

# The Empire District Electric Company

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## Internal Correspondence

October 6, 2010

### *Audit Memorandum*

TO: Harold Colgin

RE: Iatan II - Expense Review Process Audit Report

The audit of Empire's process to review Iatan II expenses submitted for payment has been completed. The audit focused on the procedures utilized by Empire's Strategic Projects department to review expenses submitted for payment by the managing partner of the project, Kansas City Power & Light. Specific objectives, findings and recommendations are in the attached report.

I would like to thank you and your staff for your support during this review.

Respectfully submitted,

Max Sheffield  
Internal Audit

### Attachment

c: Gipson  
Beecher  
Knapp  
Walters  
Mertens  
Delano  
Heady  
Spriggs

**The Empire District Electric Co.  
Iatan II Review Process Audit  
9/30/2010**

## **AUDIT REPORT**

### **Scope and Objectives**

Internal Audit has completed a review of the process developed and utilized by the Strategic Projects department to oversee the expenses submitted by the operating partner Kansas City Power and Light (KCPL) for payment on the Iatan II project. The objectives of this review were to ensure the following objectives were met:

- Strategic Projects has a systematic process to review submitted expenses for the Iatan II project.
- The review performed by Strategic Projects covers a significant portion of the expenses.
- Expenses submitted to Empire for payment are properly supported and accompanied with originating documents.
- The team has adequate working knowledge of the project to judiciously review submitted expenses from KCPL
- A process to follow up on questions or concerns is in place and functioning.

### **Team and Knowledge Base**

The team reviewing the construction of the Iatan II plant is comprised of individuals in the Energy Supply Department; Harold Colgin (Vice President – Energy Supply), Blake Mertens (Director Strategic Projects, Safety & Environmental) and Karen Heady (Cost Control Specialist). In addition, EDE contracted with John Minturn an outside consultant with considerable utility construction background to be on the construction site full time to observe construction, attend various progress meetings, etc. and report to the Empire Energy Supply team as deemed necessary.

Each month the team attended a joint owners meeting hosted by KCPL. The purpose of the meetings was for the majority owner /operator (KCPL) to update the minority owners (Empire, MJMUEC, and KEPCO) on the progress of the project. The subject matter would generally include updates on safety, construction, budgets, actual expenditures, schedule, etc. along with minority owner questions and answers.

### **Expense Review Process in Place**

The operating partner, KCPL, sends an invoice to Empire monthly. The invoice is for the estimated current month expenditures plus the true up to the estimate from the month, two months prior. Empire's 12% share is shown on the invoice. Three separate

files are sent to the Strategic Projects department at Empire, supporting the invoice and include:

- A list of actual invoiced expenses for the project
- Invoice images supporting the actual invoiced expenses
- “Non voucher” costs (KCPL internal charges to the project)

The Cost Control Specialist at Empire, Karen Heady, loads this data into a database developed by the Strategic Projects team to track these expenses. She reviews to determine all documentation is received before sending the invoice for payment approval. More substantive review is performed as soon as possible thereafter.

A procedure was established with personnel at KCPL where Empire may submit questions, requests for additional information, clarifications, etc. These are tracked with dates, responses, and other pertinent information. The Cost Specialist also tags each request with a status such as “open”, “pending” or “recovered”. This allows review and appropriate follow up periodically.

### **Internal Audit Review**

As a part of our review we reconciled the detailed expense support in the expense database to the KCPL Iatan II billings and to the disbursements made to KCPL through the EDE PeopleSoft system to ensure all expenses were available for review by the Cost Specialist. We also, based on how the information was assembled, devised a test to determine how many expenses had been reviewed. At the time of our review, we found 89% of the supporting expense documentation (dollar value) had been reviewed, a percentage likely to increase as additional time becomes available. We would consider a knowledgeable review of 89% to be substantial.

We tested and believe the list showing \*\* \_\_\_\_\_ \*\* of incorrectly invoiced and recovered expenses (Empire’s portion at the time of review) to be correct. Other “pending” lists were orderly documented and well maintained.

**We believe a system to provide an organized, knowledgeable, and substantial review of Iatan II expenses has been designed and utilized by the Strategic Projects team during the construction process.**

The team was very resourceful and forward looking in devising an interconnected set of Access Databases to store this documentation. This disciplined organization of information along with the makeup of the entire review team likely prevented innumerable other incorrect charges to the project.