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Seattle City Light

Cash Handling Controls Review

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Project Description

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> Baker Tilly conducted an agreed upon procedure engagement focused primarily on internal controls relative to cash handling

> The review's objective was to provide SCL management necessary information to help facilitate internal control enhancements, if needed

> This presentation provides a summary of the work completed

Scope and Objectives

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> Develop an inventory of major payment handling processes at SCL

> Conduct walk-throughs, policy reviews, and interviews to assess risks of major processes

> Document risk areas identified

> Provide a summary of risks areas identified and recommend improvements, if any

Approach

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> Requested various data regarding all cash/check handling processes and identified personnel involved

> Performed inquiries of key personnel involved

> Observed various cash/check handling activities while on-site

Key Observations

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> Numerous individuals frequently handle payment prior to deposit

- See Appendix 1 – Payment Touch-Point Summary Table

> Unable to conclude there are formal, documented procedures/policies in place for some major cash handling processes

> Determined SCL is exposed to an elevated inherent safeguarding-of-asset risk

Areas Identified as Having a High Level of Inherent Control Risk

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- Conservation Unit
- Credit Unit
- Escrow Unit
- Account Control Unit
- Accounts Payable Unit
- Skagit Operations
- Real Estate Unit
- Surplus Sales Unit

Other Observations

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> Identification of suspense accounts not always timely

> Handling of billing and payment sometimes assigned to same individual

> Documentation of surplus sales amounts insufficient in some cases

> Payment for Lighting Design area not made payable to SCL

Key Recommendations

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> Require all payments be submitted to appropriate facility

- Designated Lockbox
- SCL Service Centers

> Establish individual lockboxes for material revenue streams

Other Recommendations

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> Require mailroom to open all mail to locate checks/payment

> Review aging report to ensure payments are recorded timely

> Implement appropriate segregation of duties procedures

Other Recommendations

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> Perform surprise examinations

> Assure adequate supporting documentation is maintained (e.g. - surplus sales)

> Assure all payments are made payable to SCL

Conclusion

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> Identified a significant deficiency in internal controls in relation to payment receipt processing

> Recommend SCL or Baker Tilly perform additional procedures

- Establish effective policies and procedures surrounding the cash handling process

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Questions?

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Appendix 1 – Payment Touch-Point Summary Table

Complement To Executive Summary

4/20/12

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Payment Touch-Point: SCL Employee (Location)	SCL's Current Practice	Risk Point	Recommendation
Mailroom: Bob Devine (SMT)	Identified payments are sorted and delivered to account control for distribution. Unidentified payments are routed with other mail to respective employees.	Payments are received in the mailroom and not tracked. Increases the risk of loss/theft.	* All mail should be opened to identify and locate all payments. * SCL should implement a lockbox or institute a tracking system to identify all incoming payments and who they are delivered to. This will establish accountability and visibility in the payment receipt process.
Credit Department: Sandra Scott (SMT)	The Credit department receives payments from, the mail room, service centers and other sources. Payments are processed and deposit prepared by the credit department and walked to the 27th floor for bank pick up.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft.	*Payments should be remitted directly to a lockbox. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.
Credit Department /Electric Service Engineers : Cindy Reside (various locations)	Field reps receive cash from customers while performing "shut-off" duties.	Employees receiving cash and making payments on behalf of customers significantly increases the risk of loss/theft.	* Develop a firm policy of notifying customers a specific time and date their service will be terminated if payment is not made. * Institute a policy where SCL field reps/employees are not allowed to accept payments from customers.
Collection Department: Josephina Lopez and Other Team Members (SMT)	Payments are received and documented before sending to general accounting for deposit.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft.	* Payments should be remitted directly to a lockbox. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.

Payment Touch-Point: SCL Employee (Location)	SCL's Current Practice	Risk Point	Recommendation
Escrow Department: Various Employees (SMT)	Payments are processed; deposits are prepared and walked to the 27th floor for deposit.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft.	* Payments should be remitted directly to a lockbox. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.
Account Control: Various Employees (SMT)	Payments are received from the SCL mailroom, the City of Seattle mailroom and unidentified payments from FAS. They are researched to determine appropriate application. Identified payments are posted appropriately and unidentified payments are deposited into suspense account until appropriate account can be determined. Payments are posted by the 27th floor cashiers.	Suspense accounts have no documentation for long term unidentified payments. Individuals have custody of payments and authorization of account application with limited review process.	* Payments should be remitted directly to a lockbox. Unidentified payments should be scanned along with any supporting documentation (envelope, remittance advise, note) and forwarded to account control for identification. This will establish accountability and visibility in the payment receipt process. * Develop an aging report with clearing of suspense items on a monthly basis.
Accounts Payable: Various Employees (SMT)	Vendor refund checks are received and held until research is completed. Checks are then delivered to general accounting for deposit.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft. Increased risk of theft if employees return items and request refunds directly.	* Payments should be remitted directly to a lockbox. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner. * Notification of all refunds/returns should be provided from responsible parties to accounting to ensure proper receipt of either replacement or credit on account.

Payment Touch-Point: SCL Employee (Location)	SCL's Current Practice	Risk Point	Recommendation
Power Billing: Caroline Dethloff (SMT)	Payments are matched to vendors and documented before sending to general accounting to be processed and deposited.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft.	* All contracts should require wire transfers or lockbox remittance. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.
Skagit: Various Employees (Skagit General Store)	General store receives cash payments which are subject to retail register balancing on a daily basis. Facility also administers a revolving fund. Disbursement requests are reviewed prior to replenishment.	Limited supervision over general store resulting in risk of loss/theft.	* Increase inventory management procedures. * Complete surprise audits of inventory, cash registers and petty cash funds regularly.
Real Estate: Various Employees (SMT)	Department records and documents payments related to rental properties and parking lot regulators before sending to general accounting for deposit.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft. Invoicing and payments handled by same individual. Third party parking lot regulators self report income for SCL's percentage share.	* Modify contracts with parking lot regulators to require audited proof of receipts. * Payments should be remitted directly to a lockbox. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.

Payment Touch-Point: SCL Employee (Location)	SCL's Current Practice	Risk Point	Recommendation
Surplus Sales: Ross Cayetano (Surplus Yard)	Small sales are handled at the discretion of the surplus manager. Large sales are handled via a formal bidding process by City Purchasing Dept.	Sale price determination, billing, and collections handled by one individual. Process for large sales not as stringent for assuring all transactions accounted for. Surplus sales recorded as an Other Asset-Deferred rather than a receivable and only booked after money collected. This exposes SCL to an increased loss/theft as there is no notification that a sale occurred and a payment may be due.	* Segregate sales, billings, and collection functions. * Collections for small sales should be administered by the service center cashier rather than surplus yard. * Collection of large sales should be remitted to a lockbox or independent cashier. This will establish accountability and visibility in the payment receipt process. * A formal communication process should be established to ensure all sales are accounted for immediately. Following a sale, accounting should be notified that a surplus related receivable exists and payment should be expected. * Printed weigh tickets must be retained and filed with related information. * An aging report should be utilized to ensure payments received are recorded in a timely manner.
Service Center Walk In: Various Cashiers (North and South Service Centers)	Collect customer payments and sundry receipts. Cash registers are reconciled daily with manager approval and subject to surprise audit once every month.	Inconsistency of cash reconciliation between service centers. Cashiers lack understanding of service shut off process.	* Develop formal procedure regarding shut off process and provide training for all parties involved. * Disallow collection from field personnel. * Develop formal reconciliation process with adequate training. * Increase security and provide adequate equipment for each individual to process payments without sharing equipment.
General Accounting: Various Employees (SMT)	Receive payments from various departments and records on spreadsheet for informational purposes. Creates deposit slips for cashiers on 27th floor to assist with processing payments.	Departments that drop off payments do not receive notification of deposit. No recording of payments received by General Accounting from other departments and/or mailroom.	* Payments should be remitted directly to a lockbox. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.

Payment Touch-Point: SCL Employee (Location)	SCL's Current Practice	Risk Point	Recommendation
Conservation: Jack Brautigam (SMT)	Payments received are stored in an onsite lockbox and delivered to FAS payment center on floor 42 of the SMT within 48 hours for deposit.	One individual receives and applies all payments. Segregation of duties conflict noted. Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft.	* Payment should go directly to a lockbox. Until a lockbox is established, a tracking system to identify all incoming payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * Segregation of duties between receipt of payments and application of payment and deposit of payments. * An aging report should be utilized to ensure payments received are recorded in a timely manner.
Network Engineers: Various Employees (multiple locations)	Associate engineers calculate billings to be reviewed by senior and approved by supervisor. Engineers will collect payment on occasion if an ESE or ESR is not present. Payments are then brought to a service center or an SMT payment center.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft. General accounting does not verify billing amount. System allows one individual authority to modify billing. ESR's collection activity on delinquent payments.	* Assure appropriate controls are in places which prohibit changes to amounts by a single individual. * Provide appropriate segregation of duties between billing activity and collecting activity.
Cost Accounting: Mike Simmonds (SMT)	Department is responsible for creating billings related to sundry sales. Payments are rarely received, mostly related to grants. See grant section for more detail.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft.	* Payment should go directly to a lockbox. Until a lockbox is established, a tracking system to identify all payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.

Payment Touch-Point: SCL Employee (Location)	SCL's Current Practice	Risk Point	Recommendation
Grants (Cost Accounting): Wendy Lam (SMT)	Creates payment requests for various grants, but has payments wire transferred to FAS. On rare occasions payments are received, usually related to other departments' work.	No documentation for FAS to determine if all grants had been received. Grant requests could be processed, not recorded in Summit and received by the same personnel with inadequate separation of duties.	* A record of grants to be received should be maintained. * If payments are received they should go directly to a lockbox. Until a lockbox is established, a tracking system to identify all payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.
Lighting Design: Andrew Pultorak (Seattle Lighting Design Lab)	Payments are received infrequently related to class registration fees. Payments are made out to: lighting design lab. The payments are then stamped and prepared for deposit. Most fees are handled through an online payment account.	Absence of controls surrounding the custody of payments allows for the increased risk of loss/theft. Payments are not made out directly to SCL, allowing for funds to be directed to other non authorized accounts.	* Payments should go directly to a lockbox. Until a lockbox is established, a tracking system to identify all payments and who they are delivered to should be implemented. This will establish accountability and visibility in the payment receipt process. * An aging report should be utilized to ensure payments received are recorded in a timely manner.