City of Seattle
Office of City Auditor

SEATTLE PUBLIC UTILITIES NEW TAPS SERVICES INTERNAL CONTROLS REVIEW AND FRAUD RISK AUDIT

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WHY WE DID THIS AUDIT

- Requested by Seattle City Councilmember Jean Godden.
- In response to the theft of over $1 million of customer payments from SPU's water main extension and new taps services.
- We published a separate audit of water main extensions in September 2012.

WHAT ALLOWED THE FRAUD TO OCCUR

Lack of Duty Segregation

The Project Manager:

- Calculated project charges
- Generated the customer invoice/ payment receipt
- Collected customer payments (most paid in advance)
- Initiated the customer service order
- Managed the project and maintained ongoing customer interface
- Performed duties without management oversight

WHAT ARE NEW TAPS?

Water service pipes that connect the customer's site to the water main.

- Residential, Commercial, Government

3 types of taps; variety of sizes for:

- Water
- Fire Suppression
- Irrigation

- **2012 – 640 taps; $7 million revenue.**

SPU NEW TAPS SERVICES INTER-DIVISION RELATIONSHIPS

Utilities Services Group
Utility Services Team Division

- *Customer point of contact*
- *Complete necessary documents*
- *Payment handling / processing*
- *Tracking orders to completion*

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Planning & Support Division
Creates Work Orders; Estimates Costs

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Water Distribution & Transmission Operations
Schedules and Performs the Field Work

Project Management & Engineering Div.
Major Interagency Government Projects, including Taps Work

Project Support Division
Private Contract Water Mains, Including New Taps Work

Drinking Water Division
Provide Water and Drainage to Other Water Districts, Including Taps

AUDIT OBJECTIVES

The purpose of our work was to determine:

(1) Whether all customer payments for new taps work were received and deposited.

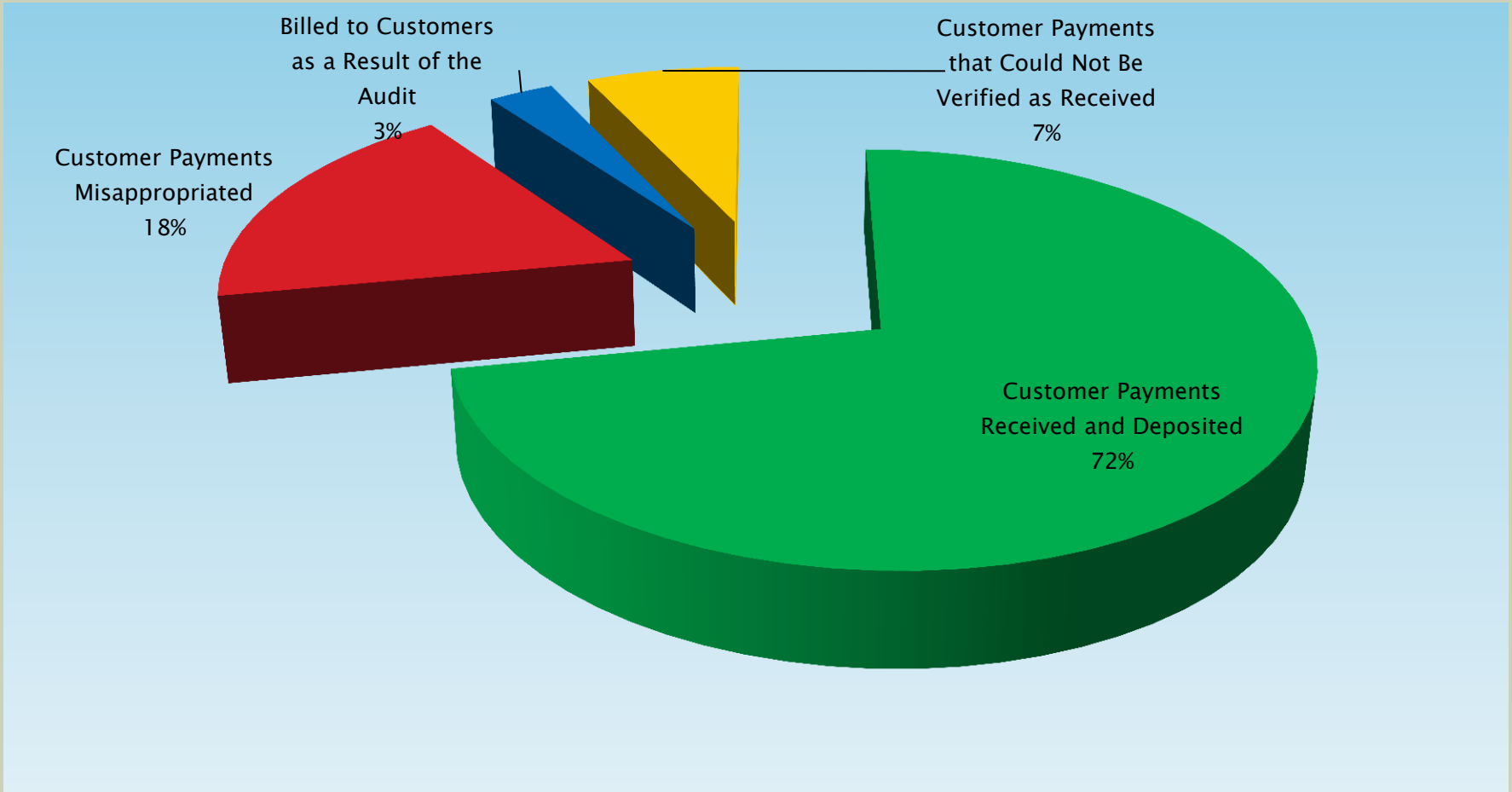
(2) Whether current internal controls in the new taps process are adequate to help deter fraud in the future.

AUDIT SCOPE
OBJECTIVE 1

Payments Testing

- Service orders created from 2007 – 2011
- All account executives
- All customer types
- All new taps types and sizes
- Prepaid, on account, inter-departmental
- Canceled service orders

AUDIT RESULTS PAYMENTS TESTING



AUDIT SCOPE
OBJECTIVE 2

Review of Current Controls

- Policies and procedures
- Staff and management interviews at USG and other SPU Divisions
- Previously conducted audits/reviews
- Segregation of duties analysis

AUDIT RESULTS
CONTROLS REVIEW

Conclusion:

In general, current internal controls used by USG in new taps work are adequate to help ensure that customer payments for new taps work are received, recorded and deposited.

Recommended Changes:

We made five recommendations to further improve the effectiveness of SPU's controls.

CONTROLS RECOMMENDATIONS

1. Define the USG New Taps Process in Sufficient Detail and Segregate Backup Functions

2. Strengthen Controls for New Taps Work Initiated Outside of USG

3. Strengthen Controls Over Creation of the New Taps Service and Work Orders

4. Restrict User Access to New Taps Database Applications

5. Strengthen Controls Over the New Taps Tracking Spreadsheet

MOVING FORWARD

- SPU will implement interim measures in response to our audit recommendations. The Office of City Auditor will follow-up.
- SPU is undergoing an extensive re-design of all processes associated with developer projects, including new taps. Expected to be implemented in early 2014.
- As a result of the re-design, interim measures may have to be adapted to the new processes.

We appreciated SPU's support and cooperation.

Questions?