



**City of Seattle**  
**Office of City Auditor**

# **Seattle Public Utilities Water Main Extensions: Internal Controls Review and Fraud Risk Audit**

**September 7, 2012**

# Overview of Water Main Extension Projects

- ▶ What is a water main extension project?
  - ▶ In 2011, there were 12 projects with revenues of \$257,000, or 0.13% of SPU's Water Fund revenues (i.e., \$194 million)
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# Audit Objectives

1. Identify internal control weaknesses that allowed the loss of funds to occur
  2. Review current controls to determine whether they will provide reasonable assurance that a similar theft will not occur
  3. Identify whether there were any additional funds that were not deposited, other than those already identified by the Seattle Police Department
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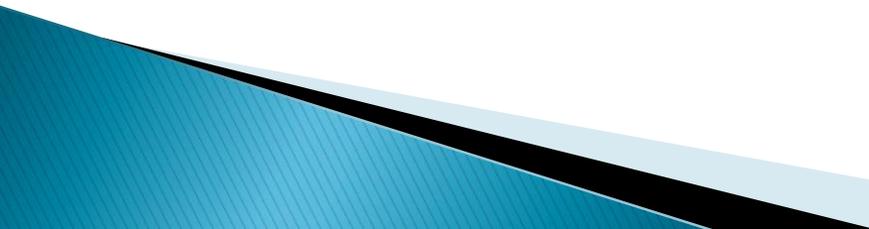
# Audit Objective 1: Assess Prior Controls – *Why did alleged theft occur?*

- ▶ Lack of Segregation of Duties
  - The Project Manager (PM) handled all aspects of financial transactions – calculating project charges, collecting payments, initiating work orders, project tracking, etc.
- ▶ Lack of Appropriate Management Oversight of Financial Transactions
  - Management did not review PM's activities involving financial transactions, for example reconcile projects completed to payments received

# Audit Objective 2: Assess Current Controls – *Could theft occur again?*

- ▶ SPU revised water main extension payment procedures and implemented key control improvements
- ▶ Control improvements are still needed:
  - Clarification and Documentation of Policies and Procedures
  - Greater Adherence to Policies
  - Assurance That An Independent Party Monitors All Expected Revenues

# Audit Objective 3 – Determine Whether Additional Funds Were Lost

- ▶ We did not find evidence that additional funds were stolen, beyond those already identified by the City of Seattle
  - ▶ We found 8 projects for which the customer may have underpaid or not paid, amounting to \$59,594 since 2002
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*We appreciated SPU's support and cooperation during this audit.*

