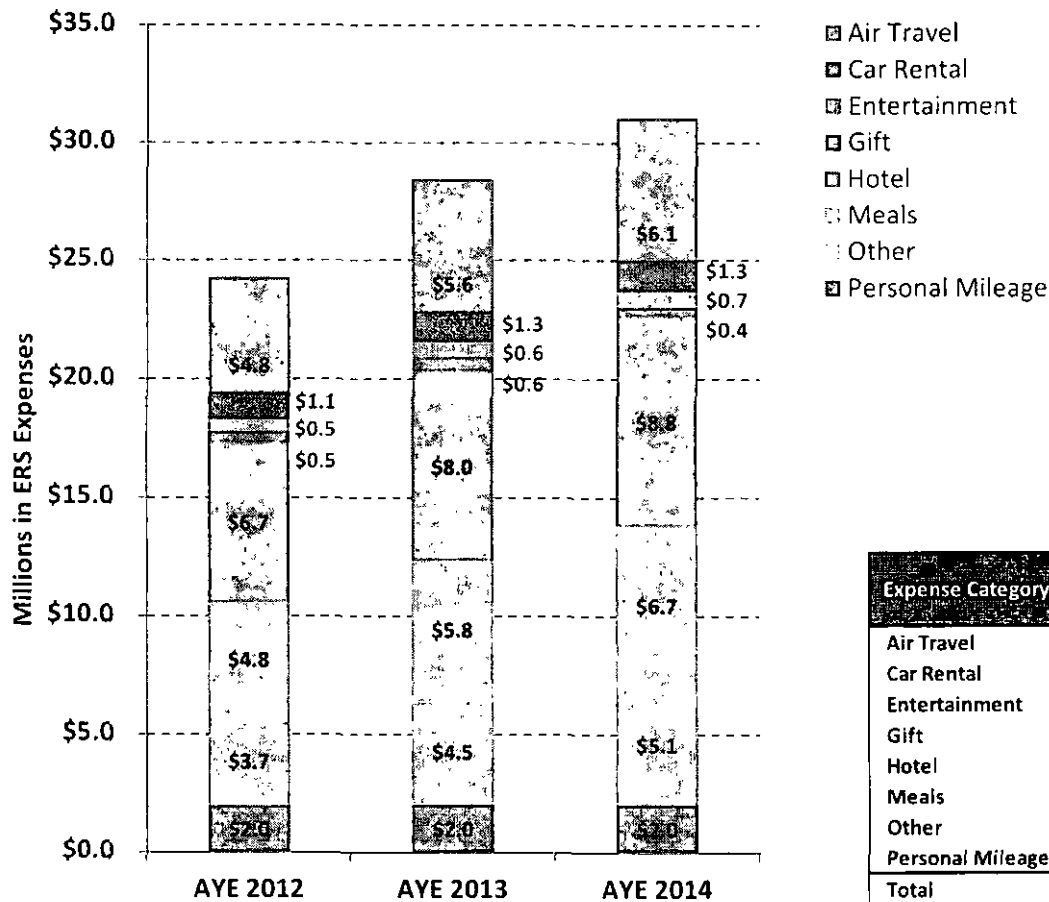
Internal Audit noted that the average total CPG ERS spend per employee increased ~10% from AYE 2012 to AYE 2013 and further increased ~12% from AYE 2013 to AYE 2014. Overall, average employee ERS costs appear to be trending upward and outpacing the overall CPG employee headcount increases from AYE 2013 to AYE 2014. See table below:

Audit Period	Average ERS Spend / Employee	% Change In Spend / Employee Y/Y	% Change in ERS Spend Y/Y
AYE 2012	\$ 5,718	N/A	N/A
AYE 2013	\$ 6,307	10%	18%
AYE 2014	\$ 7,039	12%	17%

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**NiSource ERS Expense Categories**  
 (AYE 2012 – AYE 2014)



**Observations:**

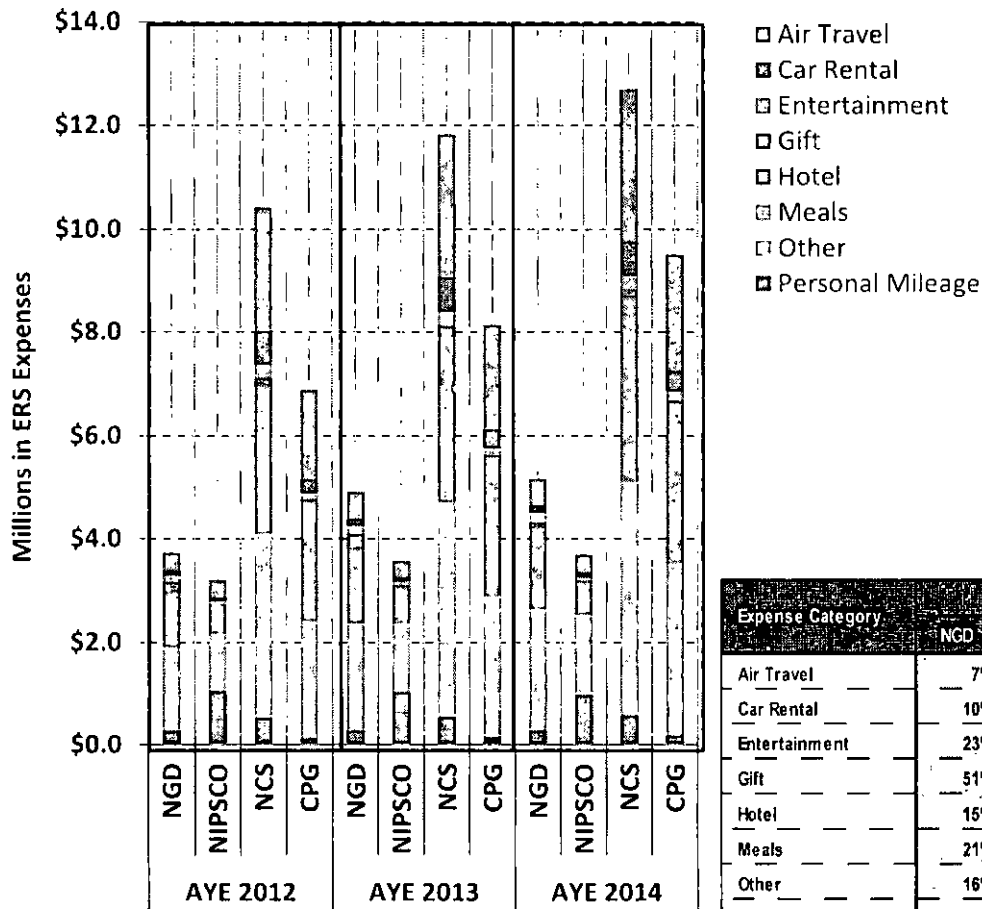
Overall, Hotel, Meals, and Air Travel expense categories have been consistent drivers of most ERS expense for the past three (3) years, as outlined in the graph and table below. These three (3) categories comprise ~70% of all ERS submittals. However, while overall ERS spending has increased ~9% from AYE 2013 to AYE 2014, the increasing pace of spend has slowed from ~17% as of AYE 2013. Additionally, the increase of pace of spend for each category has slowed from AYE 2013 – 2014. See table below.

Expense Category	AYE 2012		AYE 2013		AYE 2014	
	ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
Air Travel	\$ 4,827,248	17%	\$5,629,439	17%	\$ 6,064,719	8%
Car Rental	1,142,198	12%	1,280,718	12%	1,346,046	5%
Entertainment	510,733	19%	608,505	19%	657,607	8%
Gift	468,579	34%	626,224	34%	390,111	-38%
Hotel	6,742,482	19%	8,009,989	19%	8,832,072	10%
Meals	4,847,158	20%	5,804,432	20%	6,686,813	15%
Other	3,748,788	20%	4,499,933	20%	5,088,027	13%
Personal Mileage	\$ 1,984,291	2%	\$2,018,690	2%	\$ 2,029,088	1%
<b>Total</b>	<b>\$ 24,271,478</b>	<b>17%</b>	<b>\$28,477,930</b>	<b>17%</b>	<b>\$ 31,094,483</b>	<b>9%</b>

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**NiSource ERS Expense Categories by BU**  
 (AYE 2012 – AYE 2014)



**Observations:**

**Allocation of ERS Spend across NiSource BU's:**

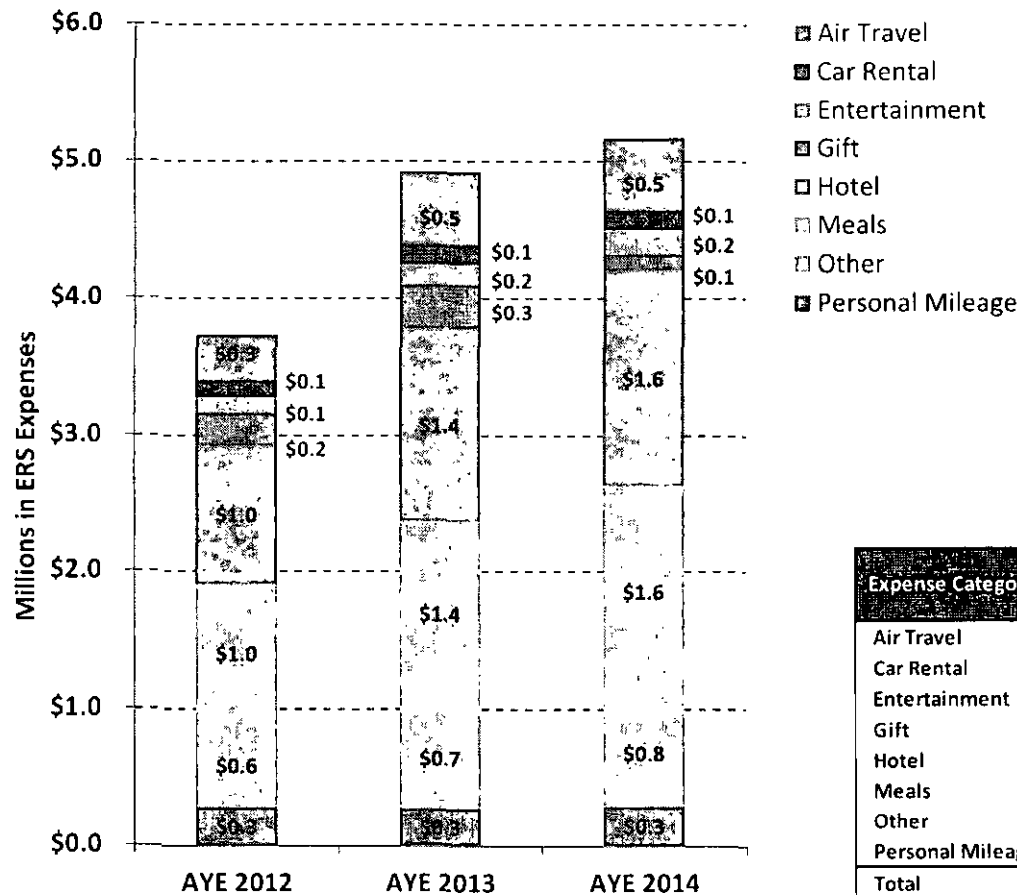
- **Air Travel:** allocation of spend has remained relatively flat year-over-year during recent periods.
- **Car Rental:** allocation of spend has shifted from NCS with proportional increases at CPG.
- **Entertainment:** proportion of spend has decreased at NCS with increases shifting to CPG.
- **Gift:** while total Gift spending has decreased across NiSource the proportion of spend has shifted from NGD to both NCS and CPG.
- **Hotel, Meals, and Other:** the allocation of ERS spend has remained relatively flat across the NiSource BU's over recent periods.
- **Personal Mileage:** proportion of spend has shifted from NIPSCO and CPG in recent periods.

Expense Category	AYE 2012				AYE 2013				AYE 2014			
	NGD	NIPSCO	NCS	CPG	NGD	NIPSCO	NCS	CPG	NGD	NIPSCO	NCS	CPG
Air Travel	7%	7%	50%	36%	9%	5%	49%	36%	9%	6%	48%	37%
Car Rental	10%	7%	58%	25%	11%	7%	53%	29%	11%	8%	50%	31%
Entertainment	23%	10%	47%	20%	25%	12%	42%	20%	27%	10%	38%	26%
Gift	51%	2%	36%	11%	50%	4%	37%	9%	30%	7%	48%	15%
Hotel	15%	8%	42%	34%	18%	9%	40%	33%	18%	7%	40%	35%
Meals	21%	11%	39%	29%	23%	12%	36%	29%	23%	12%	35%	30%
Other	16%	15%	45%	23%	16%	14%	46%	24%	15%	14%	44%	26%
Personal Mileage	14%	53%	27%	6%	14%	52%	27%	8%	14%	48%	28%	9%

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**NGD ERS Expense Categories**  
 (AYE 2012 – AYE 2014)



**Observations:**

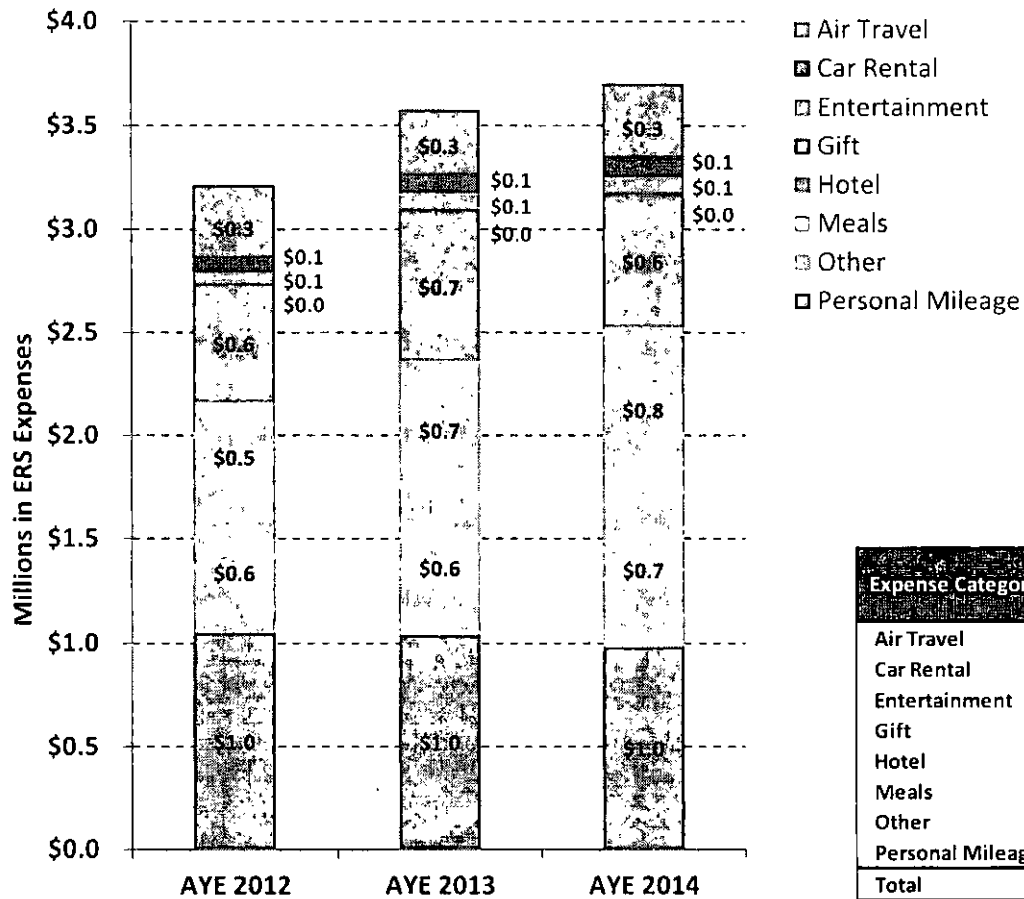
Overall, Hotel, Meals, and Other expense categories have been consistent drivers of NGD ERS spend for the past three (3) years, as outlined in the graph and table below. These three (3) categories comprise ~76% of all NGD ERS submittals. While overall ERS spending has increased ~5% from AYE 2013 to AYE 2014, the increasing pace of spend has slowed from an overall ~32% increase as of AYE 2013. Additionally, the increase of pace of spend for each category has slowed with decreases in Air Travel and Gift spending in AYE 2014.

Expense Category	AYE 2012	AYE 2013		AYE 2014	
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
Air Travel	\$ 332,349	\$532,834	60%	\$ 529,266	-1%
Car Rental	117,831	140,597	19%	143,933	2%
Entertainment	115,273	150,957	31%	174,547	16%
Gift	237,721	312,855	32%	117,638	-62%
Hotel	1,022,425	1,418,364	39%	1,570,550	11%
Meals	1,009,753	1,350,323	34%	1,557,224	15%
Other	617,468	740,110	20%	784,052	6%
Personal Mileage	\$ 280,418	\$276,132	-2%	\$ 292,338	6%
<b>Total</b>	<b>\$ 3,733,238</b>	<b>\$4,922,172</b>	<b>32%</b>	<b>\$ 5,169,548</b>	<b>5%</b>

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**NIPSCO ERS Expense Categories**  
 (AYE 2012 – AYE 2014)



**Observations:**

Overall, Meals, Other, and Personal Mileage expense categories have been consistent drivers of NIPSCO ERS spend for the past three (3) years, as outlined in the graph and table below. These three (3) categories comprise ~68% of all NIPSCO ERS expenses. While overall NIPSCO ERS spending has increased ~3% from AYE 2013 to AYE 2014, the increasing pace of spend has largely slowed from an overall ~11% increase as of AYE 2013. Additionally, Entertainment, Hotel, and Personal Mileage spend has decreased in AYE 2014.

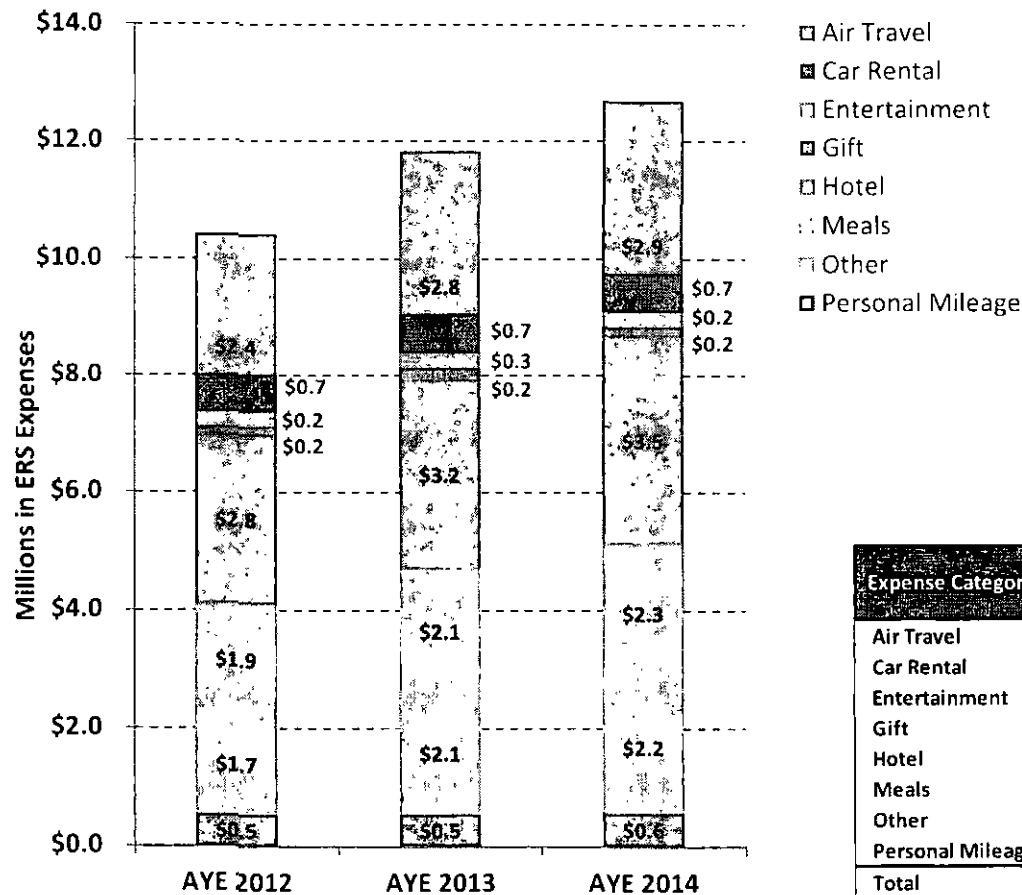
Expense Category	AYE 2012		AYE 2013		AYE 2014	
	ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
Air Travel	\$ 341,024	-10%	\$308,410	13%	\$ 348,197	-13%
Car Rental	79,442	18%	93,725	18%	105,629	-12%
Entertainment	53,106	43%	76,055	18%	66,383	15%
Gift	11,319	108%	23,526	-6%	27,676	-12%
Hotel	566,312	26%	712,480	18%	627,338	15%
Meals	538,578	28%	687,018	-1%	813,793	11%
Other	575,960	11%	636,841	-6%	732,976	11%
Personal Mileage	\$ 1,047,440	-1%	\$1,041,011	-6%	\$ 981,762	3%
<b>Total</b>	<b>\$ 3,213,181</b>	<b>11%</b>	<b>\$3,579,065</b>	<b>3%</b>	<b>\$ 3,703,754</b>	<b>3%</b>



# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**NCS ERS Expense Categories**  
 (AYE 2012 – AYE 2014)



**Observations:**

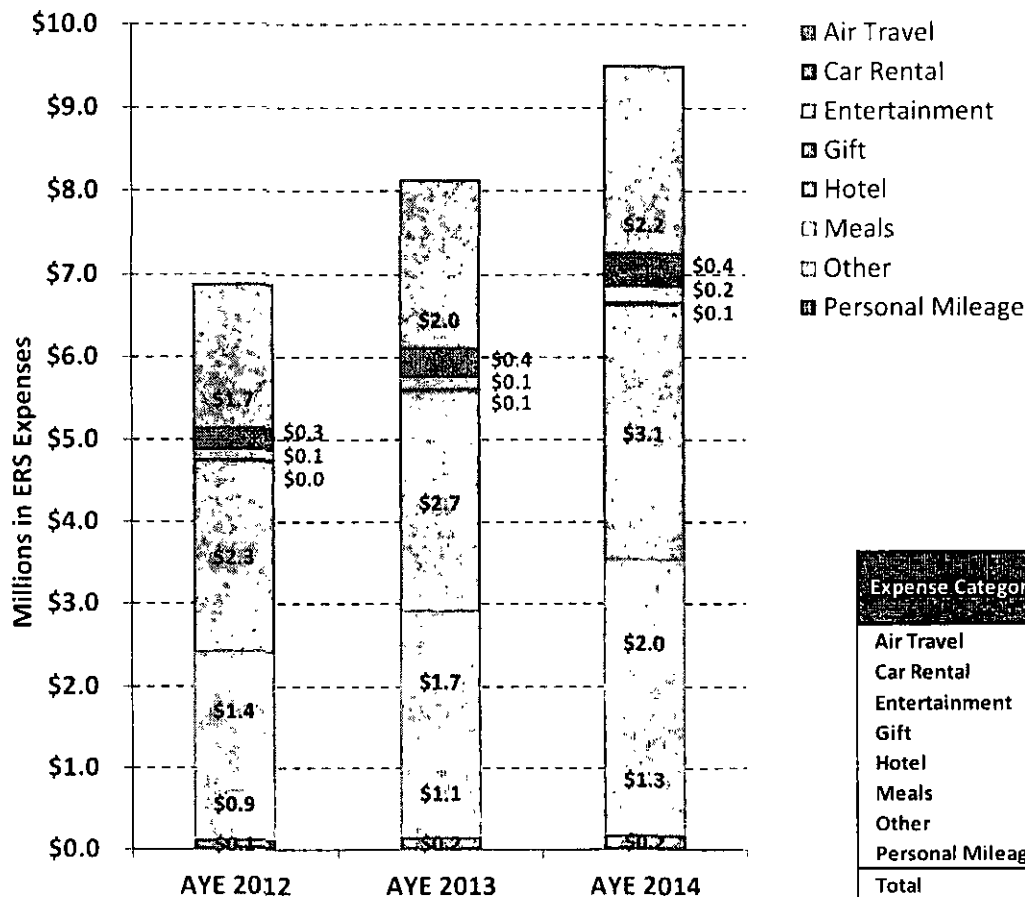
Overall, Air Travel, Hotel, and Meals expense categories have been consistent drivers of NCS ERS spend for the past three (3) years, as outlined in the graph and table below. These three (3) categories comprise ~70% of all NCS ERS expenses. While overall ERS spending has increased ~7% from AYE 2013 to 2014, the increasing pace of spend has largely slowed from an overall ~13% increase as of AYE 2013. Additionally, Car Rental, Entertainment, and Gift spend has decreased in AYE 2014.

Expense Category	AYE 2012	AYE 2013		AYE 2014	
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
Air Travel	\$ 2,409,603	\$2,769,121	15%	\$ 2,937,295	6%
Car Rental	663,495	679,089	2%	675,757	0%
Entertainment	237,987	257,141	8%	246,755	-4%
Gift	169,908	232,409	37%	187,917	-19%
Hotel	2,846,781	3,200,698	12%	3,541,527	11%
Meals	1,877,760	2,100,747	12%	2,322,113	11%
Other	1,686,026	2,052,454	22%	2,224,977	8%
Personal Mileage	\$ 537,298	\$543,180	1%	\$ 568,091	5%
<b>Total</b>	<b>\$ 10,428,858</b>	<b>\$11,834,839</b>	<b>13%</b>	<b>\$ 12,704,431</b>	<b>7%</b>

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**CPG ERS Expense Categories**  
 (AYE 2012 – AYE 2014)



**Observations:**

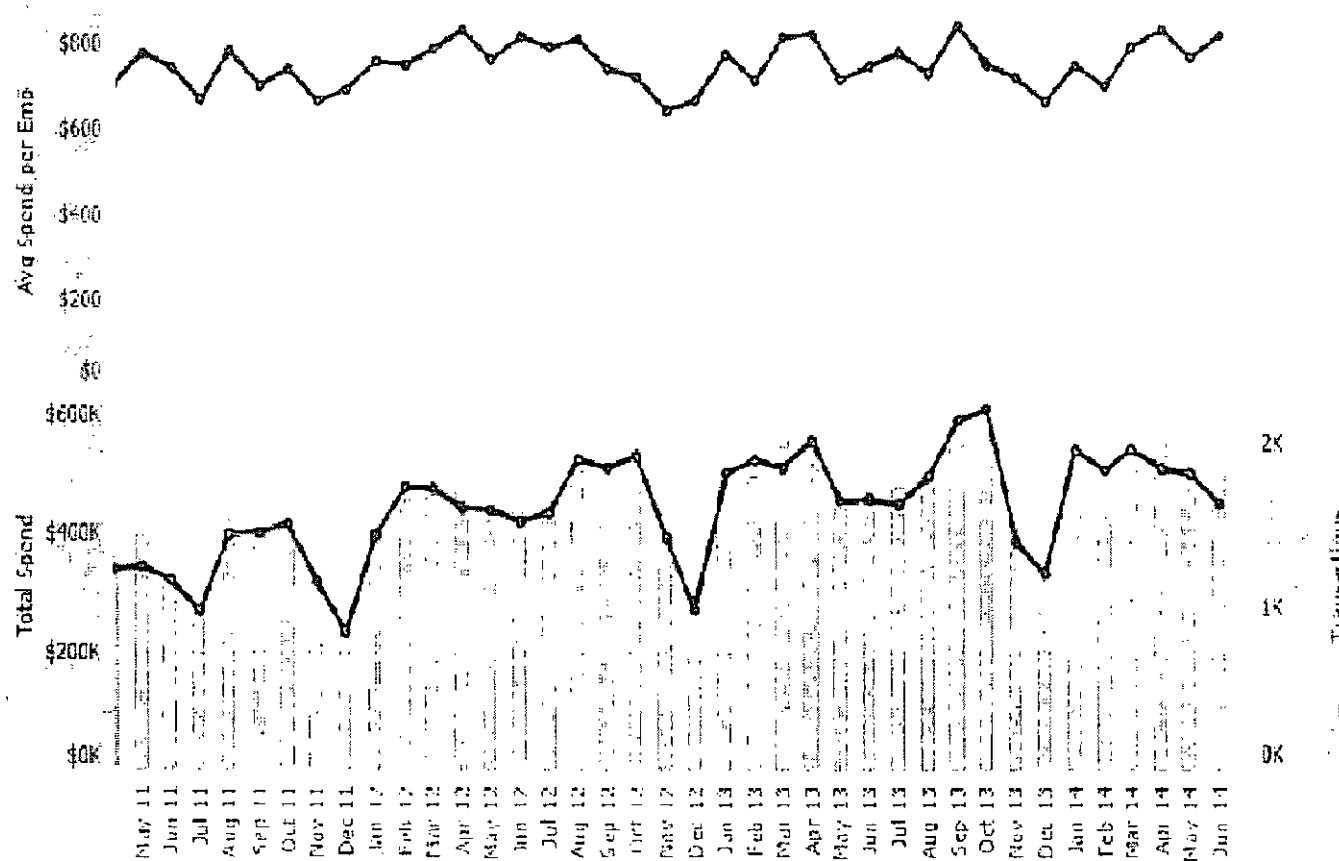
Overall, Air Travel, Hotel, and Meals expense categories have been consistent drivers of CPG ERS spend for the past three (3) years, as outlined in the graph and table below. These three (3) categories comprise ~77% of all CPG ERS submittals. While overall ERS spending has increased ~17% from AYE 2013 to 2014, the increasing pace of spend has slightly slowed from an overall ~18% increase as of AYE 2013. Additionally, Entertainment, Meals, and Other increased the most during AYE 2014 with a slight decrease in Gift spend.

Expense Category	AYE 2012		AYE 2013		AYE 2014	
	ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
Air Travel	\$ 1,744,272	16%	\$ 2,019,073	16%	\$ 2,249,961	11%
Car Rental	281,430	31%	367,308	31%	420,727	15%
Entertainment	104,367	19%	124,354	19%	169,923	37%
Gift	49,631	16%	57,434	16%	56,880	-1%
Hotel	2,306,963	16%	2,678,447	16%	3,092,657	15%
Meals	1,421,068	17%	1,666,343	17%	1,993,683	20%
Other	869,334	23%	1,070,527	23%	1,346,022	26%
Personal Mileage	\$ 119,135	33%	\$ 158,367	33%	\$ 186,897	18%
<b>Total</b>	<b>\$ 6,896,201</b>	<b>18%</b>	<b>\$ 8,141,854</b>	<b>18%</b>	<b>\$ 9,516,750</b>	<b>17%</b>

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Air Travel" ERS Expense Trending\***  
 (AYE 2012 – AYE 2014)



Avg Spend per Emp  
 Total Spend  
 Trans

**Observations:**

Air Travel costs have increased year-over-year in both 2013 and 2014. The trending of peak and non-peak spending appears to be relatively consistent during the periods under observation with the lowest spending and number of transactions occurring in the fourth quarter of the year and the highest level of activity occurring during the September and October months.

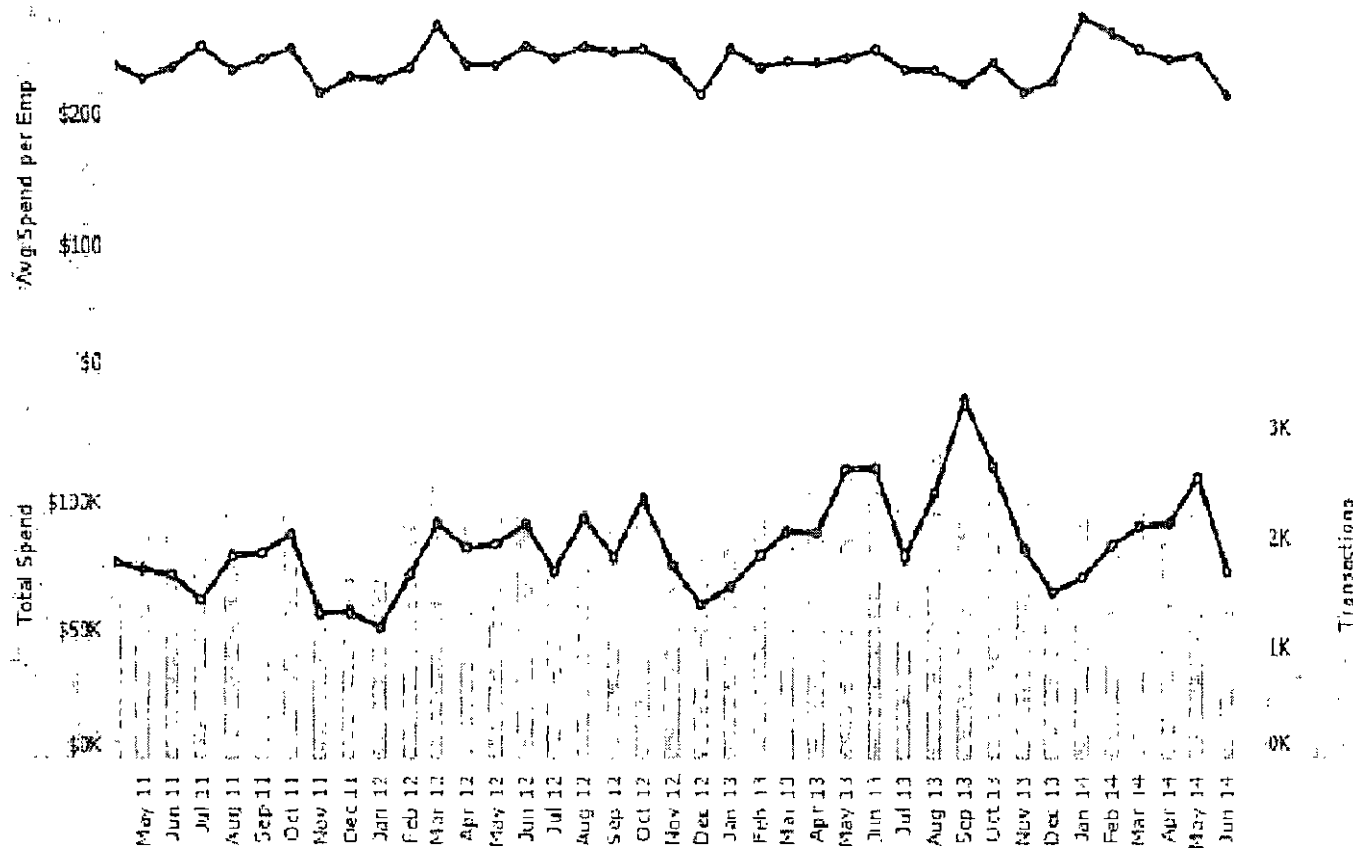


\*The chart included is an illustration from the Tableau tool, representing NiSource ERS monthly spend trending for the period observed. Also refer to slides 29-37 for other expense category trend analysis.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Car Rental" ERS Expense Trending**  
 (AYE 2012 – AYE 2014)



Avg Spend per Emp  
 Total Spend  
 Trans

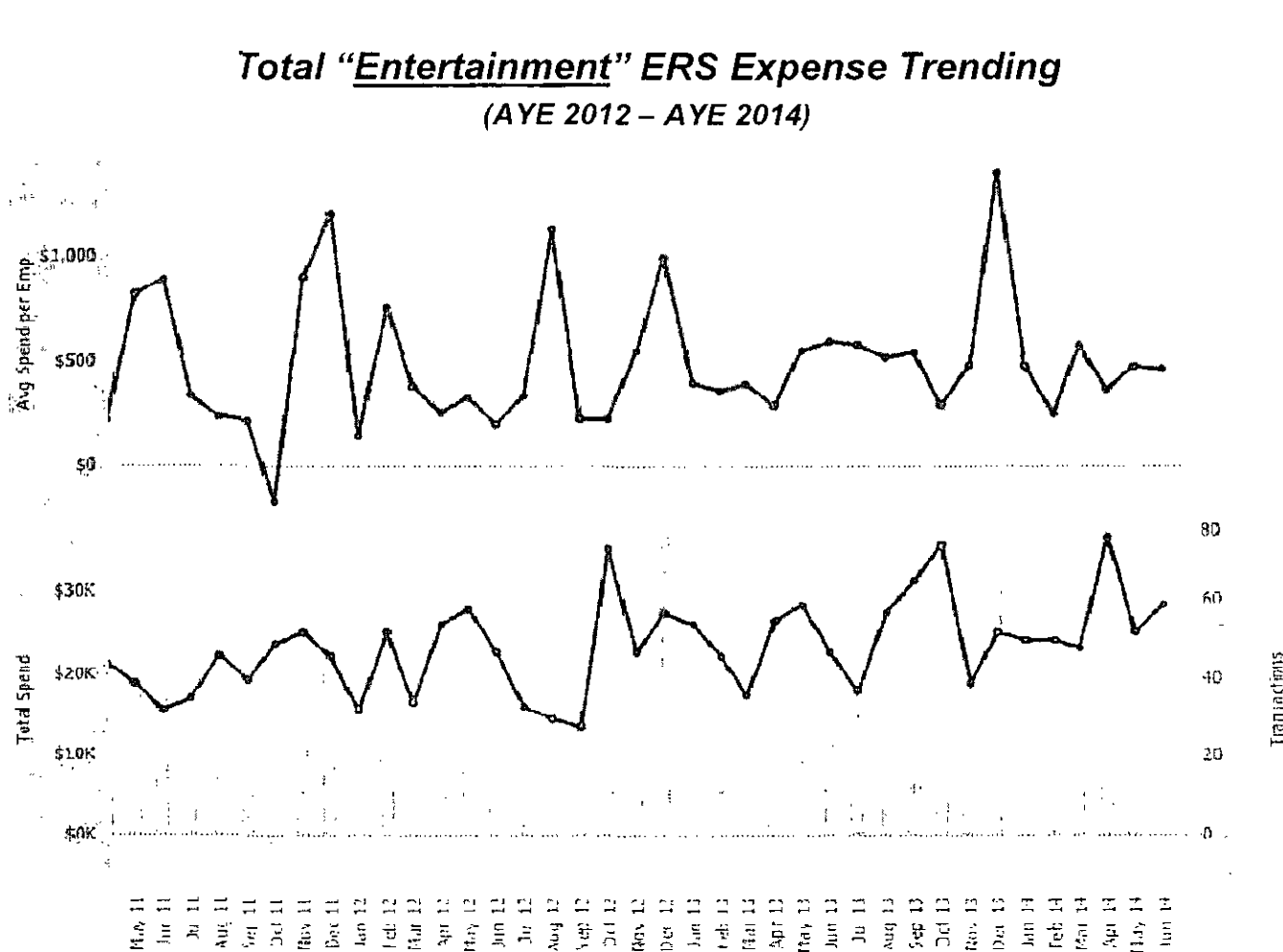
**Observations:**

Overall, Car Rental costs do not have a smooth pattern of activity during the period under observation. However, the lowest level of spend and transactions typically occur in the December and January months, while a comparable pattern of peak activity appears to have occurred during May and October of 2013 and 2014. The high level of transactions in September of 2013 do not appear to align with the spend, as noted in other months.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Entertainment" ERS Expense Trending**  
 (AYE 2012 – AYE 2014)



Avg Spend per Emp  
 Total Spend  
 Trans

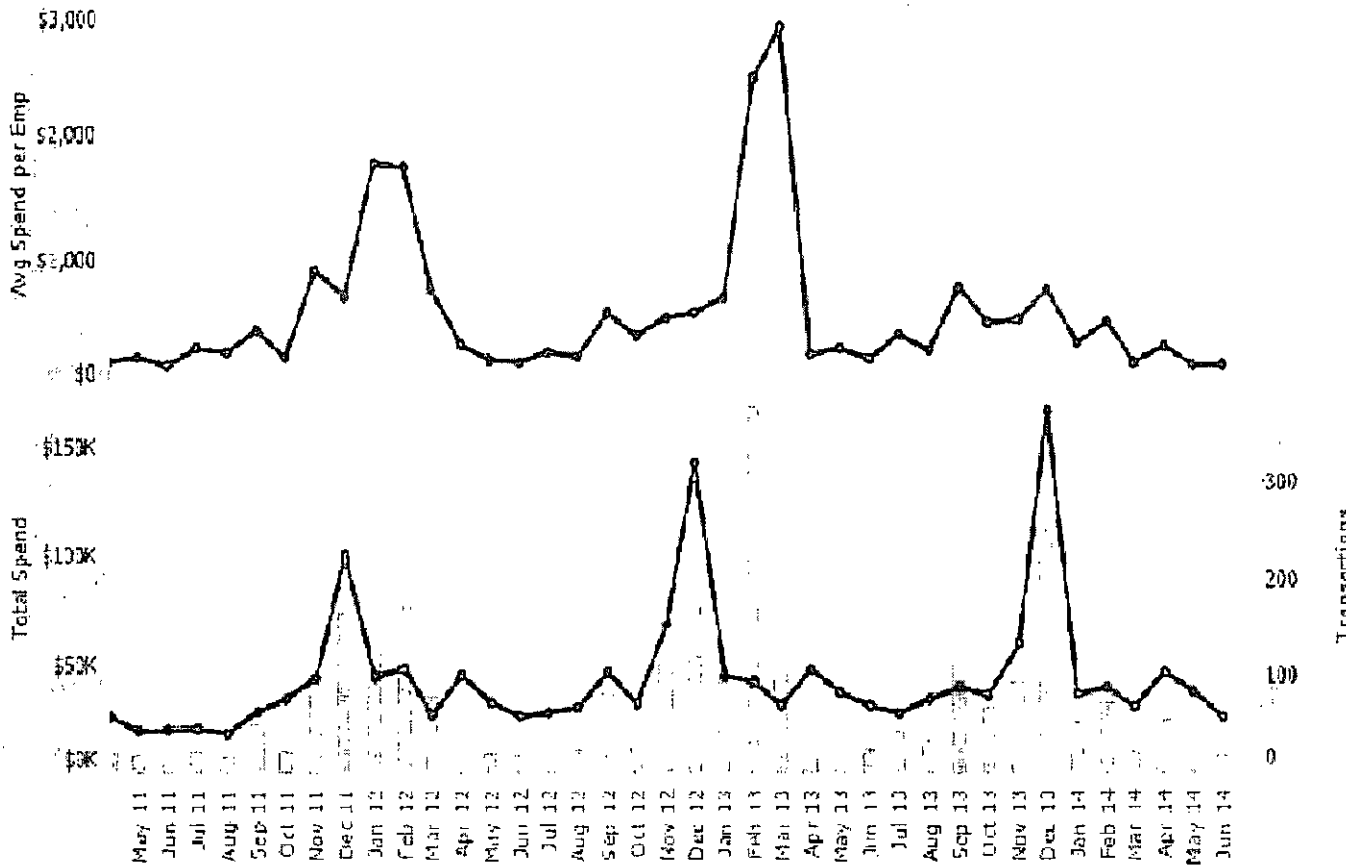
**Observations:**

Entertainment activity tends to clearly peak during the month of December during the periods under observation with other high levels of activity being noted in the August of 2012 and 2013. In contrast, the lowest level of activity appears to occur in the first quarter of each year.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Gift" ERS Expense Trending**  
 (AYE 2012 – AYE 2014)



● Avg Spend per Emp  
● Total Spend  
● Trans

**High-Level Observations:**

Gift activity tends to clearly increase in the fourth quarter of each year observed, with significant peaks in the first quarter of 2012 and 2013, which is largely attributed to amounts expensed for safety awards, as noted on the next slide. Overall, ERS Gift spend is down ~38% in AYE 2014. See the next slide for more information.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

### Total "Gift" ERS Expenses Category Trending (AYE 2012 – AYE 2014)

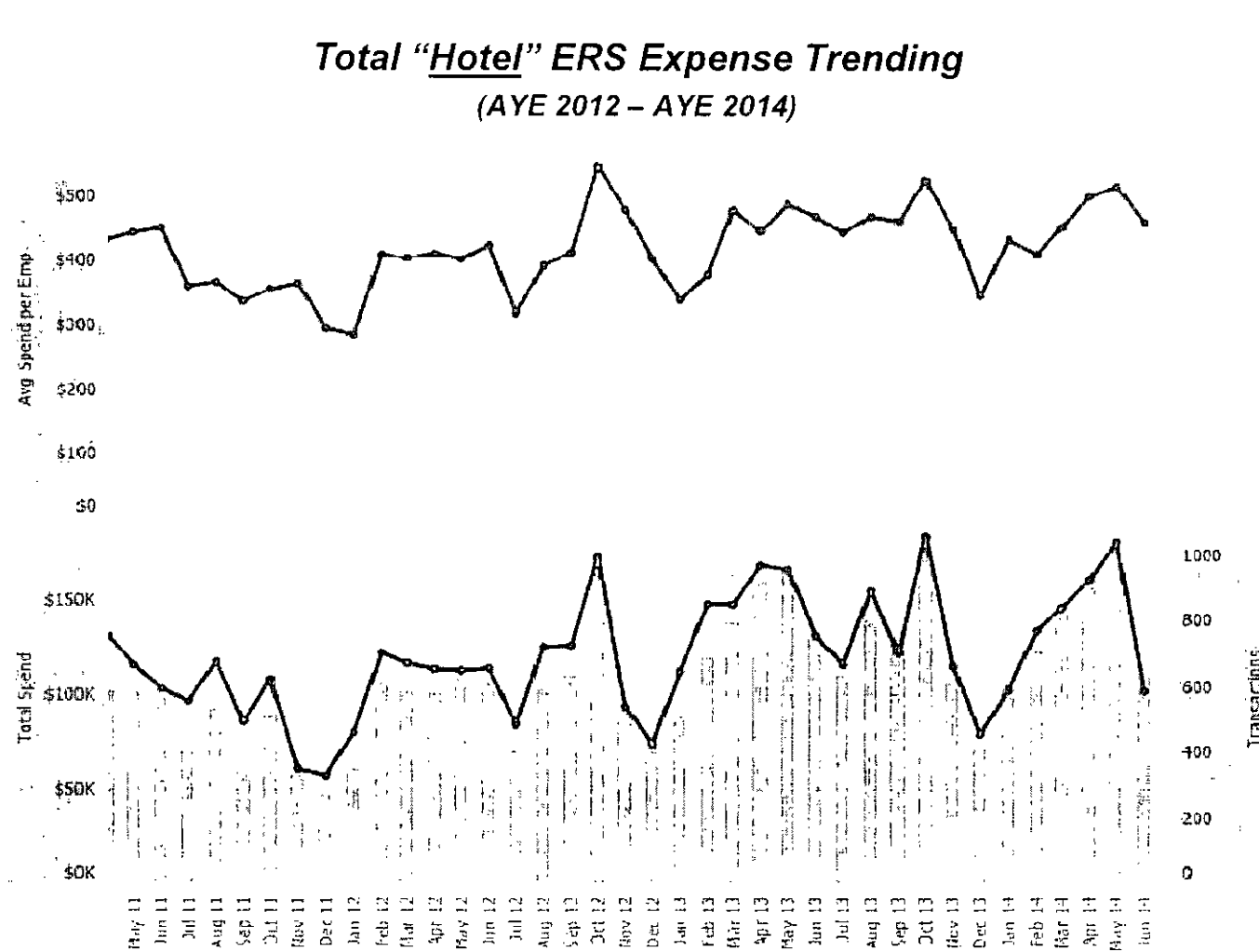
Expense Description	TOTAL ERS GIFT TRANSACTIONS					
	AYE 2012	AYE 2013		AYE 2014		
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y	
Award [Cash or Cash Equivalents (gift cards)]	\$ 152,289	\$ 173,648	14.0%	\$ 153,069	-11.9%	
Gift [Merchandise / Service]	41,840	66,087	58.0%	75,303	13.9%	
Gifts [Employees]	51,628	55,419	7.3%	54,897	-0.9%	
Award [Merchandise / Service]	22,941	20,232	-11.8%	45,413	124.5%	
Safety Awards (Taxable)	155,473	253,178	62.8%	22,334	-91.2%	
Gifts [Flowers]	9,641	13,297	37.9%	13,403	0.8%	
Gifts [Non-Employees]	15,678	26,416	68.5%	11,096	-58.0%	
Gift [Retirement]	5,024	12,962	158.0%	8,255	-36.3%	
Safety Awards (Non Taxable)	\$ 14,065	\$ 4,985	-64.6%	\$ 6,342	27.2%	
<b>TOTAL ERS GIFT TRANSACTIONS</b>	<b>\$ 468,579</b>	<b>\$ 626,224</b>	<b>33.6%</b>	<b>\$ 390,111</b>	<b>-37.7%</b>	

**NOTE:** The table above has been organized based upon significance of Gift spend in 2014. Internal Audit verified with NiSource HR that taxable transactions have been identified in each employees' 2014 income. Internal Audit was unable to accurately determine the average amount of gift transactions per employee as it was noted that data entered into ERS was incomplete in certain instances whereby recipient information was not included in the expense submission. As such, spend per employee is not reflected herein.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Hotel" ERS Expense Trending**  
 (AYE 2012 – AYE 2014)



● Avg Spend per Emp  
 ● Total Spend  
 ● Trans

**Observations:**

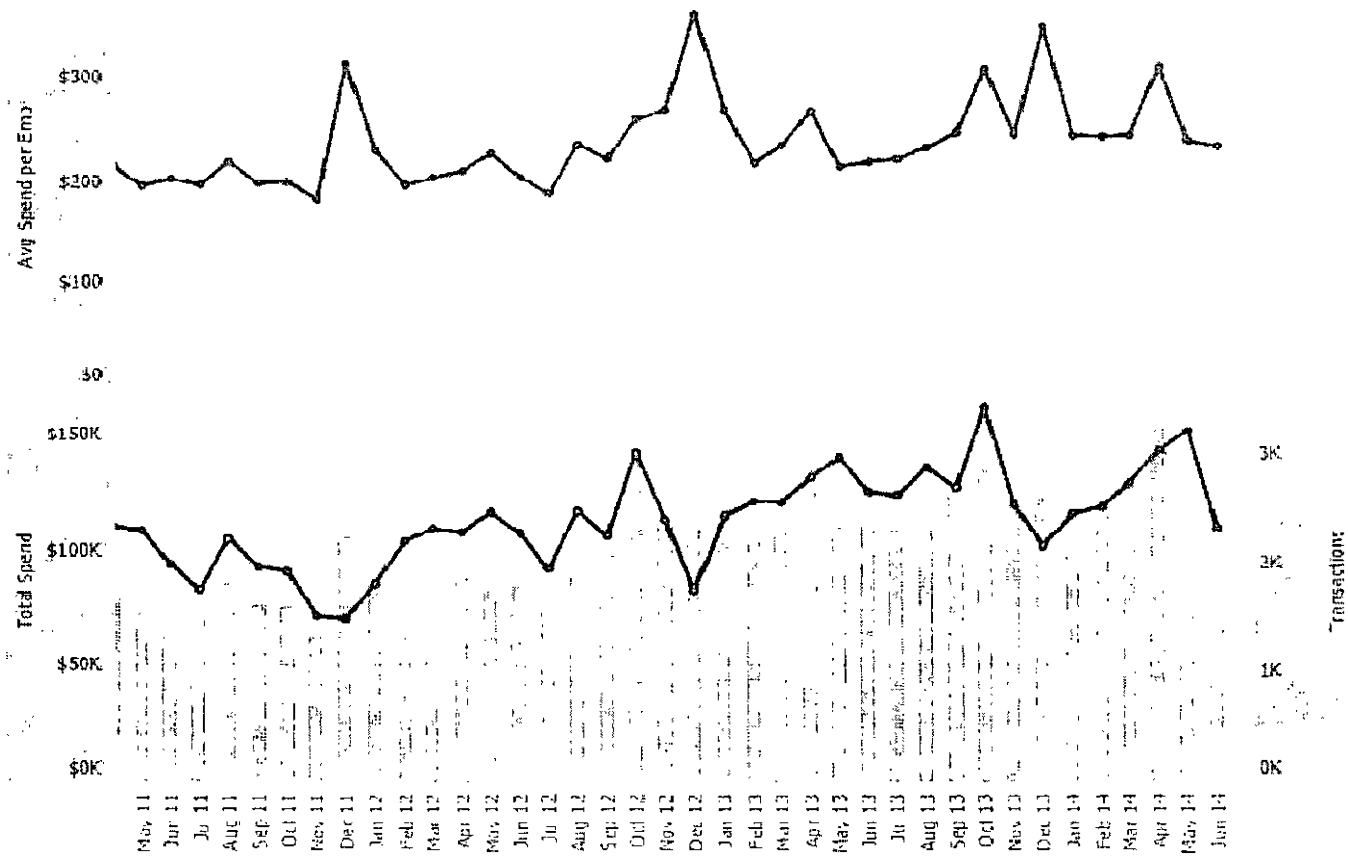
Hotel expenses comprise the largest proportion of overall ERS spending for all periods observed. Hotel activity has typically decreased in the fourth quarter of each year, with the peak activity occurring in October and then falling to the lowest level of activity in November and December of each year observed.



# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Meals" ERS Expense Trending**  
 (AYE 2012 – AYE 2014)



● Avg Spend per Emp  
 --- Total Spend  
 ... Trans

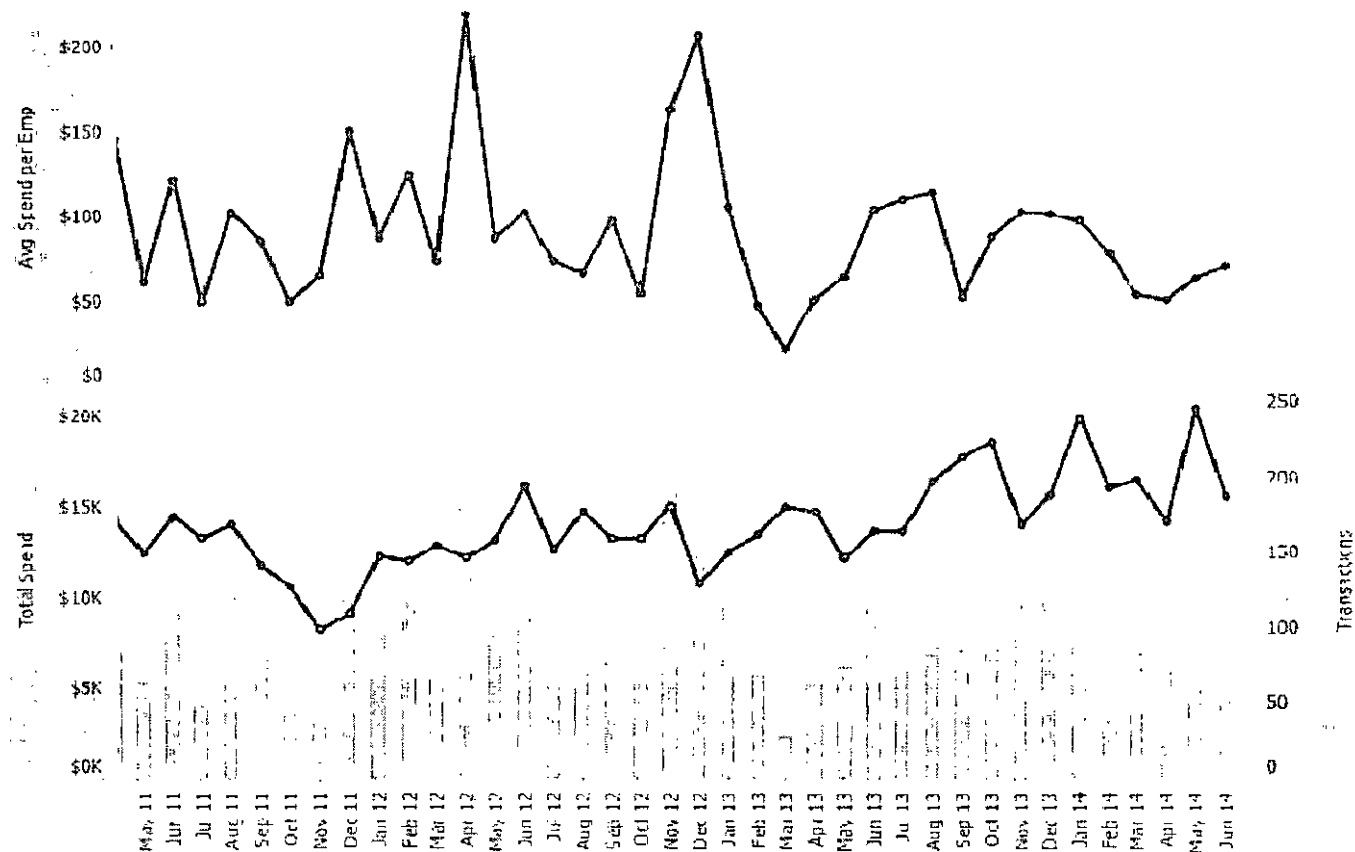
**Observations:**

Meal expense total monthly spend tends to peak in the December months. At the same time, the total number of transactions tend to be lower while the spend per employee tends to be much higher, as noted by the peaks at the top of the table. Ultimately, it appears that employees may not properly include the listing of employees in ERS for December gatherings/Holiday parties. The lowest level of spend appears to occur during the February and July months during the periods observed.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Other" ERS Expense Trending**  
 (AYE 2012 – AYE 2014)



Avg Spend per Emp  
 Total Spend  
 Trans

**Observations:**

Overall, Other spend does not appear to have a discernable pattern of activity during the periods observed. As such, Internal Audit has included a table on the next slide that breaks down of the top fifteen (15) Other expense categories in order of highest to lowest spend during AYE 2014.

**Note:** In total, there are currently forty-one (41) Other expense categories that can be selected in ERS – please refer to Appendix A for a full listing and spend for the periods observed. The largest drivers of Other spend has been Seminar Fees, Training, and Parking/Valet.

# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

### Top 15\* "Other" NiSource ERS Expenses Category Trending (AYE 2012 – AYE 2014)

TOTAL ERS TOP 15 "OTHER" TRANSACTION CATEGORIES					
Expense Description	AYE 2012	AYE 2013		AYE 2014	
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
Fees [Seminar / Conference]	\$ 769,732	\$ 840,310	9%	\$ 883,016	5%
Training	440,237	538,909	22%	628,118	17%
Parking/Valet	496,210	452,182	-9%	518,387	15%
Other / Miscellaneous	389,037	457,941	18%	513,804	12%
Services & Supplies [Office]	260,657	289,264	11%	365,488	26%
Services & Supplies [Other]	218,305	257,233	18%	321,546	25%
Fuel	286,487	298,715	4%	305,504	2%
Professional Associations	805	195,817	24225%	297,137	52%
Ground Transportation [Taxi / Limo]	165,424	195,873	18%	210,713	8%
Business Center	96,992	107,950	11%	160,061	48%
Safety Boots	138,516	124,281	-10%	132,511	7%
Gift [Cash or Cash Equivalents (gift cards)]	31,930	134,747	322%	124,366	-8%
Ground Transportation [Car Service]	64,799	86,774	34%	107,236	24%
Tolls	55,379	69,672	26%	79,917	15%
Books/Magazines/Newspapers	52,006	65,042	25%	75,401	16%
<b>TOTAL ERS GIFT TRANSACTIONS</b>	<b>\$ 3,466,517</b>	<b>\$ 4,114,711</b>	<b>19%</b>	<b>\$ 4,723,206</b>	<b>15%</b>
<b>TOP 15 % OF TOTAL "OTHER"</b>	<b>92%</b>	<b>91%</b>		<b>93%</b>	
<b>TOTAL OTHER TRANSACTION</b>	<b>\$ 3,748,788</b>	<b>\$ 4,499,933</b>	<b>20%</b>	<b>\$ 5,088,027</b>	<b>13%</b>

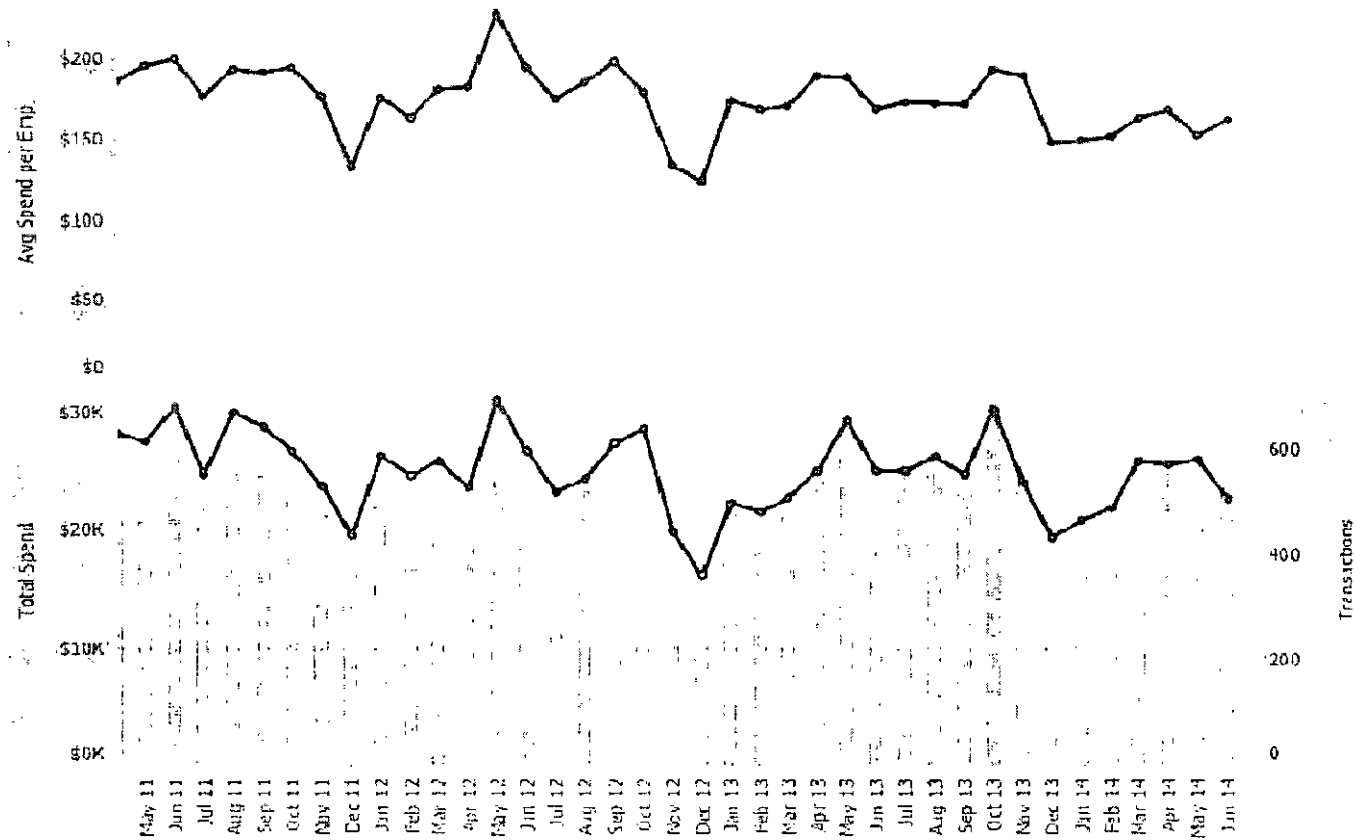
\* A total of (41) Categories were identified as "Other" in AYE 2014; see "Supplemental Slides" for additional information. "Professional Associations" were first widely processed in ERS in 2013.



# NiSource Employee Expense Reimbursement Audit

## Analytic Observations

**Total "Personal Mileage" ERS Expense Trending**  
 (AYE 2012 – AYE 2014)



● Avg Spend per Emp.  
 --- Total Spend  
 ... Trans

**High-Level Observations:**

Total Personal Mileage costs have remained steady during 2013 and 2014 with less than a ~1% increase in overall costs. Peak travel periods appear to occur in May and October with the lowest level of activity occurring in December of each period observed. Internal Audit focused specifically on employees with more than 12,000 miles of reimbursed travel, as noted in the Audit Objective of the report.

# NiSource Employee Expense Reimbursement Audit

## Audit Objective

*(Audit Period: July 1, 2013 through June 30, 2014)*

# AUDIT RESULTS

# NiSource Employee Expense Reimbursement Audit

## Background

- AMEX corporate credit cards are provided to exempt employees to pay for appropriate Company related expenses and to certain non-exempt employees who travel frequently on Company business.
  - “Receipt Acknowledgments” are required to be signed by each employee, agreeing to the terms for using the AMEX card.
- Expenses are captured, processed and approved in the Expense Reporting System (ERS) maintained by IBM.
  - AMEX charges are auto-fed into the ERS system and then processed by individual employees.
  - Payments are remitted to AMEX by NiSource.
- Employees who are not issued corporate credit cards may still incur legitimate reimbursable business expenses.
  - Expenses are submitted and approved on an employee expense statement and sent to Accounts Payable for processing.
  - Cash advances are also available for approved expenses and are captured in the ERS system.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective :

**As a result of data analysis observations and through appropriate sampling methodology, determine if employee expenses are submitted timely and processed in accordance with Company Policy and Internal Revenue Service guidelines.**

- **Focus Area 1:**
  - Review employee expense reports identified as part of our analytic procedures and evaluate their compliance with Corporate Policy;
- **Focus Area 2:**
  - Review the procedures performed by Accounts Payable to periodically audit employee expense transactions and review the results of their audits for instances of non-compliance;
- **Focus Area 3:**
  - Ensure expenses are entered timely into ERS for review, approval, and payment; and
- **Focus Area 4:**
  - Verify taxable travel has been identified and properly included in income as required by IRS reporting requirements for employees with unique working arrangements, including travel with the use of the Company-leased aircraft for compliance.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1:

**Review employee expense reports identified as part of our analytic procedures and evaluate their compliance with Corporate Policy.**

### ***Audit Results:***

Based on the analysis performed as part of our *Analytic Observations*, eighty-five (85) samples were selected for further testing using a risk-based sampling approach.

- Internal Audit reviewed the selected expense statements within ERS to determine compliance with corporate policy, including the following:
  - *Business Expense Reimbursement and Reporting;*
  - *Corporate Credit Cards;*
  - *Employee Gift and Award Accounting and Reporting;*
  - *Passenger Vehicle Policy; and*
  - *Travel Policy.*
  
- Internal Audit did not identify significant and/or recurring violations of policy based on the samples selected. Audit noted that supporting expense receipts, per policy, are *primarily* only required for “Hotel”\* and “Cash” expenses.

**NOTE:** Due to the lack of detail and supporting documentation required by corporate policy, Internal Audit's assessment of the selected expense item as a reasonable business expense in accordance with corporate policy was limited in some cases based on the information retained in ERS. Currently, the version of ERS utilized by NiSource does not allow additional receipts to be required for categories which currently do not require one.

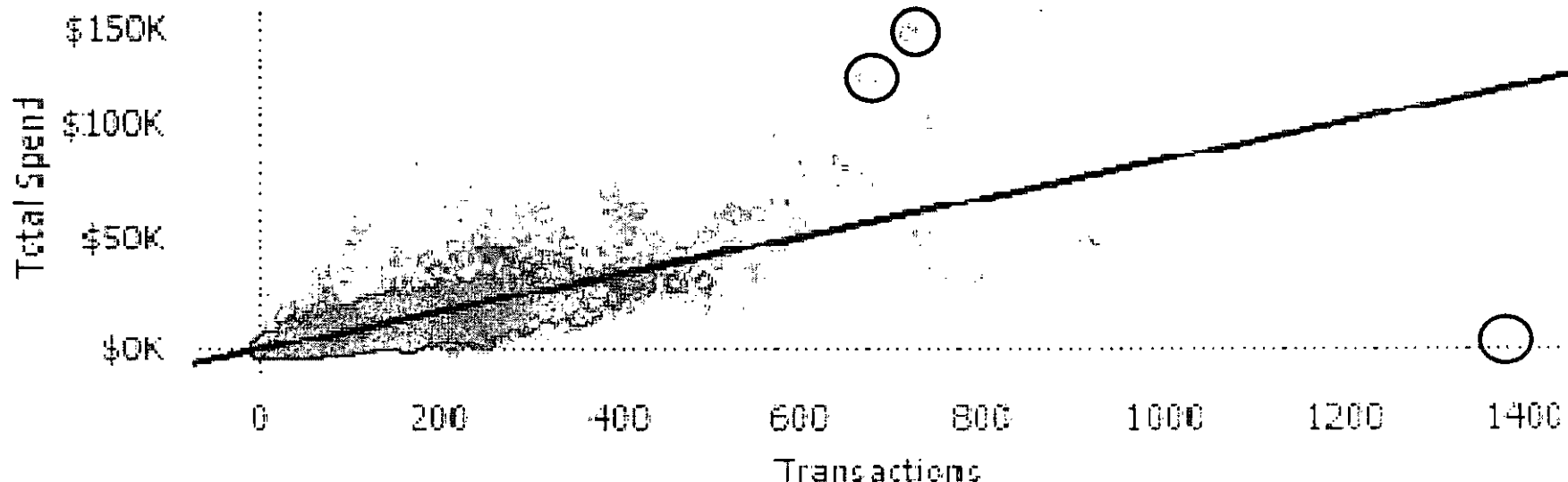


# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

#### Total Spend vs. Transactions by Employee



#### Audit Selection Identification Process:

Internal Audit utilized the data analytics tool **Tableau** to assist in the determination of selections for testing. The scatter chart above is a diagram that shows the spending relationship of all ERS expenses for AYE 2014. Our audit procedures largely focused on “outlier” transactions (as highlighted above in red circles) that deviate from median spend whereby an employee may have a large number of transactions with a large dollar value. The **black line** above illustrates the median spend for all AYE 2014 transactions.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

#### Audit Sample Identification Process:

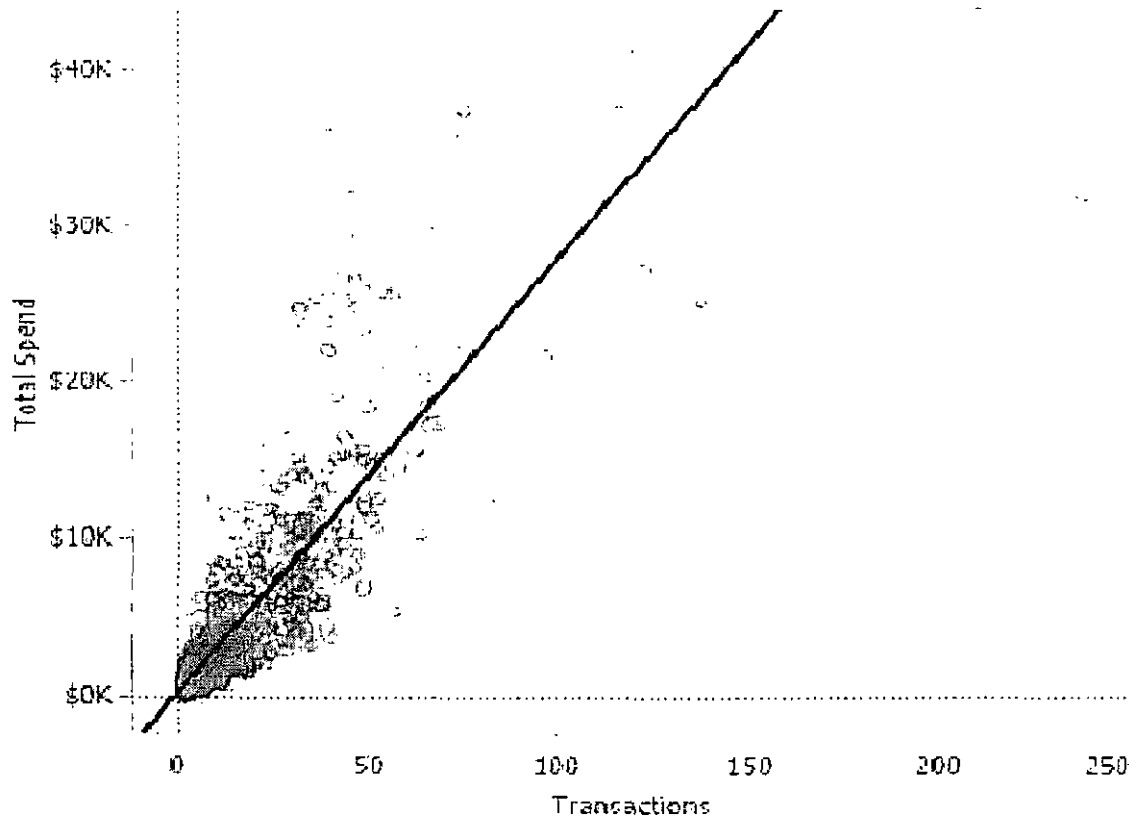
- Utilizing the analytical data, as outlined in the first section of this report, and through the use of scatter plot data associated with each of the eight (8) overall ERS expense categories Internal Audit focused our total selection population on “outlier” transactions by each employee of NiSource submitting expenses.
- Testing selections excluded expenses submitted by Officers as they are subject to testing in the Officer Expense review performed annually.
- In addition to outlier transactions, we also focused our efforts on the following activities:
  - *Gift transactions that result in a gift of over \$250 to the recipient;*
  - *Spouse or Partner transactions;*
  - *Cash Transactions and Advance Requests;*
  - *Personal Mileage greater than 12,000 miles in an annual period ;*
  - *Potential fraud indicators (Highest spend for a given category, round dollars, unusual vendor...etc.); and*
  - *Unusual flight destinations.*
- **Slides 45-57** contain scatter plot diagrams/activity for the eight (8) expense categories and cash transactions and note our conclusions for each of the categories and related selections tested.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

**Total “Air Travel” ERS Expense Scatter (By Employee)**  
(AYE 2014)



### **Air Travel Transactions:**

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

### **Conclusions:**

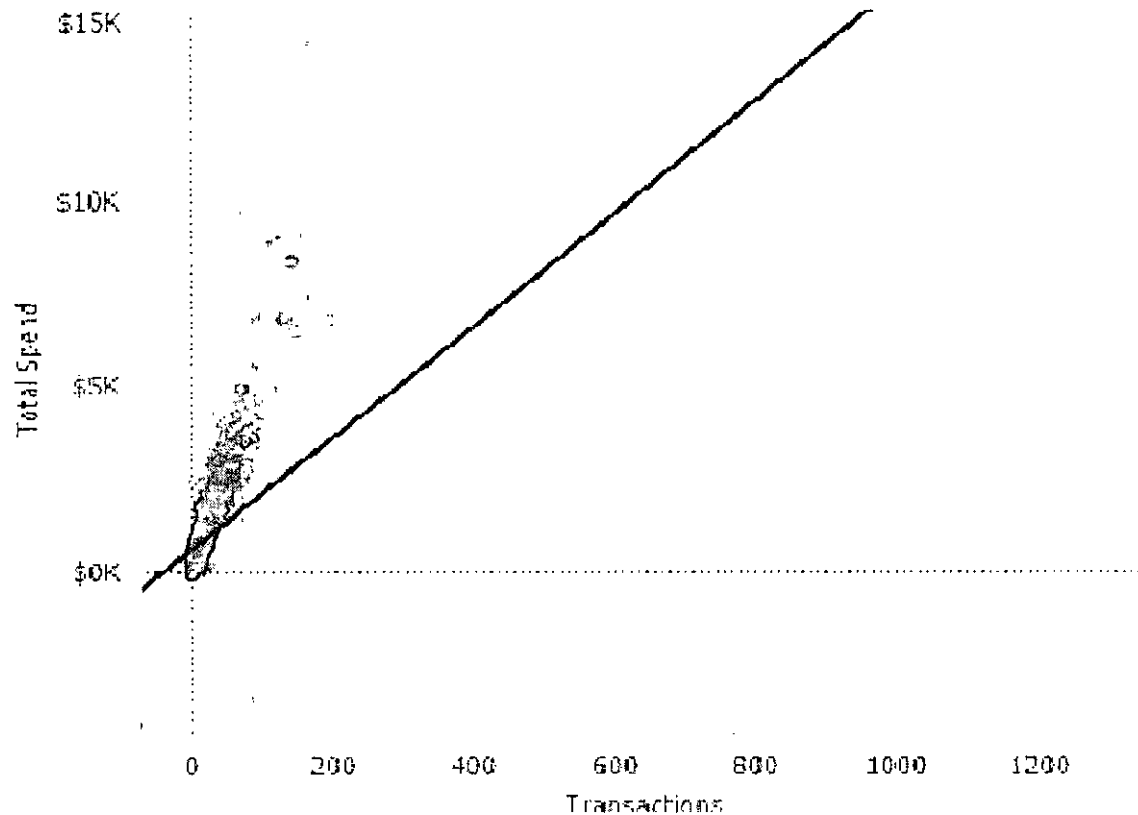
As part of our review of the identified audit selections, Internal Audit noted all selections were properly submitted in accordance with Corporate policies and were approved in ERS. However, Internal Audit noted additional business purpose documentation would enhance our ability to ensure Air Travel expenses are appropriate.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

**Total “Car Rental” ERS Expense Scatter (By Employee)**  
(AYE 2014)



### **Car Rental Transactions:**

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

### **Conclusions:**

As part of our review of the identified audit selections, Internal Audit noted all selections were properly submitted in accordance with Corporate policies and were approved in ERS. See the next slide for more information.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

#### *Car Rental Testing (Cont'd):*

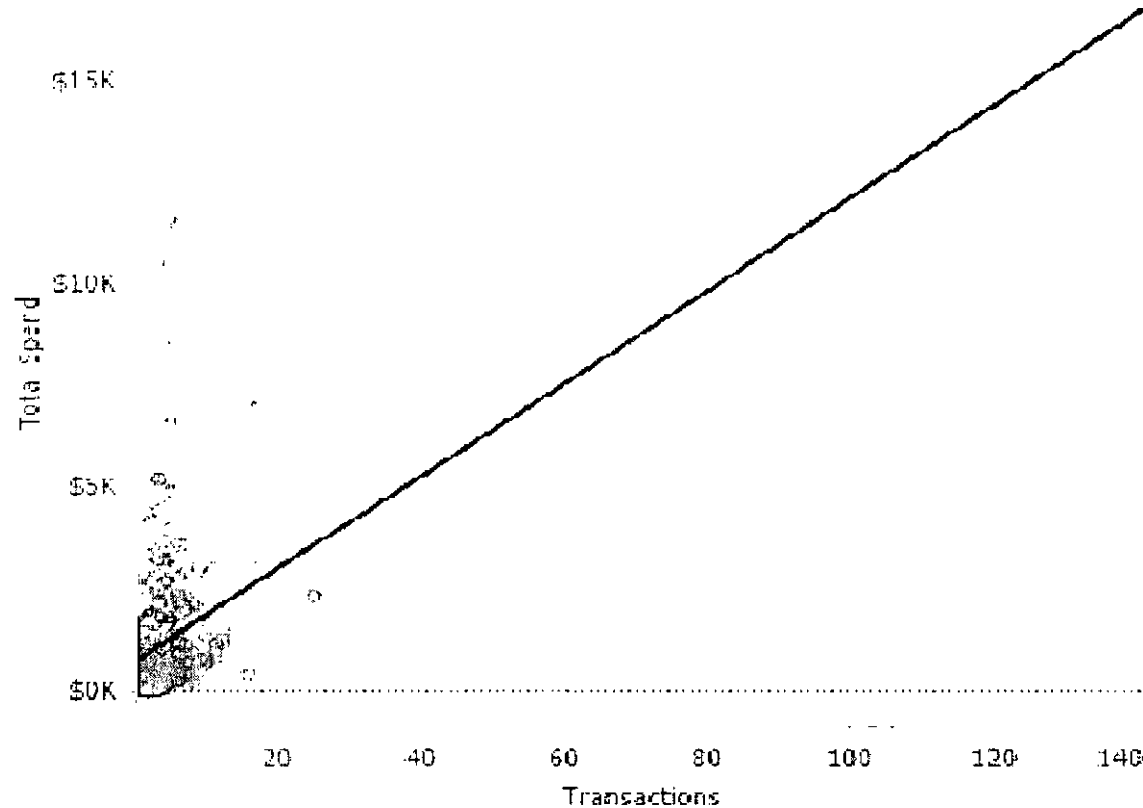
- Internal Audit made the following observations regarding Car Rental documentation requirements in ERS:
  - As it is not a pre-populated field, the Employee is able to manually select the car class within ERS, which may or may not align with the actual class of car rented/expensed; and
  - The Employee is able to manually choose how many days the car was utilized/rented, which may or may not align with the actual number of days the car was rented/expensed.
- Due to the manual input requirements noted above, observing and reporting on Rental Car activity may lead to inaccuracies to actual activity of Company personnel. As such, Internal Audit has only reported results on the total Car Rental spend, as noted in the Data Analytic Observation section of the report.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

**Total “Entertainment” ERS Expense Scatter (By Employee)**  
(AYE 2014)



#### Entertainment Transactions:

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

#### Conclusions:

As part of our review of the identified audit selections, Internal Audit noted all selections tested were properly submitted in accordance with Corporate policies and were approved in ERS with minor documentation exceptions, as noted on the next slide.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

#### *Entertainment Testing (Cont'd):*

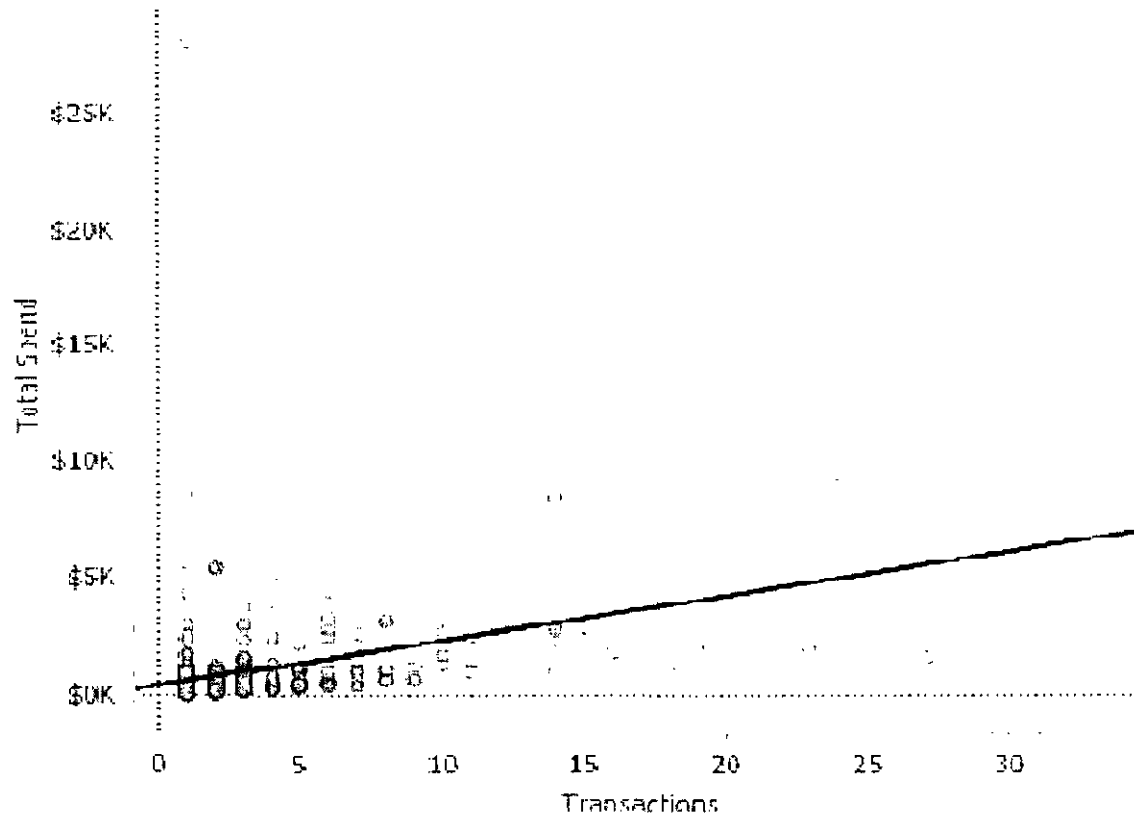
- **Section 7.9** of the “Business Expense Reimbursement and Reporting” Policy states the following:
  - The following information must be provided on the expense statement for entertainment expenses:
    - Amount
    - Date
    - Name of establishment
    - Nature of discussion or business purpose
    - Name, title, and company of each guest
  - If the Company incurs expenditures for non-business related entertainment or travel of the employee and/or the employee’s spouse, such expenditures shall be treated as compensation paid to the employee subject to withholding taxes.
- Internal Audit noted for some of our selections, the number of attendees (Name, title, and company of each guest) did not appear to be fully documented within ERS, as required per policy.
- Additionally, in some instances, documentation within ERS could be enhanced to provide more detail as to the business purpose of Entertainment transactions.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

*Total "Gift" ERS Expense Scatter (By Employee)  
(AYE 2014)*



### **Gift Transactions:**

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

### **Conclusions:**

As part of our review of the identified audit selections, Internal Audit noted most selections were properly submitted and approved in ERS. However, see the next slide for more information on exceptions noted.



# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

#### *Gift Testing (Cont'd):*

- Internal Audit identified nine (9) transactions in our selection population that included taxable gifts to employees.
  - **Section 4.1** of the “Business Expense Reimbursement and Reporting” Policy states the following:
    - All cash or cash equivalents, such as gift cards and gift certificates, regardless of the amount, will be included in the employee’s gross income and taxed at the employee’s applicable tax rates.
  - IRS guidelines require that any gift over \$400 must be included in the employees gross income and taxed.
- Of nine (9) taxable gift transaction identified, seven (7) of the gift transactions were properly identified by Payroll and included in the each of the respective employee’s income; and two (2)\* taxable gift transactions were not properly included as income to the employee.
  - One (1) taxable gift transaction (amounting to ~\$1K) excluded from income to the employee was not identified by Payroll as part of their current review processes; and
  - One (1) taxable gift transaction (amounting to ~\$2K) excluded from income to the employee was identified as a retirement gift; retirement gifts are not currently reviewed by Payroll for inclusion in employee’s taxable income.

**NOTE:** Payroll will review retirement gifts for taxability on a go-forward basis.

\*Both transactions that were not properly included in income were incurred in 2013.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

#### *Gift Testing (Cont'd):*

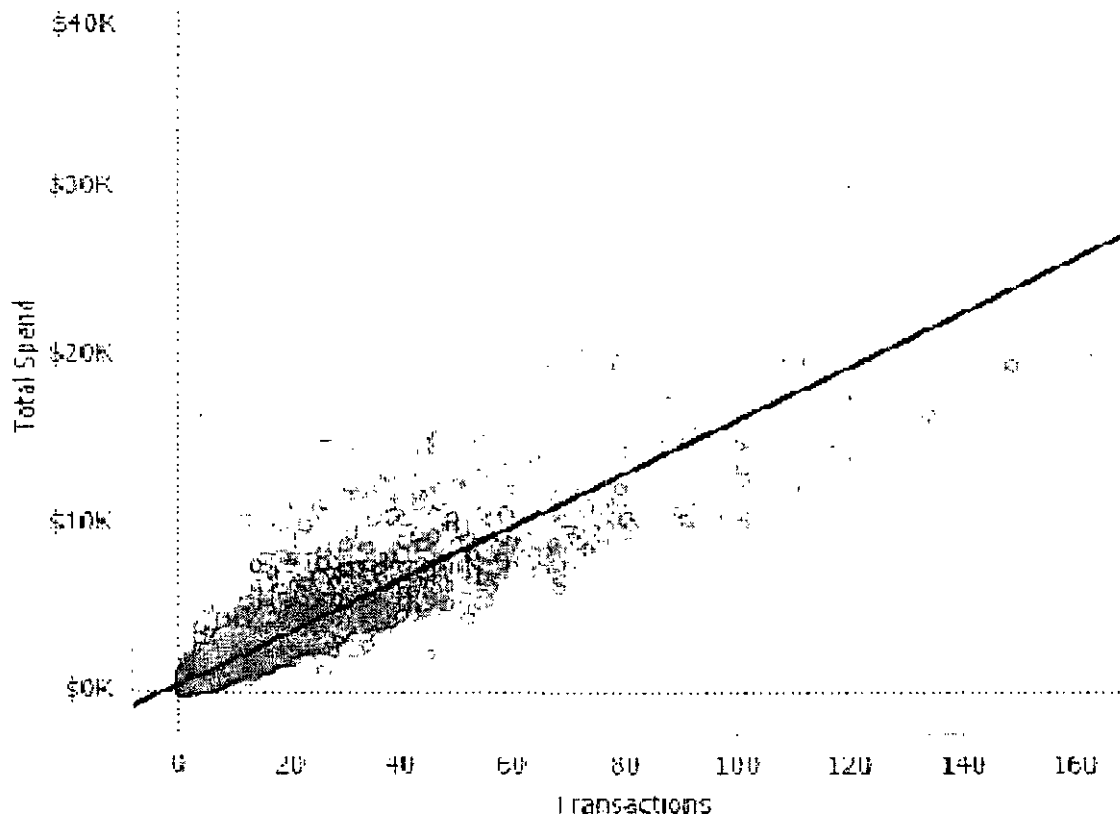
- **Section 6.1.1** of the “Employee Gift and Award Accounting and Reporting Policy” states the following: If the expense is charged to the corporate card or if an employee is to be reimbursed for the purchase – select the appropriate Award / Gift category in the ERS Tool. The following information must be provided:
  - Employee ID (recipient of the gift)
  - Employee Name (recipient of the gift)
  - Amount of the gift
  - Date of the gift
- Internal Audit noted for a number of our selections, the employee ID, employee name, amount of gift, or the date of the gift was not included in ERS.
- Additionally, Internal Audit observed that documentation within ERS could be enhanced to provide more detail as to the business purpose and/or nature of Gift transactions to ensure appropriate classification for taxability.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

**Total “Hotel Room & Tax” ERS Expense Scatter (By Employee)**  
(AYE 2014)



#### Hotel (Room & Tax) Transactions:

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

#### Conclusions:

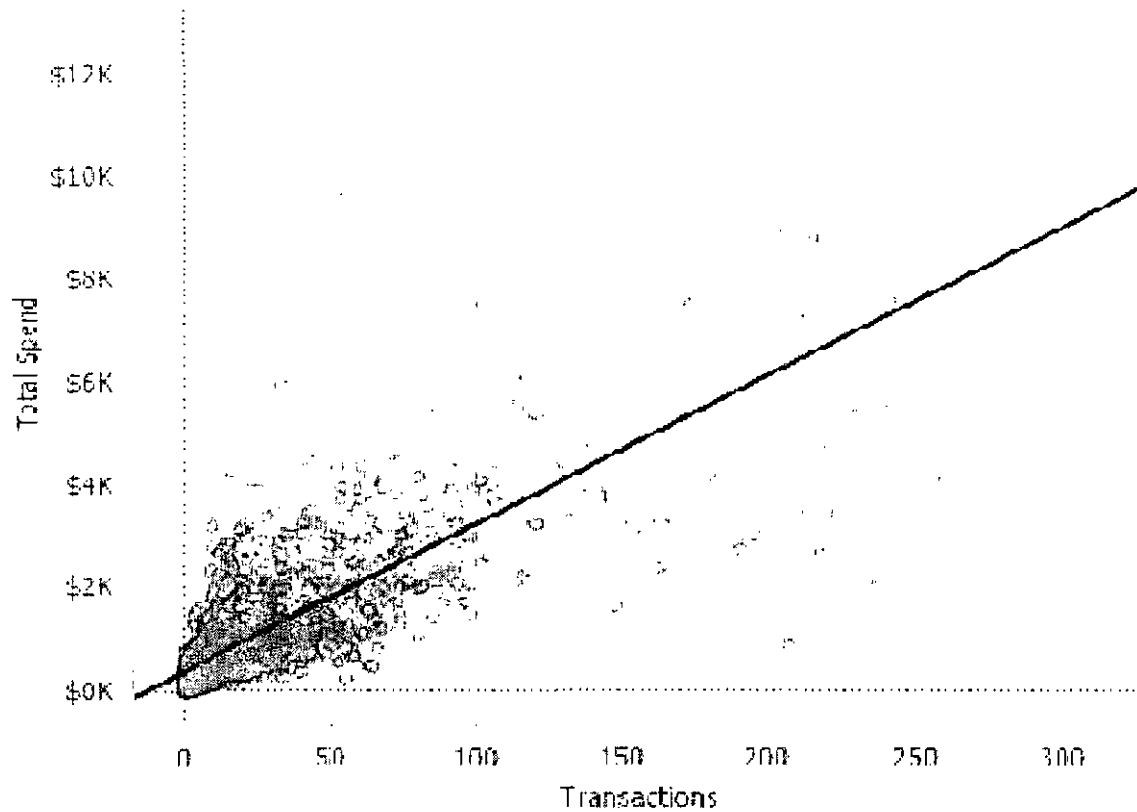
As part of our review of the identified audit selections, Internal Audit noted all selections were properly submitted in accordance with Corporate policies and were properly approved in ERS.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

**Total “Personal Mileage” ERS Expense Scatter (By Employee)**  
(AYE 2014)



### Personal Mileage Transactions:

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

### Conclusions:

As part of our review of the identified audit selections, Internal Audit noted all selections were properly submitted in accordance with Corporate policies and were properly approved in ERS.

Internal Audit identified twenty-six (26) employees with submissions in excess of 12,000 miles during the audit period – see the next slide for more information regarding Personal Mileage transactions.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 1 (Cont'd):

#### *Personal Mileage Testing (Cont'd):*

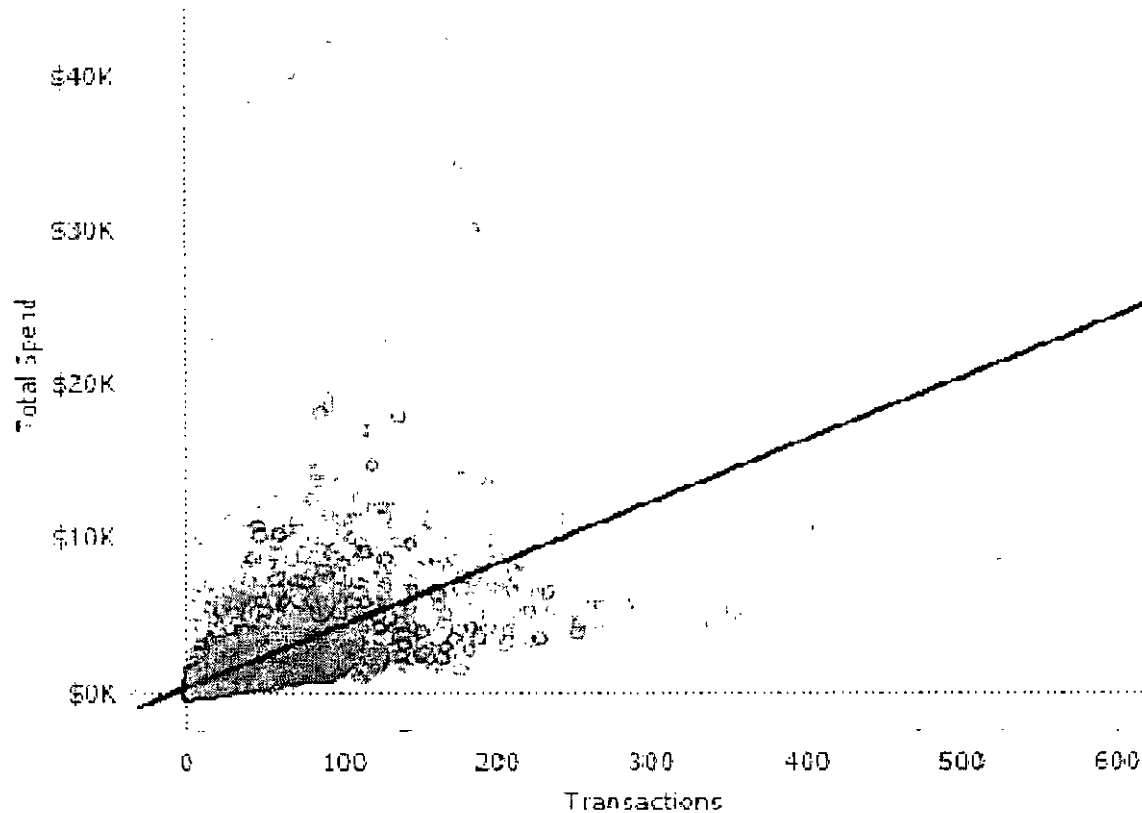
- Personal mileage of **~3.6 Million** miles was submitted for reimbursement during AYE 2014 (Internal Audit noted approximately the same number of miles submitted in AYE 2013.) Internal Audit summarized all personal miles for AYE 2014 and identified twenty-six (26) employees that had driven over **12,000** miles, which is the minimum annual mileage to be eligible for a fleet vehicle, per the “Passenger Vehicle Policy.”
  - Internal Audit noted four (4) employees received over **~\$10K** in reimbursement for personal vehicle miles during the current audit period.
- Per the “Travel Policy”, a rental car or flight must be taken if the cost is cheaper than the estimated personal mileage reimbursement. A flight should be taken if the time to drive is greater than *four (4) hours* or *200 miles*. When the vehicle rental rate is cheaper than the mileage reimbursement, employees are required to rent a vehicle from a preferred vendor.
  - Internal Audit identified instances whereby employees drove their personal vehicle extended distances when a rental car or a flight should have been considered, per policy.
- We identified fourteen (14) employees who submitted transactions with mileage of over 1,000 miles for one (1) day
  - Upon further review, we noted the identified employees needed to properly itemize travel each day instead of submitting expenses in total for a collection of days.

**NOTE:** NiSource Fleet Management reviews employees who have submitted more than 12K miles on a calendar year basis and inquires about the need for a company vehicle with the manager of the area.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

**Total "Meals" ERS Expense Scatter (By Employee)**  
(AYE 2014)



### Meals Transactions:

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

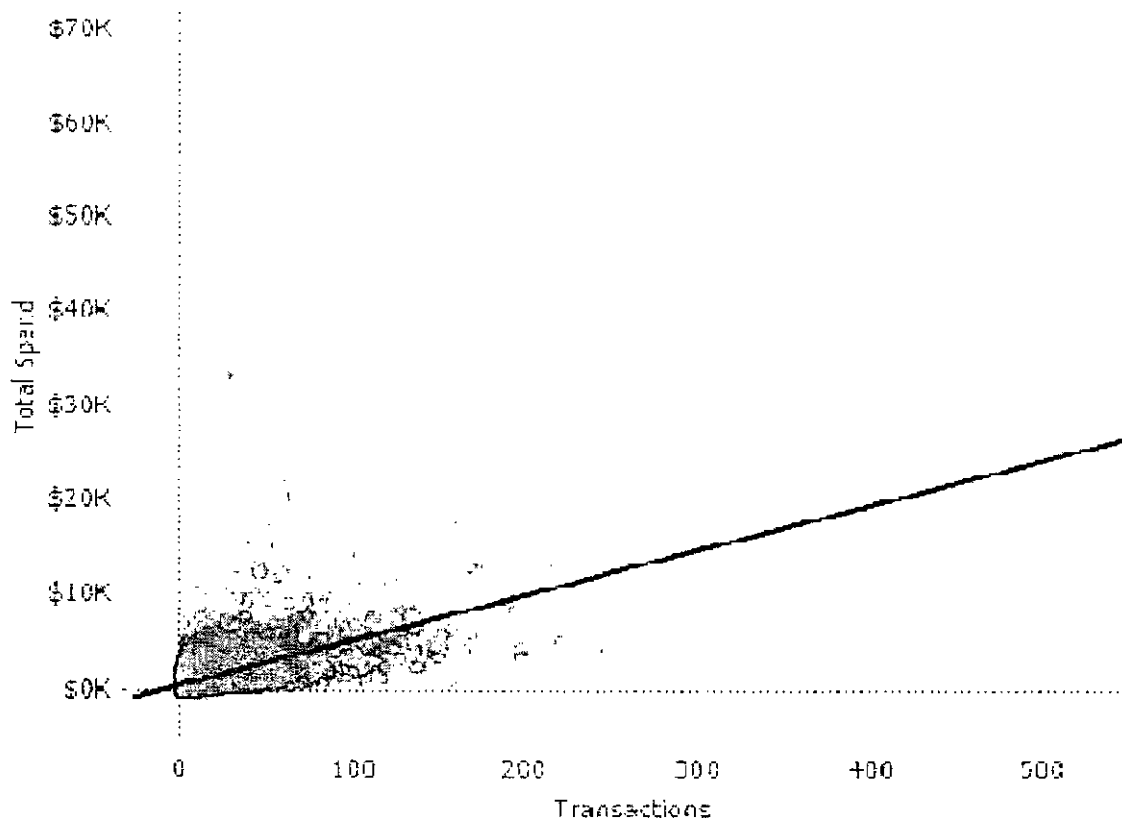
### Conclusions:

As part of our review of the identified audit selections, Internal Audit noted all selections were properly submitted in accordance with Corporate policies and were approved in ERS.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

**Total "Other" ERS Expense Scatter (By Employee)**  
(AYE 2014)



### Other Category Transactions:

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

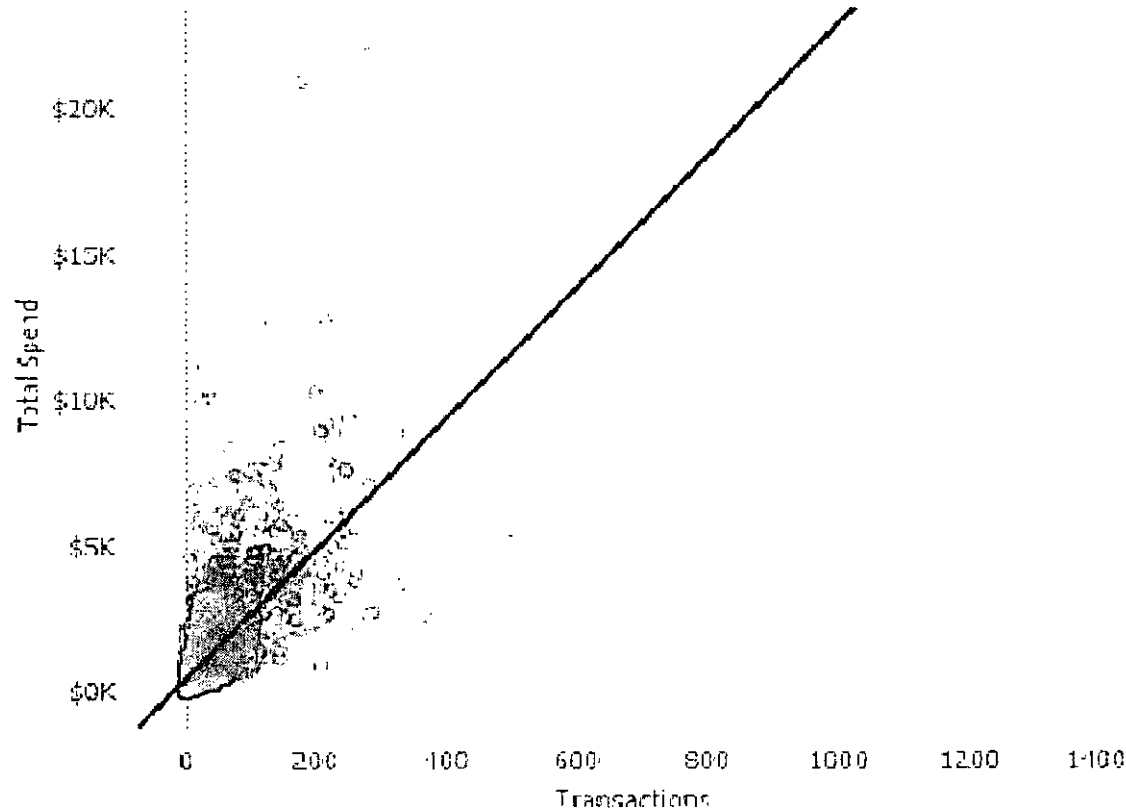
### Conclusions:

As part of our review of the identified audit selections, Internal Audit noted overall, most selections were properly submitted in accordance with Corporate policies and were approved in ERS. However, Internal Audit did identify a number of instances where the incorrect expense category was selected by the Employee for submission (E.g. "Telephone [Other]" was selected for an expense that should have been coded to "Hotel").

# NiSource Employee Expense Reimbursement Audit

## Audit Results

**Total "Cash" ERS Expense Scatter (By Employee)**  
(AYE 2014)



### Cash Transactions:

As part of our risk-based approach, Internal Audit has focused on certain outlier transactions.

### Conclusions:

As part of our review of the identified audit selections, Internal Audit noted all selections were properly submitted in accordance with Corporate policies and were approved in ERS. All Cash transactions greater than \$25 were properly supported with receipt documentation.



# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 2:

Review the procedures performed by Accounts Payable to periodically audit employee expense transactions and review the results of their audits for instances of non-compliance.

### **Audit Results:**

- Internal Audit noted Accounts Payable performs audits on employee expenses that fall into the following categories:
  - *A pre-audit of all expense reports exceeding \$10,000;*
  - *A pre-audit of specifically identified employees based on historical experience and/or position within the Company;*
  - *A post audit of a random 10% sample of all expense submissions;*
  - *A post audit on all miscellaneous expenses exceeding \$250; and*
  - *A post audit on all cash out of pocket meals greater than \$25.*
  
- Internal Audit noted Accounts Payable is limited in their assessment, as receipts are not required for expenses other than “Room and Tax” and “Cash” transactions.
  - *Accounts Payable relies heavily on the supervisor’s approval of the expense.*
  - *Items that appear to be non-compliant with policy are investigated.*

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 2 (Cont'd):

- Internal Audit noted Accounts Payable conducted numerous training sessions at department staff meetings across NiSource to better educate Company personnel on the following:
  - How to properly utilize the ERS system for submitting employee expenses;
  - Understand and comply with Company policies;
  - Discuss typical areas of non-compliance;
  - Usage of Credit Cards; and
  - General Travel questions and concerns.
- Accounts Payable personnel have participated in CPG's monthly new employee orientation in Charleston and Houston, as well as three (3) of the Travel Fairs sponsored by Supply Chain. Each fair provided the opportunity for A/P to provide ERS information and to educate employees on ERS policies.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 3:

Ensure expenses are timely entered into ERS for review, approval, and payment.

### ***Audit Results:***

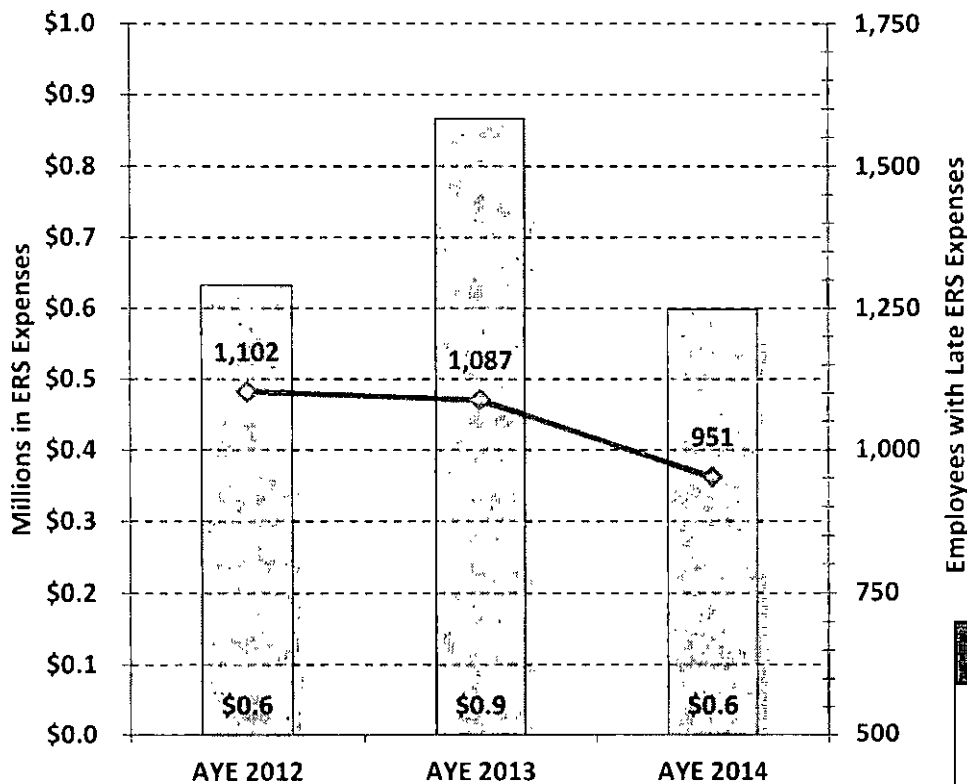
- Per the Employee Expense policy, expenses must be submitted 10 days after an employee receives a monthly statement, but not to exceed forty-five (45) days from the date of the expense transaction.
  - Internal Audit noted ~\$0.6M in ERS expenses, submitted by **951 employees**, were submitted past the forty-five (45) day requirement during AYE 2014, accounting for less than ~2% of total expenses submitted during the audit period.
  
- Refer to the next slide for more information.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 3 (Cont'd):

**Transactions Submitted Past 45 Days  
 (AYE 2012 – AYE 2014)**



### Observations & Conclusions:

From AYE 2013 to AYE 2014, the number of employees submitting expenses has increased ~5% (Refer to slide 15). While the number of employees submitting expenses has increased, the total amount and number of employees submitting expenses past the forty-five (45) day requirement has decreased from AYE 2013 to AYE 2014. Overall, the total number of late expenses and transactions have decreased ~31% and 34%, respectively from AYE 2013 to AYE 2014.

The total amount of expenses submitted "late" during AYE 2014 was less than ~2% of the overall ~\$31.1M in ERS expenses, as compared to ~3% of total ERS expenses in AYE 2013.

Measure	2012	2013		2014	
			% Change Y/Y		% Change Y/Y
Transactions	8,981	9,782	8.9%	6,481	-33.7%
Expense Amount	\$632,896	\$866,070	36.8%	\$597,719	-31.0%
Employees with Exceptions	1,102	1,087	-1.4%	951	-12.5%

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 4:

Verify that taxable travel has been identified and properly included in income as required by IRS reporting requirements for employees with unique working arrangements, including travel with the use of the Company-leased aircraft for compliance.

### *Audit Results:*

#### *Taxable Travel:*

- Employees whose personal residence is a location other than their principal place of employment may have business expenses reimbursed by NiSource that are taxable to the employee.
- The Director of Human Resources (HR) Operations Delivery obtains travel expenses from ERS for employees identified by applicable Human Resource Consultants as having commuting arrangements and determines taxable expenses based upon guidelines established by Legal and HR. As a result of the review, qualified taxable expenses are then added as taxable income to the employee.
- Taxable travel for two (2) identified NiSource employees (non-officers) with unique commuting arrangements was tracked and monitored by Management through December 31, 2013. Management is in process of reviewing taxable travel during 2014 for inclusion in the employee's income and W-2 for 2014. Internal Audit will validate the inclusion of taxable travel amounts in employees' income for those costs incurred in 2014 in our employee expense reimbursement audit that will cover the twelve month calendar period ending December 31, 2014.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 4 (Cont'd):

- **NOTE:** As noted in previous reviews of taxable travel expenses, the determination of taxable treatment depends upon the extent of supporting documentation. In some cases, the lack of substantial supporting documentation can lead to Internal Audit's inability to properly conclude on the appropriate tax treatment.

### ***Taxable Use of the Company-Leased Aircraft:***

- Internal Audit also noted during 2013, Management implemented a new control, with the use of a generated report from the Professional Flight Management System (PFM), to identify taxable commuting expenses associated with the use of the company-leased aircraft. The report allows the Aviation Department to more accurately track, monitor, and report personal commuting Travel by NiSource employees.
- At the end of 2013, Internal Audit performed procedures for a specific selection of employees related to how the company determines the taxable income associated with an employee's personal use of the Company-leased aircraft. As a result of that review (through December 31, 2013), Internal Audit identified additional taxable costs of *less than ~\$5K* for two employees (one Officer) which were not included as taxable income to the employee during the 2012 and 2013 tax years.
- For the January 2014 through June 2014 period, Internal Audit obtained the flight logs for Company-leased aircraft from Aviation Services Management for the period under review and noted that a business/flight purpose was included for each flight "leg" for each passenger.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective – Focus Area 4 (Cont'd):

#### *Taxable Use of the Company Leased Aircraft (Cont'd):*

- Internal Audit reviewed the flight log noting that flight management designates when a flight taken by a company employee is for personal reasons. For the period reviewed, twenty-seven (27) flights were deemed personal, per the flight log data.
  - Based on the information provided in the log, Internal Audit did not identify any other flights that appeared to be personal in nature.
- Internal Audit will validate the inclusion of identified taxable travel amounts in the respective employee's income for those costs incurred in 2014 as part of procedures performed in the upcoming employee expense reimbursement audit that will cover the twelve month calendar period ending December 31, 2014.

# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective Recommendations – Focus Areas 1-4

#### *Internal Audit Recommendation(s):*

##### *Focus Area 1:*

- Management should consider reinforcing the documentation requirements for employees submitting Entertainment and Gift expenses to ensure compliance with the “Business Expense Reimbursement and Reporting Policy” and the “Employee Gift and Award Accounting and Reporting Policy”;
- Management should ensure that all taxable Gift transactions are properly identified and that taxable amounts are included in employees income, as in accordance with IRS requirements; and
- Management should consider reinforcing the Passenger Vehicle Policy and the Travel Policy that define when fleet vehicles should be considered to be cost effective for the Company and when rental cars should be utilized in place of personal vehicles.

##### *Focus Area 3:*

- While the trend of submitted late transactions appears to be decreasing, Management should continue to reinforce expense policy for those employees who may consistently submit expense reports past forty-five (45) days.



# NiSource Employee Expense Reimbursement Audit

## Audit Results

### Audit Objective Recommendations – Focus Areas 1-4

#### *Internal Audit Recommendation(s) (Cont'd):*

##### *Focus Area 4:*

- Management should continue to consider enhancing current review processes and procedures to ensure an appropriate amount of supporting documentation is maintained to adequately support tax treatment conclusions (taxable vs. non-taxable) for all expenses submitted by employees with unique commuting arrangements.

**General Comment(s):** In order to improve the documentation in ERS, all employees should consider providing as much information as practicable to support their expenses in the comments section of ERS; examples include mileage details, types of gifts to ensure appropriate tax treatment, and explanations for expenses that do not align with policy. If a future ERS system update is implemented, Management should consider enhancing current documentation requirements and/or system controls for Gift, Cash, and Car Rental expenses.

# NiSource Employee Expense Reimbursement Audit

## Employee Spend Data by Business Unit (Exhibits)

Specific employee spend data related to each of the BU's are included in the following exhibits:

- Exhibit A – NiSource Gas Distribution Companies
- Exhibit B – Northern Indiana Public Service Company
- Exhibit C – NiSource Corporate Services
- Exhibit D – Columbia Pipeline Group

Exhibits have been provided to each BU's executive management for informational purposes and additional internal use, as deemed appropriate.

# NiSource Employee Expense Reimbursement Audit

## Report Distribution

<b>cc:</b>	R. C. Skaggs	(All Exhibits)
	S. P. Smith	(All Exhibits)
	C. J. Hightman	(All Exhibits)
	J. Hamrock	(Exhibit A)
	J. Stanley	(Exhibit B)
	J.W. Mulpas	(Exhibit C)
	G. L. Kettering	(Exhibit D)
	L. J. Francisco	(All Exhibits)
	V. Sistovaris	
	R. D. Campbell	
	D.A. Eckstein	
	L.M. Bolin	
	T. L. Tucker	
	B. M. Sedlock	
	Deloitte & Touche, LLP	

# NiSource Employee Expense Reimbursement Audit

## Appendix A – Supplemental Information

Internal Audit has included all ERS spend information by ERS expense category for the prior three (3) years informational purposes – see slides 69 through 72

ALL ERS TRANSACTIONS / CATEGORIES					
Expense Description	A YE 2012	A YE 2013		A YE 2014	
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
<b>AIR TRAVEL</b>	<b>4,827,249</b>	<b>5,629,439</b>	<b>17%</b>	<b>6,064,719</b>	<b>8%</b>
<b>CAR RENTAL</b>	<b>1,142,198</b>	<b>1,280,718</b>	<b>12%</b>	<b>1,346,046</b>	<b>5%</b>
<b>ENTERTAINMENT</b>	<b>510,733</b>	<b>608,505</b>	<b>19%</b>	<b>657,607</b>	<b>8%</b>
Entertaining [Employee]	230,152	283,304	23%	358,196	26%
Entertaining [Non-Employee]	57,012	55,042	-3%	52,880	-4%
Golf Fees	7,933	18,119	128%	13,468	-26%
Special Event Ticket	29,467	91,547	211%	63,514	-31%
Sporting Event	186,168	160,494	-14%	169,548	6%
<b>GIFT</b>	<b>468,579</b>	<b>626,224</b>	<b>34%</b>	<b>390,111</b>	<b>-38%</b>
Award [Cash or Cash Equivalents (gift cards)]	\$ 152,289	\$ 173,648	14%	\$ 153,069	-12%
Gift [Merchandise / Service]	41,840	66,087	58%	75,303	14%
Gifts [Employees]	51,628	55,419	7%	54,897	-1%
Award [Merchandise / Service]	22,941	20,232	-12%	45,413	124%
Safety Awards (Taxable)	155,473	253,178	63%	22,334	-91%
Gifts [Flowers]	9,641	13,297	38%	13,403	1%
Gifts [Non-Employees]	15,678	26,416	68%	11,096	-58%
Gift [Retirement]	5,024	12,962	158%	8,255	-36%
Safety Awards (Non Taxable)	\$ 14,065	\$ 4,985	-65%	\$ 6,342	27%
<b>HOTEL (ROOM &amp; TAX)</b>	<b>6,742,482</b>	<b>8,009,989</b>	<b>19%</b>	<b>8,832,072</b>	<b>10%</b>

# NiSource Employee Expense Reimbursement Audit

## Appendix A – Supplemental Information

ALL ERS TRANSACTIONS / CATEGORIES (CONTINUED)					
Expense Description	AYE 2012	AYE 2013		AYE 2014	
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
<b>MEALS</b>	<b>4,847,158</b>	<b>5,804,432</b>	<b>20%</b>	<b>6,686,813</b>	<b>15%</b>
Business Lunch	2,029,199	2,417,701	19%	2,865,435	19%
Business Dinner	1,482,673	1,828,891	23%	2,110,096	15%
Dinner	608,482	668,313	10%	731,883	10%
Business Breakfast	251,150	348,235	39%	415,860	19%
Lunch	256,328	286,311	12%	300,203	5%
Breakfast	153,864	178,878	16%	190,422	6%
Work Late Dinner	28,596	40,576	42%	37,677	-7%
Snacks/Refreshments	34,652	33,376	-4%	32,942	-1%
Taxable Meal	806	1,545	92%	1,587	3%
Work Late Dinner (Group)	1,407	606	-57%	709	17%
<b>OTHER</b>	<b>3,748,788</b>	<b>4,499,933</b>	<b>20%</b>	<b>5,088,027</b>	<b>13%</b>
Fees [Seminar / Conference]	769,732	840,310	9%	883,016	5%
Training	440,237	538,909	22%	628,118	17%
Parking/Valet	389,037	457,941	18%	518,387	13%
Other / Miscellaneous	496,210	452,182	-9%	513,804	14%
Services & Supplies [Office]	260,657	289,264	11%	365,488	26%
Services & Supplies [Other]	218,305	257,233	18%	321,546	25%
Fuel	286,487	298,715	4%	305,504	2%
Professional Associations	805	195,817	24225%	297,137	52%

# NiSource Employee Expense Reimbursement Audit

## Appendix A – Supplemental Information

ALL ERS TRANSACTIONS / CATEGORIES (CONTINUED)					
Expense Description	AYE 2012	AYE 2013		AYE 2014	
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
<b>OTHER (CONTINUED)</b>					
Ground Transportation [Taxi / Limo]	165,424	195,873	18%	210,713	8%
Business Center	96,992	107,950	11%	160,061	48%
Safety Boots	138,516	124,281	-10%	132,511	7%
Gift [Cash or Cash Equivalents (gift cards)]	31,930	134,747	322%	124,366	-8%
Ground Transportation [Car Service]	64,799	86,774	34%	107,236	24%
Tolls	55,379	69,672	26%	79,917	15%
Books/Magazines/Newspapers	52,006	65,042	25%	75,401	16%
Telephone [Other]	48,312	50,757	5%	47,132	-7%
Ground Transportation [Rail/Bus]	30,133	45,138	50%	43,820	-3%
Duplicating/Faxing	21,028	58,253	177%	42,766	-27%
Clothing [Protective]	19,052	20,320	7%	40,624	100%
Minibar / Refreshments	35,753	34,548	-3%	29,247	-15%
Tips / Gratuities	22,023	24,197	10%	24,394	1%
Telephone [Mobile]	15,247	22,345	47%	24,042	8%
Postage / Courier	14,910	34,143	129%	21,362	-37%
Golf	10,452	4,136	-60%	13,146	218%
Ground Transportation [Other]	8,458	15,843	87%	12,964	-18%
CDL / HOIST License	15,363	13,628	-11%	12,869	-6%
Telephone [Internet Service - Home]	12,424	11,309	-9%	9,521	-16%

# NiSource Employee Expense Reimbursement Audit

## Appendix A – Supplemental Information

ALL ERS TRANSACTIONS / CATEGORIES (CONTINUED)					
Expense Description	AYE 2012	AYE 2013		AYE 2014	
		ERS Spend	% Change Y/Y	ERS Spend	% Change Y/Y
<b>OTHER (CONTINUED)</b>					
Safety Glasses	9,432	7,467	-21%	9,227	24%
Hotel	634	7,549	1092%	6,100	-19%
Advance Request	6,195	7,400	19%	5,960	-19%
Dry Cleaning/Laundry	6,090	9,772	60%	5,783	-41%
Civic Associations	180	8,720	4745%	5,489	-37%
Fees [Passport/Visa/Immunization Costs]	600	3,140	423%	2,934	-7%
CDL Physical	1,671	2,774	66%	2,351	-15%
PAC/Lobbying Dues	0	525	N/A	2,079	296%
Telephone [Line Rental]	652	959	47%	1,170	22%
Spouse/Partner Expense	3,310	2,020	-39%	947	-53%
Fees [Currency Conversion/Traveler Checks]	37	99	169%	569	475%
Protective Lens Coating	223	96	-57%	310	222%
Spouse/Partner [Business/Achievement Award]	0	0	N/A	78	N/A
Telephone [Calling Card]	90	84	-8%	(66)	-179%
<b>PERSONAL MILEAGE</b>	<b>1,984,291</b>	<b>2,018,690</b>	<b>2%</b>	<b>2,029,088</b>	<b>1%</b>
<b>GRAND TOTAL - ERS EXPENSES</b>	<b>\$ 24,271,478</b>	<b>\$ 28,477,930</b>	<b>17%</b>	<b>\$ 31,094,483</b>	<b>9%</b>

COLUMBIA GAS OF PENNSYLVANIA, INC  
53.53 III. BALANCE SHEET AND OPERATING STATEMENT  
A. ALL UTILITIES

19. List extraordinary property losses as a separate item, not included in operating expenses or depreciation and amortization. Sufficient supporting data must be provided.

Response: Columbia Gas of Pennsylvania, Inc. has no extraordinary property losses.



COLUMBIA GAS OF PENNSYLVANIA, INC  
53.53 III. BALANCE SHEET AND OPERATING STATEMENT  
E. GAS UTILITIES

27. Submit a schedule for gas producing units retired or scheduled for retirements subsequent to the test year showing station, units, Mcf capacity, hours of operation during test year, net output produced and cents/Mcf of maintenance and fuel expenses.

Response: None.