Miller & Miller, P.S.

City of SEATTLE: Public Utilities

Report on Cash Receipts and Revenue Internal Control Risk Assessment

September 7, 2012

DRAFT-FOR DISCUSSION PURPOSES ONLY

Miller & Miller, P.S.
4240 West Cramer Street
Seattle, WA 98199-1005
Telephone (206) 281-0281
Fax (206) 281-0276
E-mail mandmps@comcast.net

CITY OF SEATTLE: PUBLIC UTILITIES

Cash Receipts and Revenue

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Executive Summary

Introduction

The goal of this project was to determine if Seattle Public Utilities (SPU) is properly managing its cash receipting and revenue reporting activities for its secondary revenue streams (i.e., revenues obtained by SPU that are not covered in customers' standard utility bills for water, solid waste, drainage or wastewater services), referred to by SPU as "sundry billings". This work was performed at the request of SPU Director Ray Hoffman under a contract administered by the City of Seattle's Department of Finance and Administrative Services. We conducted this review in accordance with our contract, and our work is more fully described in this report's Scope and Methodology section.

Objectives and Scope

Our objective was to conduct a risk assessment and internal control evaluation of external (i.e., from customers, not from other City departments) cash collections and associated revenue reporting by the SPU department within the City of Seattle. SPU charges for many services. Cash collections were evaluated for about twenty-five (25) activities with two major exceptions:

1. Routine customer billings for SPU water, garbage and sewer customers as recorded in the City's Consolidated Customer Service System (CCSS), and

2. Private water main extensions revenue and cash collection.

The reason for these exclusions is that these systems have been subject to recent or current audits by other organizations. Our evaluation covered approximately $48 million in annual revenues or about 7% of SPU's total annual revenues.

Summary of Results and Recommendations

SPU has instituted substantial procedures and controls to safeguard cash, protect accounts receivable records and record revenues. However, there are several aspects of SPU's internal control structure that should be improved. Due to the nature of SPU's various customer service systems, whereby a variety of payments (cash, checks and credit cards) are available, it is challenging for SPU to design improved effective controls to detect under collection of cash, and the related under reporting of revenues. For example, establishing revenue expectations in advance to compare to actual revenues received or providing a mechanism to match up all services provided to all services billed and paid would assist in detecting revenues that may not be received, either from unintentional errors or intentional inappropriate acts. Preventing or detecting lost revenues should receive priority in assessing which recommendations to adopt.

In addition to the specific recommendations provided in this report, which can be found on page 7, there are short-term and long-term strategies SPU should consider to reduce the risks inherent in a cash business. For example, in the near term SPU could assign duties to staff for cash custody that are different from those staff that record cash receipts and accounts receivable transactions. A more long-term strategy is to eliminate cash (currency) or provide that all remittances are processed through the City's Treasury function.

SPU will need to evaluate these recommendations in light of their operational needs, the costs to implement the recommendations and the associated benefits and risk mitigation of each alternative.

Information Contained in this Report

This report is a summary of the project outcomes. Appendix A presents the work flow and organization of processing revenue and cash-related financial transactions. Appendix B presents the risk assessment matrices used to assess the current procedures. Appendix C presents the revenue inventory used in this project.

We wish to thank SPU's management and staff for their support and assistance provided in this project. We also wish to thank the City Auditor's Office and the Department of Finance and Administrative Services for their support and assistance provided in this project.

(Firm signature to be placed here once finalized and published)

September 7, 2012

Results and Recommendations

Introduction

Project Objectives: A major objective of this project is to understand the existing procedures related to cash receipting and revenue reporting and assess whether they are appropriate. This project accomplishes this major objective by providing information regarding the current processes and an analysis of the strengths and weaknesses in the current internal control structure.

SPU Revenues and Billing Functions Covered in This Report: A large portion of SPU's revenues were excluded from the scope of this project as is further described in this report's Scope and Methodology Section. The remaining revenues are referred to by SPU as "sundry billings", which add up to a substantial amount but much less than the standard utility billings processed in their CCSS system. Our evaluation covered approximately $48 million in annual revenues or about 7% of SPU's total annual revenues.

This report examines four SPU sundry billing functions. Most, but not all, sundry billings are processed though the SPU's Account Receivable (AR) function. Some revenue is processed by the Utility Services Group (USG) using the Over-The-Counter System (OTC). The Transfer Stations collect substantial revenues using their Transfer Station Billing System (TSBS) and there is a minor amount of revenue associated with timber sales from SPU's watershed. These functions are documented in Appendix A and the internal control risks associated with their operations are documented in Appendix B.

Certain revenues are not documented in the SPU process descriptions contained in Appendix A. For example, there is a substantial amount of drainage utility revenues that are collected by the King County Property Tax System that do not run through an SPU cash receipt process. Instead cash is received directly from King County by the City's Treasury function via wire transfers. Likewise, a substantial amount of grant receipts are received directly by the City's Treasury function via wire transfers.

We focused our efforts on revenues and cash receipts that are processed through SPU managed cash receipts and revenue control systems.

Internal Control Concepts: In assessing internal control risks, segregation of duties is an important concept that directly relates to the control objectives established by SPU management. Segregation of duties should be employed in many aspects of a cash receipt and revenue reporting system of internal controls. For example, an individual who has access to cash should not be allowed to make accounting system entries because that person could divert the cash and change the accounting records to their benefit. Similarly, the responsibility for making changes to the master file changes of customer data or authorized price data should be segregated from processing transactions and vice versa. For example, an individual that processes transactions should not be able to add or delete customers or change service prices because that person could divert the cash and change the accounting records to their benefit. The goals are to not allow one individual to "corrupt" the system to their benefit, to provide disincentives to unethical behavior, and ensure that financial goals are achieved.

Another important internal control concept is the reconciliation process (i.e., when different records are compared), which may take many forms. In order for a reconciliation to be an effective control, services provided (typically non-financial data) needs to be completely captured so that they can be compared to financial data and differences are promptly investigated. For example, service requests that are documented on a prenumbered form (so that the integrity of the numbering sequence can be determined) can be compared to the billings for those services. The reconciliation of the count of documents and/or dollar amounts between the service requests and the services billed, would detect services provided that were not billed. Another example of the reconciliation process is to prepare a revenue expectation based on operating metrics and trends. This expectation is then compared to recorded amounts to determine if there is a possible loss of revenues that needs to be investigated. The effectiveness of this type of reconciliation is in direct relationship to the preciseness of the estimate. Many revenue types, by their nature, are not subject to precise estimation. However, even relatively imprecise estimates may be useful in detecting potential loss of revenues.

Risk Assessment

The risk assessment matrix provided in Appendix B presents SPU management's objectives in its revenue and receipting processes, the risks that could prevent those objectives from being achieved, and the actions or control activities SPU has employed to manage each identified risk.

Although SPU management has instituted control activities to manage the risks that could cause the stated objectives to not be achieved, no internal control system can achieve complete assurance that all objectives will be achieved. Instead internal control is a process designed to provide *reasonable assurance* regarding the achievement of objectives. Determining what constitutes a sufficient level of control activities to reasonably assure that the risks are appropriately managed is a **subjective** process (i.e., a risk assessment) and depends on the assessment of the significance and likelihood of the identified risks occurring. In general, SPU's control activities appear to be commensurate with the identified risks. However, there are a few areas where SPU should consider enhancing its internal controls. A few examples are provided below, with more information provided in Appendix B.

Results

The following section provides a summary description and examples of the information contained in Appendices A and B. Appendix A and B contain detailed analyses of controls that appear to appropriately address the identified risks as well as the risks that may not be sufficiently controlled.

Internal Controls over Revenue Reporting and Cash Receipts Activities

SPU has instituted substantial procedures and controls to safeguard cash, protect accounts receivable records and record revenues.

In general, SPU personnel involved in collecting cash or billing for services are knowledgeable about their cash handling duties and competently perform their assigned tasks. Furthermore, SPU management provides an environment for effective control of cash transactions and provides sufficient monitoring activities to support the internal control structure.

In general, we noted a lack of written procedures regarding SPU's cash handling and receipting policies. The lack of written policies and procedures create a risk that staff will not conduct the business processes according to SPU's objectives. Regardless of the lack of written procedures, staffs appear to understand the current procedures.

Objective setting is a pre-condition to risk identification, from which, risk management strategies (internal control procedures) are employed. SPU should be commended for its strategic planning and integrating certain operational performance measures into its strategic plan. However, the SPU strategic plan and related integrated performance measures include few financial or revenue control measures that are as important as the operational measures. In order for an organization to manage the risks that its revenue and cash receipts objectives are adequately managed, its objectives, risks and performance measures should be similarly integrated into the strategic plan and related objective measures. Without exposure in the strategic plan and related goals and measures, SPU might send the message to its staff that these objectives and goals are less important than other operational objectives.

Since there are few financial objectives integrated with SPU's Strategic Plan, SPU management defined revenue and cash receipts control objectives for our use in evaluating the risks in SPU's current internal control structure.

Controls Implemented by SPU to Address Risks: There are several controls that appear to address the risk that SPU's control objectives will not be achieved. SPU has implemented many control procedures that address these risks. In summary:

The cash handling unit within SPU's Accounts Payable (AP) function receives cash and checks, and then prepares a check listing before the checks are provided to AR, so that all payments received can be matched to deposits in the bank by AP. This provides the proper segregation of duties regarding checks received that are not deposited in the City's bank. However, the AP function also processes checks for vendor refunds, credits and rebates, which are processed by the AP unit, thus eliminating the proper segregation of duties because they have custody of payments as well as the means to record these types of payments.

SPU AR processes invoices based on invoice request forms or contracts it receives from many other SPU units. This process provides a segregation of duties between the business units initiating the service and the units that bill for the service. In some cases a "proforma" invoice is prepared and submitted to the business unit for review and approval prior to processing the invoice and mailing it to the customer. Invoice processing is integrated with the Summit General Ledger system.

The Utility Services Group (USG) processes hydrant permit, taps and street restoration charges. Work cannot be completed unless the amount is pre-paid and entered into the work order system. This system prevents work from being performed that is not pre-paid. USG tracks taps paid and work done.

The transfer stations' system tracks each load weighed so that it can be compared to each visit paid.

Controls Not Implemented by SPU to Address Risks: There are several instances where controls do not appear to address the control objectives. A listing of these control concerns are listed in each process contained in Appendix A and similarly noted in the risk assessments provided in Appendix B. Examples of control observations noted in the appendices are provided below:

- Checks related to vendor reimbursements/rebates/returns are used to prepare a separate Cash Transmittal Voucher (CTV), but this function is not segregated from the AP function and presents an incompatible segregation of duties.
- SPU should consider developing expectations for revenue that are compared to actual recorded revenues on a periodic basis (e.g., quarterly). Such expectations could be based on: Real property contract and annual permits in force, annual trends in one-time real property permits, survey billings, Virtual Base Station Network subscriptions, sales of GIS products, USG taps and street restoration charges, Recycling contract charges, Sewer discharge, Damage claims and Contract charges from Transfer stations.
- There are no obvious controls around the extending of credit except for transfer station contracts. However, USG receives payment in advance of the work performed. Timber sales require an advance payment that is settled based on actual loads. This leaves a few sundry billings in which granting of credit is not controlled.
- Regarding whether additions and modifications to the price master file are authorized by an appropriate level of management and or Council) and are made accurately and completely, the risk is that prices are changed without authorization. In some cases, prices are based on approved standard charges or on contracts. However, pricing is dependent upon the person entering the data to correctly price the service. This person could incorrectly (intentionally or otherwise) enter an incorrect service code, which might understate the revenue that should be collected. For example, the customer service representative in USG could misprice the service, so that a payment received (and therefore authorized as an approved work order) would understate the revenue that should be received.
- There are no controls to assure that all services that should be recorded in invoice requests are recorded in an invoice request and a match-up to actual invoices processed.
- Regarding inaccurate input of data, SPU should consider mailing customer statements periodically, and have individuals independent of the AR function investigate and resolve disputes or inquiries.
- Regarding the ensured continued completeness and accuracy of accounts receivable transactions, whereby unauthorized input for nonexistent returns, allowances and write-offs could occur, SPU (A/R and other) staff can make changes to AR customers and billing data without a second review.
- Regarding the objective to maximize timely cash collections, the risk is that handling cash receipts internally can delay deposit of such receipts. SPU should consider "lock-box" arrangements whereby payments are remitted to a post office box and the bank (WAUSAU, the City Treasury's remittance process) collects and deposits such remittances. Regarding the risk that customers delay remittance, SPU follows-up on past due accounts with letters and assignment of past due accounts to a collection agency.

Recommendations for Consideration

There is usually more than one way to address perceived or actual weaknesses in internal controls. Potential responses include adding additional compensating controls or changing existing controls to enhance their effectiveness. One response that is always available is to make no change. Management can quantify risk of loss from each issue noted below to determine if the amount of potential loss is too small to make any procedural changes based on a cost benefit analysis. For example, USG, transfer stations, some timber sales and many internal SPU operations accept payments at the same time that the service is provided at a front counter or cash

register situation. There are certain potential recommendations that we could make that would not be feasible given current policy and staffing constraints. For example, we could recommend that the City implement a policy that no cash (currency) will be accepted as payment. While this would be positive for the control procedures it would not likely satisfy customer service objectives. We could also suggest that all payments be mailed to the City's Treasury function. However, this recommendation might detract from customer service objectives in remote locations. If SPU cannot limit the revenues collected at a front counter or a cash register situation, as opposed to a controlled billing situation, then adding additional controls may not be appropriate based on a cost/benefit analysis.

General Considerations/Recommendations

SPU should consider ways to eliminate cash (currency) transactions. In order to implement this type of recommendation, policy changes would need to be made. For example, it may be difficult (but not impossible) to adopt a check and credit card only policy for the transfer stations, but such a policy could probably be implemented easily for the Cedar River Watershed. The USG's OTC system already prohibits cash payments, so we expect that this model can be replicated in other SPU functions.

SPU should consider ways to transfer remittance collections out of SPU and into the City's Treasury unit of the Department of Finance and Administrative Services. This City unit is already set up to receive payments and enter them into STORM (the City-wide cash receipting system). Segregating the cash handling function from the revenue reporting function is a desired result, so this possibility should be pursued. This change would address the concerns raised with SPU AP unit recording receipts that relate to AP invoice processing.

Specific Recommendations

The following recommendations are summarized from the potential control weaknesses documented in Appendix A and are grouped into three categories: detective controls, preventative controls and other controls. To prioritize these specific recommendations, we considered the significance of the risks and the recommendation's potential effectiveness. Recommendations 5 and 6 below consider the risk that SPU staff can inappropriately change records. These weaknesses should be addressed first and follow-up audits or reviews of the effectiveness of the changes should be considered in the near term.

Consistent with our general considerations above, we understand that SPU is considering moving certain cash receipts activities to the City's Treasury function, a change we support. Recommendation 4 below should be included in this consideration as is noted above.

Regarding detective controls, we recommend that SPU prioritize recommendation 2 below. Implementation of this recommendation will take some time to change systems and processes, but this issue should also be considered for a future follow-up audit or review of the effectiveness of the changes. Recommendation 1 should be pursued but it will take some time to develop effective revenue expectations and comparison procedures.

Recommendations 3 and 7 have less exposure to significant revenue loss, and therefore, can receive less attention in the near term.

Detective Controls:
Recommendation 1: SPU should consider developing expectations for revenues that are compared to actual recorded revenues on a periodic basis (e.g., quarterly).

Recommendation 2: SPU should consider a system to match all service requests to all services invoiced. This would require numerical tracking of contracts and invoice requests that are not currently employed.

Recommendation 3: SPU should independently measure all recyclables and scrap metal sales to ensure that the payment from the vendor is reasonable in relation to the commodity provided.

Preventative Controls:
Recommendation 4: SPU should consider moving the cash receipts function from the SPU AP function for vendor rebates, credits and refunds to a group that is not responsible for paying vendors.

Recommendation 5: SPU should investigate the ability of front-line staff to change revenue records for fee waivers, refunds, credits, etc., to assure that these methods of reducing revenues are adequately controlled.

Recommendation 6: SPU should consider the ability of AR staff to change accounts receivable records without a supervisory review or an edit report to present changed records to a level of management above those that can change the records.

Other:
Recommendation 7: While not applicable to many functions, SPU should consider procedures to investigate credit worthiness for all customers provided services in advance of payment.

These summary recommendations were derived from the analysis provided in Appendix A, which presents a listing of control strengths and weaknesses. The internal design comments for each system provided in Appendix A do not provide recommendations but the system analyses are provided as follows:

The Accounts Receivable System: **A-9 to A14**.

The Over-the-Counter System: (USG): **A-18 to A-20.**

Transfer Stations: **A-24 to A-26.**

Timber Sales: **A-29 to A-30.**

Scope and Methodology

Introduction

The City of Seattle's Department of Finance and Administrative Services (FAS) established the scope of this internal controls risk assessment project in our contract. This section describes the project requirements, objectives and the scope of work that was conducted.

Scope of Project

The scope of work for this project involves evaluating financial control aspects of SPU's involvement in recording revenues and cash receipts activities. The review covered current activities, and the scope of this review is strictly limited to SPU activities and did not extend to any other City of Seattle functions. This project was designed to include a risk assessment and an internal control evaluation of external cash collections and associated revenue recognition at the Seattle Public Utilities (SPU) department within the City of Seattle. All points of revenue streams that had associated external cash collections were considered with two major exceptions:

1. Routine customer billings for SPU customers as recorded in the City's Consolidated Customer Service System (CCSS), and

2. Water main extensions revenue and cash collection. The City of Seattle's Office of City Auditor is issuing an audit report on this topic.

The reason for these exclusions is that these systems have been subject to recent or current audits by other organizations.

Certain SPU revenues do not involve SPU's cash collection processes and certain SPU cash collections do not involve revenues. Examples of the former include drainage assessments collected by King County in its property tax system, investment income recorded by the city's treasury function and grants that are wired directly to City's treasury function. An example of the later is expense reimbursements that are recorded as reductions of expenses and not as revenue. The City processes many interfund transactions. For the purposes of this project, such interfund transactions are not considered as they do not represent external cash collections.

It is important to note that SPU considers escrow payments as a part of CCSS processing and that shut-off fees, which might be collected by non-cashier staff (field staff) on-site as normal CCSS processing, and as such, are excluded from this project's scope of work.

Significance of SPU Revenue Included in the Scope of work

SPU reports financial information in three enterprise funds: Drainage and Wastewater Fund, Water Fund and Solid Waste Fund. On a combined basis, SPU reported approximately $660 million in revenues during the year ended December, 31, 2011. This project's scope addressed a relatively minor portion of these revenues due to the scope exclusions listed above. We obtained approximate values of revenues included and excluded from this project's scope of work as follows:

- Approximately $505 million is excluded because it is processed through the CCSS system.

- Approximately $24 million is excluded because they are interfund transfers ($18 million) or non-cash collections ($6 million), and therefore, do not represent external cash collections.

- Approximately $85 million is received directly by the City's Treasury function for drainage assessments ($68 million), grants ($7 million), fees ($2 million) and investment income ($8 million). These cash collections do not run through a SPU cash collection system.

- Approximately $33 million runs through the SPU Accounts Receivable function and is included in this project's scope.

- Approximately $10 million runs through the SPU's Transfer Station Billing Process and is included in this project's scope.

- Approximately $5 million runs through the SPU's Over-The-Counter Process for new water taps, hydrant permits, extensions, etc., a portion of which, is included in this project's scope. As noted above water main extensions are excluded from this project's scope of work.

Project Objectives and Reporting Requirements

The project required the independent contractor to be responsible for the following tasks:

1. Confirm the completeness of the inventories provided through interviews with relevant City of Seattle staff and review of the City's cash receipting system, and document the results of this work in a written report.

2. Conduct a risk assessment of the quality of the internal controls for all revenue recognition and associated cash handling/collections activities within SPU based on the inventories provided, and document the results of this work in a written report.

3. Provide short and long-term corrective action plans, which will include how to leverage the capabilities of existing City systems and applications, and document these plans in a written report.

4. Provide a recommendation of areas that merit further audit testing or review based on level of risk and financial impact to the City, and document the recommendations in a written report.

Project Methodology

Revenue Identification (Project Objective #1)

SPU provided a listing of revenue and cash receipts sources at the beginning of our project. Based on interviews with staff and review of financial information, the revenue inventory was modified and the final result is presented in Appendix C. Not all revenue included in the final inventory was subject to the process documentation and risk assessment procedures, due to the scope exclusions previously discussed.

Appendix C presents the final revenue list with an indication of where in this report the item is addressed or why it was not addressed.

Work Flow and Internal Controls (Project Objective #2)

We documented the current work flow and organization of revenue, accounts receivable and processing cash financial transactions based on information obtained from interviews with SPU staff. The work flow charts and additional narrative descriptions that are provided in Appendix A were provided to SPU staff and management to verify their accuracy. Not all control objectives identified by management in Appendix B are subject to the processing controls documented in Appendix A. For example, controls over the granting of credit, waiving of fees, write-offs of bad debts and properly valuing receivables are overall management responsibilities, not necessarily managed by a specific cash receipts process. As such, these types of overall objectives are addressed in this report and not in Appendix A.

Risk Assessment (Project Objective #2)

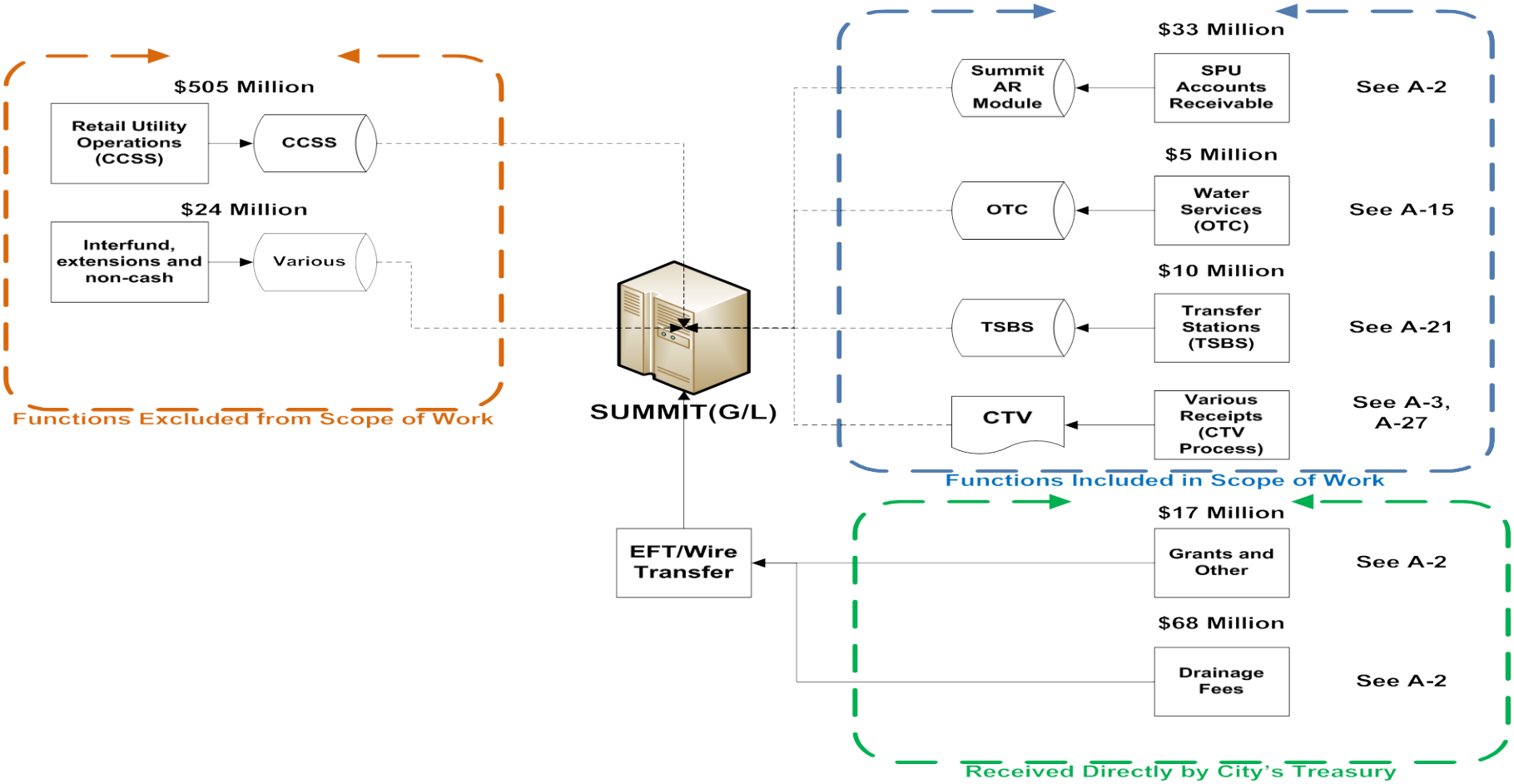
We used the *Enterprise Risk Management-Integrated Framework* (ERM) to assess the current structure. We prepared risk assessment matrices, presented in Appendix B that list the organization's objectives for cash receipts and revenue reporting, the risks that those objectives will not be achieved and the control (risk management) activities in place to address the identified risk. These matrices identify potential gaps in controls where risks may not be sufficiently managed. The source of information used in this phase of our project was obtained from a variety of sources. Such sources include SPU's existing policies, the work flow and internal control documentation discussed above and a review of objectives with SPU management.

Recommendations (Project Objective #3 and #4)

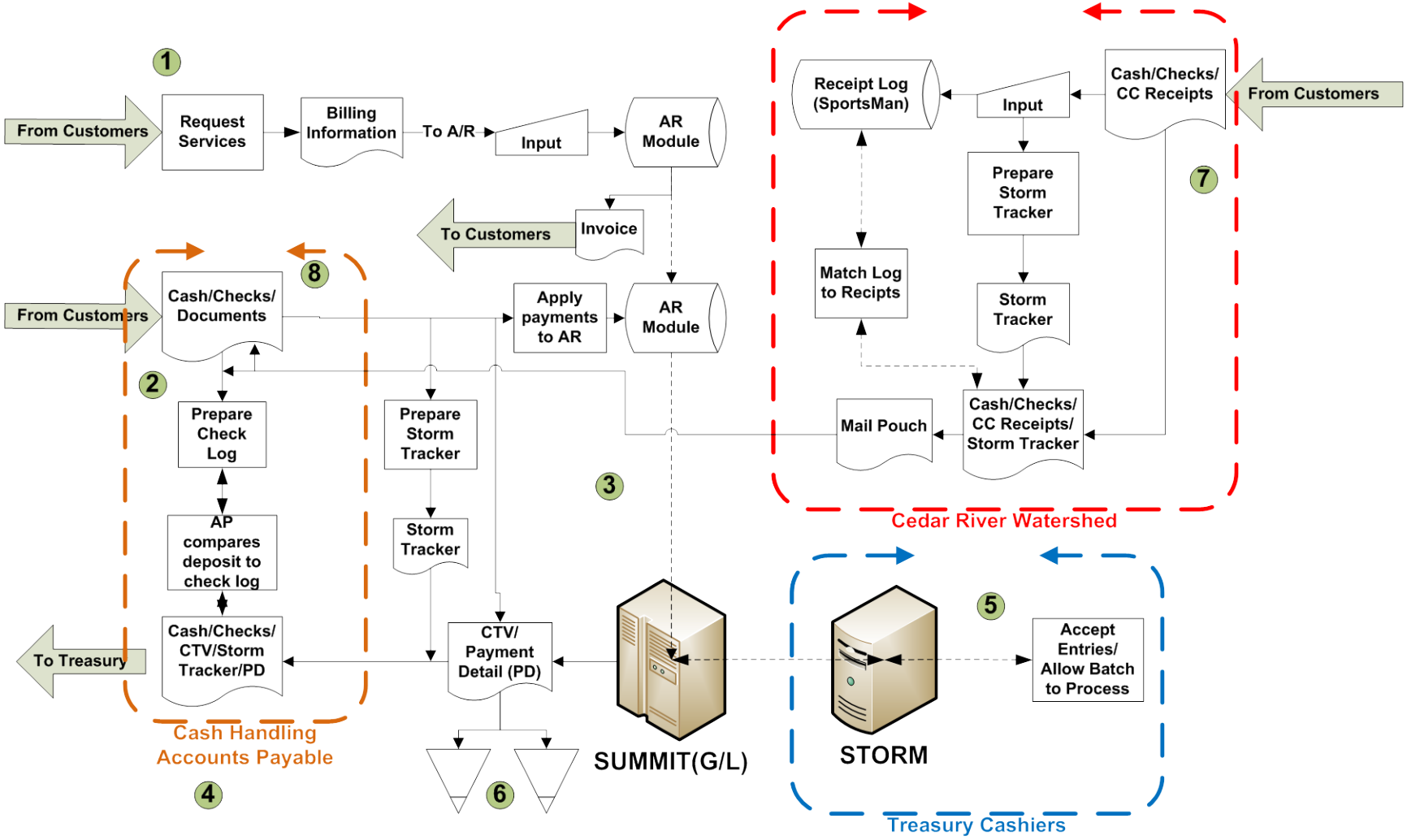
Based on the results of our work described above, we developed potential recommended revisions to existing processes to enhance the internal control structure. These recommendations were provided to SPU for their challenge of feasibility and the ending results are reported in the Results and Recommendation section of this report along with suggestions for future audit topics.

Appendix A: Internal Control Process Descriptions

APPENDIX A TABLE OF CONTENTS AND SCOPE OF REVIEW



Seattle Public Utilities Cash Transmittal Voucher Process



Notes to the Seattle Public Utilities Cash Transmittal Voucher Process Flowchart

Introduction: Many of the Seattle Public Utilities (SPU) revenue (account 4XXXXX), expense reimbursements (account 7XXXXX) and cash receipts transactions are processed using the Cash Transmittal Voucher Process (CTV). Many revenues and expense reimbursements are invoiced using the AR module of Summit, while other transactions result from a customer payment that has not been invoiced prior to payment. The revenue types listed below are reflected on the city's "revenue inventory" contained in Appendix C.

The following revenue and reimbursement types are invoiced:

Real Property Rental Agreements, leases, and permits, Sewer Discharge Fees, Road Use Permits, Recycling Payments, Surveys, Virtual Base Station Network, Wholesale Water Customers, GIS Products & Services, Water main extensions - standard charges for developers, Business Inspections and Damage Claims Payments.

The following revenue and reimbursement types are not invoiced prior to payment:

Watershed Education Center and Wildland Fire fees and employee-related reimbursements.

A few revenue and reimbursement types can be processed either by an invoice or a non-invoiced customer payment. These include the sales of maps, standard plans and specs and other miscellaneous fees. Standard plans and specs are sold through the 42nd floor Treasury Cashiers, who maintain the inventory and process the payment. The Vault charges a photocopy fee of other maps and plans which are paid either by cash or checks (credit cards can only be processed by the 42nd floor Treasury Cashiers). The Vault does not maintain a change fund so customers must use exact change when paying in cash. Vault staff prepares a CTV and take the cash and CTV to the 42nd floor Treasury Cashiers.

The Drainage Utility is funded by a fee placed on property tax statements collected by and remitted from King County. This fee is received directly by the city's treasury function and does not run through the SPU AR system or any other SPU revenue system. As such, it is not reflected in any of the process descriptions contained in this Appendix A.

The City's Warehouse (included in the Finance and Administrative Services Department) processes payments in a variety of methods. Warehouse handles surplus sales for the entire city. The process begins when any city department/function declares items as surplus and prepares a surplus form that is either emailed or faxed to the Warehouse. Items declared as surplus by various City departments may be picked-up and stored in the Warehouse or, depending on the item, may remain at the department's site. The Warehouse operates a store to sell surplus items to any customer from its inventory. This store accepts cash and checks but does not accept credit cards. The Warehouse uses a cash register to track sales from the store. At the end of the day, the cash register is closed and the receipts in the cash register report are compared to cash and checks received. A CTV (STORM Tracker) is prepared and sent along with the cash and checks to the 42nd floor Treasury cashiers. The warehouse accesses the STORM system to determine that the information sent to the Treasury (from their manual files) agrees to the amount reflected in STORM.

The Warehouse does not maintain a complete inventory of items to be sold because most are of little or no value. For items of greater value that may be subject to the EBAY auction process or the "Invitation to Bid" (ITB) process (mostly from scrap metal priced at current commodity market prices) an inventory tracking system is employed. The city uses an EBAY contractor to sell certain items on EBAY. The Warehouse notifies this contractor of the items to be sold and enters them in an Excel Tracking form. The contractor picks up the item(s) and conducts the EBAY auction. For items sold, the EBAY contractor sends a check to the Warehouse and includes it in their report to Warehouse, which it uses to update their Excel tracking system. For large payments, the Warehouse forwards the check and information to the department that submitted the surplus asset form via email or FAX. For smaller checks the Warehouse will deposit the funds to the 42nd Floor Treasury cashiers and will settle up with the department via an interfund transfer. While the Warehouse tracks items of greater value, the departments that declare surplus do not appear to maintain a system to match up a listing of all items surplused with their ultimate disposition.

Regarding scrap metal and recycling revenue, the Warehouse will issue an ITB or have a contract. ITBs are sent to a customer list maintained in Word. The winning bidder must make an advance payment prior to receiving the materials. Once payment is made the winning bidder may pick up the materials. For contracted scrap sales, there are several scrap metal bins in various City operations. The contractor picks up the bins, sorts and weighs the materials, determines the price and remits a check to the Warehouse, which processes the payment using a STORM tracker previously discussed. This process relies on the contractor to properly weigh and price the materials as the City departments do not independently weigh and price the materials to establish an expectation of what payment should be received from the contractor.

1 NOTE: See separate work flowchart below Note 8 for additional details on the billing process. AR receives invoice requests from other SPU staff either by email or inter-office mail in most circumstances. For example, Grants and Sewer Discharge invoice requests are received by email. GIS and Water Quality invoice requests are received by inter-office mail.
Description of types of documents AR receives:

- Grants (dummy invoice): Grants or General Accounting group sends invoice voucher (form A-19, B and C) to AR by email. Most grants are paid via wire transfers directly to the Treasury function.
- Sewer Discharge: Customer Service group emails sewer discharge billing form to AR email box.
- GIS products and services: GIS group sends "Invoice" with assigned order ID (generated by GIS group not AR) to AR by inter-office mail.
- Non routine or one-time billing: A requestor (SPU Staff) sends "Invoice request form" and related supporting documentation to AR by email or inter-office mail.

Once the billing information is received by the accounts receivable function within SPU's Finance and Administration Branch (AR), they use the AR module in Summit to process a customer invoice, which is then mailed to the customer except for "dummy invoice".
A "Dummy invoice" is an invoice A/R doesn't physically send to customer. Customer makes payment based on other source documentation rather than an AR generated invoice. AR creates an invoice to track the receivable and payment. For example, grant

agencies pay SPU by grant invoice voucher (requirement for grant payment) submitted by the grants administrator instead of an AR generated invoice.

2 This depiction is abbreviated. Payments are received by the City of Seattle Mailroom, and the correspondence related to SPU is sent to SPU's Mailroom. Payments with the address of 34016 and 34017 are opened and delivered directly to City Treasurer by City of Seattle Mailroom. If SPU Mailroom receives checks addressed to PO Box 34018, these are opened and delivered to SPU's Finance and Administration Branch accounts receivable (AR) mail box. If there is a mis-sort and an envelope with these PO Box numbers is mistakenly delivered to the SPU Mailroom, the envelope is delivered to SPU's Customer Service Branch (Seattle Municipal Tower 31st Floor). AR mail is opened by SPU's Cash-Handling Staff from SPU's Finance and Administration- Accounts Payable Unit (AP). AP records checks (rarely is currency received by the city) received in the mail in a checks received log (called "Check Deposit Log"). This log is used to check off items recorded on the Payment Detail or Storm Tracker that is provided by AR after they prepare the deposit package. This provides a check and balance to assure that all amounts received by SPU are deposited in the bank via City's Treasury are intact. It is rare that a check on the check log does not show up in a deposit package within a couple of days, but if it does occur, Cash-Handling Staff will follow-up with AR to see why there is an un-deposited check. Some checks that do not relate to an invoice are received, and AR needs to research the payment to determine how to apply it. As such these items may not be deposited on the same day or next day as received.
Cash-Handling Staff handles some miscellaneous cash and checks. These are for nonroutine services or activities. These are also logged. The appropriate staff is contacted and information obtained is used to prepare the Storm Tracker for deposit.

3 Since most checks relate to an invoice, the payment is applied to the receivable in the AR module in Summit. However, for checks received that have not been previously invoiced, AR records them in a "Storm Tracker", which is an Excel spreadsheet that indicates the revenue or reimbursement account to post to. Storm Trackers are entered into Storm by the Treasury Cashiers.

For checks received that have been invoiced, once the invoiced receipts are pre-posted into Summit (a batch is prepared that is balanced), a system generated CTV and Payment Detail report are printed from Summit. Invoiced receipts are posted to Summit overnight on a daily basis. The CTV is balanced against the checks and Payment Detail.

The checks, CTV, Payment Detail report and/or Storm Tracker are sent to Cash-Handling Staff, so that they can compare Payment Detail and/or Storm Tracker to their check log and check off all checks sent to AR that are included in the deposit.

4 Once the deposit package is received from AR, Cash-Handling Staff assigns a unique internal numbering for tracking purposes to each CTV/Storm Tracker and records the number in the log. By assigning a unique internal tracking number, the deposits can be traced faster in the Storm system, and it facilitates communication between City Treasury and Cash-Handling Staff if there is a problem. Cash-Handling Staff will then walk the package to the 42nd floor Treasury Cashiers (TCs) the next day, who process the information and provide a validated CTV or receipt. The receipt number is entered in the log to indicate a completed transaction. Cash-Handling Staff retains the validated CTV or receipt and files together with copies of the CTV.

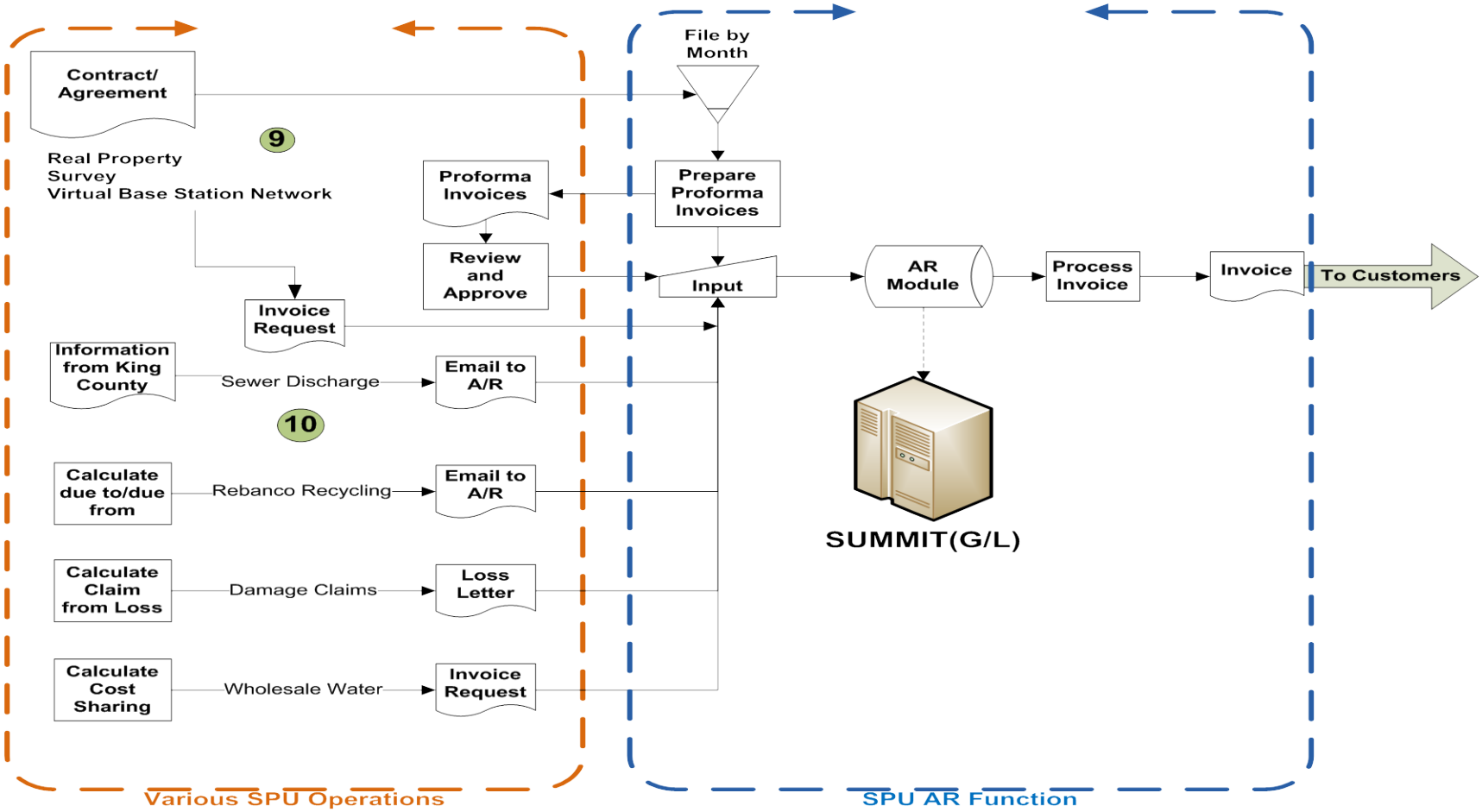
5 For all systems that feed Storm, the other city departments enter their cash receipt/revenue data into various systems, which are integrated into Storm/Summit. The TCs will review the information provided via CTVs and Storm Trackers and reconcile to the source system reports. If accepted then the entries "batch", will "be accepted", which means it can update Storm files and therefore, the Summit GL.

6 AR files daily CTV, Payment Detail or a copy of Storm Tracker with remittances in a daily deposit file. AR makes copies of the checks and files them along with invoices marked "paid". These deposit files and paid invoices (filed by invoice number) are retained in a storage room on site for one to two years before they are moved offsite.

7 The process for cash receipts collected at the Cedar River Watershed (CRWEC) is different than the other receipts. As such, it is depicted separately in this work flow chart. The CRWEC staff uses the SportsMan software program to manage all monies related to the Center's activities. This system acts as the cash register and is used to store information regarding all tours, classes and rentals administered by the Center. A staff member collects and logs (posts to SportsMan) cash, checks and credit card charge receipts for room rentals, education center programs, etc. Once a week, the Education Center Facility Coordinator provides the revenue coding on a Storm Tracker. The Public and Cultural Programs Manager verifies that the cash, check and credit card settlements match the SportsMan logs and the cash register till. The Storm Tracker, cash, checks and credit card settlement slips are placed in a sealed pouch. The pouch is signed for and picked up by a SPU Mailroom courier and delivered directly to Cash Handling Staff. Cash-Handling Staff opens the pouch with another AP staff (as a witness). Both validate the monetary value against the prepared Storm Tracker. Check-Handling Staff assign a unique number to the Storm Tracker and update the log. Check-Handling Staff then walk the package (cash, check, credit card charge receipts and Storm Tracker) to the 42nd floor Treasury Cashiers, and it follows the same process as is reflected in this portion of the work flow chart.

8 There are a few checks received that do not relate to customer services and are not sent to AR. These checks are for vendor refunds and employee jury duty payments and are not reflected in this flowchart. For vendor refunds, administrative staff who opens the SPU Accounts Payable mail hands the vendor check to Check-Handling Staff for logging. Upon validating the refund by the appropriate Accounts Payable Technician, the Storm Tracker is prepared and signed by the Accounts Payable Supervisor. Jury duty checks are sent to Check-Handling Staff with a completed Jury Duty Form. Check-Handling Staff prepares the Storm Tracker and notifies payroll by email. Check-Handling Staff assigns a unique number to the Storm Tracker and updates the log. Check-Handling Staff then walks the package (cash, check, credit card charge receipts and Storm Tracker) to the 42nd floor Treasury Cashiers, and it follows the same process as is reflected in this portion of the work flow chart.

Seattle Public Utilities Cash Transmittal Voucher Billing Process



9 SPU's AR function processes invoices based on a wide variety of methods. Many invoicing processes involve contracts, while others involve requests for invoices. This work flowchart shows that the Real Property, Survey and Virtual Base Station Network involve signed contracts that are provided to AR for their billing purposes. The following explains each:

- Real Property manages rental properties and use permits. Most rental agreements (estimated to be less than 50 per year) are invoiced once a year. However, there is one property with two tenants that pay monthly. AR looks at the rental agreements that are filed by month to produce a "proforma" invoice and submits that to the Real Estate Agent (an SPU employee), who reviews it for accuracy. The Agent then informs AR whether or not to process the invoice and mail it to the customer. Real Property also manages permits. These can be one time use permits (a $1,500 one time processing fee or a road use permit based on a contract with an annual fee resulting in a proforma invoice), in which the agent submits an invoice request.
- Survey fees are based on a contract with King County whereby a city biologist charges time for survey effort that is tracked in the timekeeping system by charges to a specific charge number. AR looks up the time charges and prepares an invoice. This invoice is sent back to the biologist to review and approve. AR checks the remaining amount available under the contract prior to mailing the final invoice to King County.
- The Virtual Base Station Network charges are based on a $1,900 annual per workstation charge. That function sends any new contract to AR which adds it to their Excel Tracking. The contracts/agreements are filed by month so that the annual charge can be invoiced. AR sends the Excel worksheet to the department to review and approve. Once approval is obtained, AR prepares the invoice, and mails it to the customer. This function also sells GIS maps/products (typically $21 per map). These revenues are based on customer requests not contracts. This function prepares an invoice from their system and provides it to AR. AR enters the data into the AR Summit module and processes an invoice. Both the Summit invoice and the department invoice is mailed to the customer.
- Business Inspections relate to water pollution control. This function has the ability to waive penalties if the offending company complies in a timely manner. If not penalties are assessed based on a matrix from $250 to $5,000. The penalties are forwarded to AR on an Invoice request form for AR to process the billing.
- The public disclosure function is centralized and they prepare an invoice and email the information to AR. The invoice instructs the requestor to send the payment to the AP Cash Handling Unit. For customers who wish to prepay, they are directed to the 42nd floor Treasury Cashiers. Notice of payment on the AR balance is required prior to releasing the documents.
- On rare occasions, the USG and Engineering functions provide information regarding 3" or larger taps and extensions. Typically the site is inspected by field operations/engineers, and they provide either a standard charge or a time and materials cost estimate. This forms the basis for a contract, which is sent to AR. Field operations/engineers provide actual cost data when the project is complete, and AR prepares the invoices based on the actual charges and the contract. This invoice is mailed to the customer.

10 Several billings may be based on contracts, but the invoices are prepared based upon separate information as follows:

- Sewer discharge information is provided from King County. Based on this KC information, an email is sent to AR to prepare a monthly or quarterly billing invoice.
- Rabanco recycling can either be a payment to Rabanco or a due from Rabanco. Route trucks collect residential and commercial recycled materials and deliver them to the Rebanco facility where they are weighed in and out and scale tickets are produced (one for Rebanco and another for the route trucks). SPU receives electronic files of the scale ticket information from both the route truck

company and Rabanco. Monthly, Rebanco prepares an invoice based on the tonnage data and market indexes and sends to SPU. The invoice deducts the market value of the recycled materials from its garbage disposal costs to arrive at a net due from/due to amount. Amounts due to Rabanco are sent to AP for processing the vendor payment. Amounts due from Rebanco are placed on a request for invoice to AR. Rabanco payments are sent to Treasury via an EFT bank to bank transfer.

- The SPU risk management Subrogation Claims function determines when a recoverable loss has occurred. They calculate the dollar amount of the loss incurred and prepare a letter to the responsible party explaining the loss incurred and the calculation of the amount owed to SPU. This letter is sent to AR via email so that they can prepare the invoice. The invoice is sent back to risk management for mailing along with the damage claim letter to the customer.
- Wholesale water: The function allocates costs of providing water to the Cascade Water Alliance and the Northshore Utility District. It is a substantial revenue source. By contract/agreement all parties agree to a cost sharing arrangement, the mechanics of which are agreed to in advance. Billings for each participant are set for the year and there is a year-end "true-up" of actual to estimated costs which roll into the next year's standard billings. The annual costs and participant cost sharing are audited annually. With the audits and close scrutiny by participants, no further detailed process description is deemed necessary.

Policy Matters to Consider:

Exact recommendations regarding policy matters are usually difficult to arrive at because they involve weighing the cost/benefit of internal control improvements against some other public service improvement/detriment. The following points of discussion are designed to present the possible internal control improvements within the limitations that might exist in the public service environment. This discussion is presented so that this report's users can place specific comments on the internal control design in the next section in context.

- Customer service is a core value as expressed in SPU's Strategic Business Plan. The customer's ability to consummate a transaction at a front counter and pay in cash or check is a customer service, even though in those cases the desired segregation of handling cash and making entries into the revenue system is not obtained. Providing the desired segregation of duties may slow down the customer interaction and may require additional staffing (at additional costs) not currently available.
- Eliminating cash in revenue collection is likely impractical. Likewise, requiring all transactions to run through a billing and accounts receivable tracking system would not likely meet the customer service objectives.
- The accounts receivable and revenue reporting system described herein relies heavily on staff and management to interact with customers and properly manage SPU's affairs. SPU staff and management should be allowed to conduct their revenue producing activities without undue supervision, duplication and monitoring. However, a reasonable degree of supervision, duplication and monitoring to manage the risks that revenues are not collected or properly reported is appropriate. Finding the right balance between allowing staff and management to conduct their work is difficult; and it requires frequent review to assure that the desired balance is achieved.

Internal Control Design Comments and Potential Responses:

Controls that appear to appropriately manage identified risks related to control objectives:

Real Estate:

- Most rental agreements are billed annually based on a contract negotiated between the customer and the SPU Real Estate Agent. AR prepares a "proforma" invoice for review and approval prior to finalizing and mailing.
- Road use permits are billed annually based on an agreement. AR prepares a "proforma" invoice for review and approval prior to finalizing and mailing.
- One-time permits ($1,500) are reported to AR via an invoice request from the SPU Real Estate Agent.

Survey:

- AR uses the King County Contract and looks up time charges posted to that activity number, compares to the balance remaining, prepares the invoice for the Biologist's review.

Vault- Virtual Base Station Network:

- AR maintains contracts filed by month and enters in new contracts into Excel Tracking sheet. Invoices are prepared by AR based on contracts and Excel Tracking and are reviewed by the function prior to mailing.

Vault- Maps, Standard Plans and Specifications:

- Most charges are processed by the 42nd floor Treasury Cashiers. A very minor amount of cash is collected for copies of maps and plans.

GIS Products: These products are invoiced through the AR system.

Utility Services Group:

- Almost all tap and street restoration work is prepaid. The payment receipt is entered into the Work Order system so that operations staff knows that the work has been paid and that work can commence (see the OTC process description for more information).
- The USG and Engineering functions provide information regarding 3" or larger taps and extensions. Typically the site is inspected by field operations/engineers, and they provide either a standard charge or a time and materials cost estimate. Street restoration work Is collected on OTC prior to the work. On rare occasions time and materials estimates forms the basis for a contract which is sent to AR. Field operations/engineers provide actual cost data when the project is complete, and AR prepares the invoices based on the actual charges and the contract. This invoice is mailed to the customer.
- Work for other governments is not billed and collected in advance of the work, so AR must bill after the work is completed.

Rabanco Recycling:

- This activity is managed under one contract. Recycling materials provided in excess of standard amount results in a billing. Materials under this amount result in a payment to Rabanco. Rabanco prepares invoices using tonnage data and market indices. The contract manager can check the tonnage to independent scale receipt data and approves the invoice. Amounts due from Rabanco are forwarded to AR along with a request for invoice form.

Sewer Discharge:

- Sewer discharge information is provided from King County. Based on this KC information, an email is sent to AR to prepare a monthly or quarterly billing invoice.

Damage Claims:

- The SPU risk management function determines when a recoverable loss has occurred. They calculate the dollar amount of the loss incurred and prepare a letter to the responsible party explaining the loss incurred and the calculation of the amount owed to SPU. This letter is sent to AR via email so that they can prepare the invoice. The invoice is sent back to risk management for mailing along with the damage claim letter to the customer.

Transfer station charges on for commercial accounts:

- Each Account Holder is issued a card for use at the transfer station (see separate transfer station billing system process description at A-20). The TSBS system knows which vehicle license plates are associated with each account, so instead of settling the transaction on the outbound weigh process, the system accumulates the charges (based on weights and load type) for the purpose of monthly billing, This information is used by AR to process the monthly billings to Account Holders. If an Account Holder has issues regarding late payment or non-payment of previously invoiced amounts, accounting will block the customer's account out of the system and they will be denied access to dumping.
- For Transfer station charges on contract, all Account Holders must submit an application with three business references and make a $300 deposit. Business references are checked prior to granting a contract.

Wholesale water:

- SPU allocates costs of providing water to the Cascade Water Alliance and the Northshore Utility District. It is a substantial revenue source. By contract/agreement all parties agree to a cost sharing arrangement, the mechanics of which are agreed to in advance. Billings for each participant are set for the year and there is a year-end "true-up" of actual to estimated costs which roll into the next year's standard billings. The annual costs and participant cost sharing are audited annually. With the audits and close scrutiny by participants, no further detailed process description is deemed necessary.

Cedar River Watershed Education Center:

- Cedar River Watershed Education Center staffs handle cash, checks and credit cards and also enter transactions into the SportsMan system and prepare the Storm Tracker. As a compensating control, a Manager matches up entries in the SportsMan system, the till (cash register) and the Storm Tracker to assure that all revenues that were recorded were collected and transmitted to the Cash Handling Unit of AP.

Various functions:

- Mail is opened by the Cash Handling Unit of AP, which is separate (independent) from the AR function and has no "write-access" to AR module. They prepare a check log upon opening the mail. The log is used to compare the checks returned from AR after posting and to the CTV/Payment Detail/Storm Tracker prepared by AR. Any differences noted are investigated. However, checks related to vendor

reimbursements/rebates/returns are used to prepare a separate CTV, but this function is not segregated from the AP function and presents an incompatible segregation of duties.

- All time charges for SPU staff that should be posted to a work order that is to be billed is captured in the correct account. The inherent risk is that revenue producing work is not captured in time reporting or work order systems. See the OTC process provided below. USG tracks payments versus projects and work orders should not be established without prepayment.
- Services are billed according to contracts or requests for invoices from various functions.
- In many cases AR prepares invoices based on contracts independent of the person generating the revenue.
- All invoices processed are integrated with the Summit/GL system.
- Invoices are numerically sequenced.
- Only AR staff is allowed "write-access" to AR records.
- AR posts the payment to the AR module. Underpayments would be tracked by Summit AR module.
- Since the AR module in Summit is integrated with the Summit GL, reconciliation is NA.
- SPU restrictively endorses checks on receipt.
- SPU deposits receipts intact daily.
- Regarding whether SPU accurately records all authorized refunds/credits/deposits and only such refunds/credits/deposits, the risk is that there are missing documents or incorrect information. Journal and refund requests are approved by the AR Supervisor, who ensures that all documents are appropriate.
- Regarding whether bad debts are recognized only in accordance with established policy, the risk is that inappropriate write-offs occur. SPU follows the City's policy, which requires management approval of write-offs over a predefined limit.
- Regarding the objective to maximize timely cash collections, the risk is that handling cash receipts internally can delay deposit of such receipts. SPU should consider "lock-box" arrangements whereby payments are remitted to a post office box and the bank (WAUSAU) collects and deposits such remittances.
- Regarding the risk that customers delay remittance, AR sends statements and dunning letters. If no payment, account is sent to NCO collection agency.

Controls that may not appropriately manage identified risks related to control objectives:

Regarding the control issues described below there is always the option to do nothing. SPU should quantify risk of loss from cash control or cash transactions and determine whether the potential amount of loss is too small to make any procedural changes due to cost benefit analysis.

Real Estate:

- SPU should consider numerically controlling contracts and permits. Invoices should be matched one-on-one to each contract/permit number and missing numbers should be investigated. The inventory of available rentals, permits, etc. should be captured to assure that all rents and fees possible of collection are included in the information available to AR (this comment is designed to assist SPU in its objective of collecting all amount due SPU). Contract or permit pricing should be approved by a management level not involved in negotiating the contract or determining the permit fee.

Vault- Virtual Base Station Network:

- Consider using MIS system access reports to determine completeness of contract files and Excel Tracking.

Vault and GIS Products:

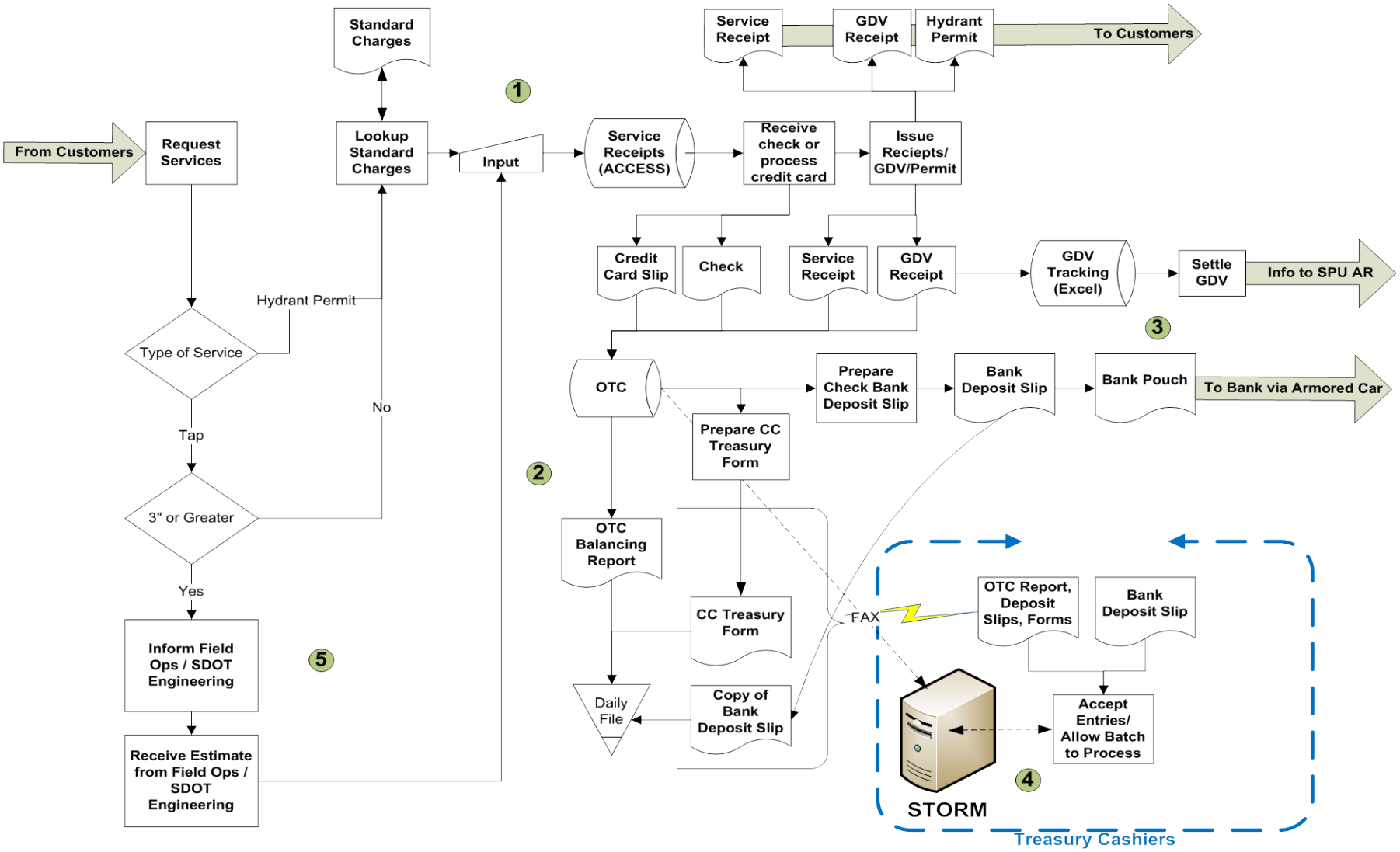
- Consider using a log to match up map requests with maps provided and maps billed.

Various functions:

- SPU should consider developing expectations for revenue that are compared to actual recorded revenues on a periodic basis (e.g., quarterly). Such expectations could be based on: Real property contract and annual permits in force, annual trends in one-time real property permits, survey billings, Virtual Base Station Network subscriptions, sales of GIS products, USG Taps and street restoration charges, Recycling contract charges, Sewer discharge, damage claims and contract charges from Transfer stations.
- The various functions may not be trained on the importance of recording revenue in the proper period.
- In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned.
- Regarding the extending of credit and whether credit limits are authorized by someone other than the person initiating the sale, the risk is that credit is extended without determining credit worthiness. There are no obvious controls around the extending of credit except for transfer station contracts.
- Regarding whether additions and modifications to the price master file are authorized by an appropriate level of management and or Council) and are made accurately and completely, the risk is that prices are changed without authorization. In some cases, prices are based on approved standard charges or on contracts. However, pricing is dependent upon the person entering the data to correctly price the service.
- Regarding whether sales contracts or invoices are authorized by someone not initiating the sale, or at a level of management above the person initiating the sale, the risk is that prices are changed to assist sales activity that are not consistent with policy.
- In some cases, prices are based upon the person entering the data to correctly price the service.
- There is no current method to match up all invoice requests to actual invoices processed.
- Regarding the ensured continued completeness and accuracy of accounts receivable transactions, whereby unauthorized input for nonexistent returns, allowances and write-offs could occur, this is an issue in that AR staff can make changes to AR customers and billing data without a second review.
- Consider Segregating AP cash handling function from processing AP vendor refunds/rebates, etc. Checks related to vendor reimbursements/rebates/returns are used to prepare a separate CTV, but this function is not segregated from the AP function and presents an incompatible segregation of duties.
- Consider use of lock-box or other arrangements to accelerate deposits and consider ability to have customers transfer funds electronically to the entity's bank account, and notify the entity of payment through Electronic Data Interchange (EDI).
- AR should contact payor to determine reasons for payment, or payment different than amounts invoiced.

- Regarding whether recorded accounts receivable are properly valued and include consideration of allowances, bad debts, and other applicable reserves and allowances, the risk is that information regarding accounts receivable valuation is not captured or provided to financial accountants.
- AR staff can access and modify the customer master files and process transactions, which is an incompatible segregation of duties. SPU should consider segregating these two functions.
- AR staff can make changes to AR customers and billing data without a second review.

Seattle Public Utilities OTC Process



Notes to the Seattle Public Utilities OTC Process Flowchart

Introduction: The Utility Service Group (USG) processes several revenue types in their payment center located in the Central Building. Similar to some other city functions USG uses an Over-The-Counter (OTC) system to process these revenues. Approximately 90% of revenues they process relate to water services (including TAPS). The remaining revenue types are Hydrant Permits, Hydrant Testing Fees and Hydraulic Modeling fees. USG may also process Street Restoration Fees using OTC even though those fees are collected on behalf of the Transportation Department. USG will also process Shut-off Payment Fees, but these are processed using the "CCSS Banner" system (not reflected in this OTC work flow chart).

1 **Process for acquiring Hydrant Permits:** The process begins when a customer walks into the USG Payment Center and requests a hydrant permit. USG staff applies charges to the specific situation. These charges are in SPU's Standard Charges document which contains the current fees/charges and are usually set annually. USG will then inform the customer of the total payment due. The customer must prepay the total charges. If the customer wishes to proceed and makes payment (check or credit card only), a service receipt is created which is numbered and saved as a PDF file. The customer is then given a pre-printed, pre-numbered Hydrant Permit along with a copy of the Service Receipt. USG has a receipting application with an ACCESS database and the staff may select the appropriate service (i.e. taps, hydrant permits, etc) with specified standard charges which decreases input error and staff also has the ability to input unique site specific costs (taps 3 inch and larger and street restoration)

One exception to the above is for a "Guarantee Deposit Voucher (GDV)" for a Hydrant Permit. In addition to the cost of a Hydrant Permit ($176), customers must pay for the water used. They may pay a standard daily fee ($55/peak daily cost or $43/off peak daily cost) for short periods of time that they will use the hydrant, or they may choose to have a meter assembly to measure the actual water used. In which case, a meter is provided to the customer, and the water charges will be based on the meter reading. A $400 deposit for a meter assembly is collected from the customer, which is refundable upon return of the meter. A GDV statement (similar to the service receipt) is generated and processed through OTC in the same manner as a service receipt. When a customer opts for a meter assembly, they get a service receipt for the cost of the permit ($176) and receive a GDV for the meter deposit ($400). There are also other associated charges for a meter assembly including a billing fee ($51) and a meter delivery/pick-up fee ($103 each way). AR is informed about all GDVs. Based on the final meter reading when a customer returns the meter assembly, a customer will be billed for water usage and AR applies the deposit amount in the bill computation. If the water charges are over $400, the customer will receive an invoice from AR (processed using the AR module in Summit), or they may receive a refund if the resulting amount is less than $400. For GDVs, USG tracks the deposit using Excel, and upon receiving the final meter reading from the Meter Shop, USG conveys the information to AR to close out the GDV which results in an invoice or refund for the customer.

2 The USG schedule for processing OTC is three (3) days a week (Monday, Wednesday, Friday). Checks and Credit card receipts are logged and locked in a safe daily. On Monday, Wednesdays and Fridays before noon, USG uses the OTC deposit process by entering the days' transactions into OTC and printing out an "OTC Balancing Report", which is used to match up the data entered into OTC with the checks and credit card receipts received since the last OTC process. Once balanced, a deposit slip is prepared and both the balancing report and the deposit slip are faxed to the 42nd Floor Treasury Clerks and filed in a daily OTC file.

3 The checks are placed in a bank pouch along with the deposit slip, and it is picked up by an armored car service for delivery to the bank. The credit card receipts are used to prepare a separate treasury cashier credit card form.

4 For all systems that feed Storm, the other city departments enter in their cash receipt/revenue data into various systems, which are integrated into Storm/Summit. The TCs will review the information provided via CTVs, Storm Trackers, OTC balance reports, etc. and reconcile to the source system reports. If accepted then the entries "batch", will "be accepted", which means it can update Storm files, and therefore, the Summit GL.

5 There are four groups within the Utility Systems Team Division – Solid Waste Inspections, Account Services, Utility Service Inspections, and the Utility Services Group (USG). USG handles the functions analyzed most in this report and processes new water services, street restoration charges (and the already presented permits issuance process), hydrant relocations, and other water service transactions for customers. For services related to new taps less than 3", the process under note 1 above is followed. For services related to new taps 3" or larger, USG needs to involve field operations and SDOT engineering (for street restoration) to inspect the site and prepare an estimate of costs. That function will prepare a site-specific cost or, on rare occasion provide an estimate of time and materials based on the customer's request. In most cases (the exception is other governments that don't pay in advance), the customer must make payments in advance for water services and street restoration which may be a combination of standard charges or site specific costs.

SPU field operations staff always installs taps. Once USG collects the fee (as determined above) in advance, they make an entry in CCSS/Banner to create an account and a service order. CCSS/Banner feeds the work order system (Maximo) which assigned a work order number. The receipt number from the prepayment is indicated in the Maximo system to notify field operations that the work order has been prepaid. USG has a taps tracking system, which integrates data from service receipts/ACCESS database, CCSS Service Orders and Maximo Work Orders. This enables USG to track customer work requests from payment or receipt number to CCSS service order to Maximo work order until water service work is completed and then CCSS/Banner account is activated. USG also double checks to see if any CCSS service orders or Maximo work orders for taps were created without corresponding payments or service receipts. This ensures that payments were made for work.

Field Operations personnel report their time in a couple of different ways. Crews/crew leads/crew chiefs use the SPU time keeping customization known as L&E (Labor and Equipment) to record both work order-related time (time spent performing the actual work) and time spent on non-work activities (trainings, meetings, etc.) by indicating either a work order number or a valid activity code. This reported time is reviewed by the crew chief and/or manager before being committed to Maximo and/or Summit. Engineering resources in Field Operations support field work, but report their time directly to a charge code through the use of WebTime. This will show up in Summit, but not in Maximo.

Policy Matters to Consider:

Exact recommendations regarding policy matters are usually difficult to arrive at because they involve weighing the cost/benefit of internal control improvements against some other public service improvement/detriment. The following points of discussion are designed to present the possible internal control improvements within the limitations that might exist in the public service environment.

This discussion is presented so that this report's users can place specific comments on the internal control design in the next section in context.

- Customer service is a core value as expressed in SPU's Strategic Business Plan. The customer's ability to consummate a transaction at a front counter and pay in cash or check is a customer service, even though in those cases the desired segregation of handling cash and making entries into the revenue system is not obtained. Providing the desired segregation of duties may slow down the customer interaction and may require additional staffing (at additional costs) not currently available.
- Eliminating cash in revenue collection is likely impractical. Likewise, requiring all transactions to run through a billing and accounts receivable tracking system would not likely meet the customer service objectives.
- The accounts receivable and revenue reporting system described herein relies heavily on staff and management to interact with customers and properly manage SPU's affairs. SPU staff and management should be allowed to conduct their revenue producing activities without undue supervision, duplication and monitoring. However, a reasonable degree of supervision, duplication and monitoring to manage the risks that revenues are not collected or properly reported is appropriate. Finding the right balance between allowing staff and management to conduct their work is difficult and requires frequent review to assure that the desired balance is achieved.

Internal Control Design Comments and Potential Responses:

Controls that appear to appropriately manage identified risks related to control objectives:

- Staffs use the OTC process to address customer requests for services.
- Staffs know how to use the OTC process.
- USG does not extend credit for its services. USG does allow work to be performed for other governments prior to payment.
- In order to process a request for a 3" or larger tap, USG staffs need to obtain a site specific cost from Field Operations and a street restoration cost estimate from SPU via SDOT Engineering.
- Work on taps or street restoration requires an account and service order, which is established after prepayment has been received. Service work should not proceed unless the prepayment is noted in the work order system.
- Time charges on work orders are reviewed by supervisors.
- USG has a taps tracking system, which integrates data from service receipts/ACCESS database, CCSS Service Orders and Maximo Work Orders. This enables USG to track customer work requests from payment or receipt number to CCSS service order to Maximo work order until water service work is completed and then CCSS/Banner account is activated. USG also double checks to see if any CCSS service orders or Maximo work orders for taps were created without corresponding payments or service receipts. This ensures that payments were made for work performed.
- Most services are processed at the front counter using existing standard charges. Services are billed according to USG site-specific cost entries for large taps/street restoration.
- In most cases, invoices (service receipts) are prepared based on standard charges in the presence of the customer.
- SPU restrictively endorses checks on receipt.
- SPU deposits receipts intact.

- Regarding whether SPU accurately records all authorized refunds/credits/deposits and only such refunds/credits/deposits, the risk is that there are missing documents or incorrect information. Journal and refund request are approved by the AR Supervisor, who ensures that all documents are appropriate.
- Regarding whether bad debts are recognized only in accordance with established policy, the risk is that inappropriate write-offs occur. SPU follows the City's policy, which requires management approval of write-offs over a predefined limit.
- Regarding the objective to maximize timely cash collections, the risk is that handling cash receipts internally can delay deposit of such receipts. SPU should consider "lock-box" arrangements whereby payments are remitted to a post office box, and the bank (WAUSAU) collects and deposits such remittances. Regarding the risk that customers delay remittance, almost all USG revenues are collected in advance. As such, USG does not have an issue with AR management or excessive accounts receivable collection problems.

Controls that may not appropriately manage identified risks related to control objectives:

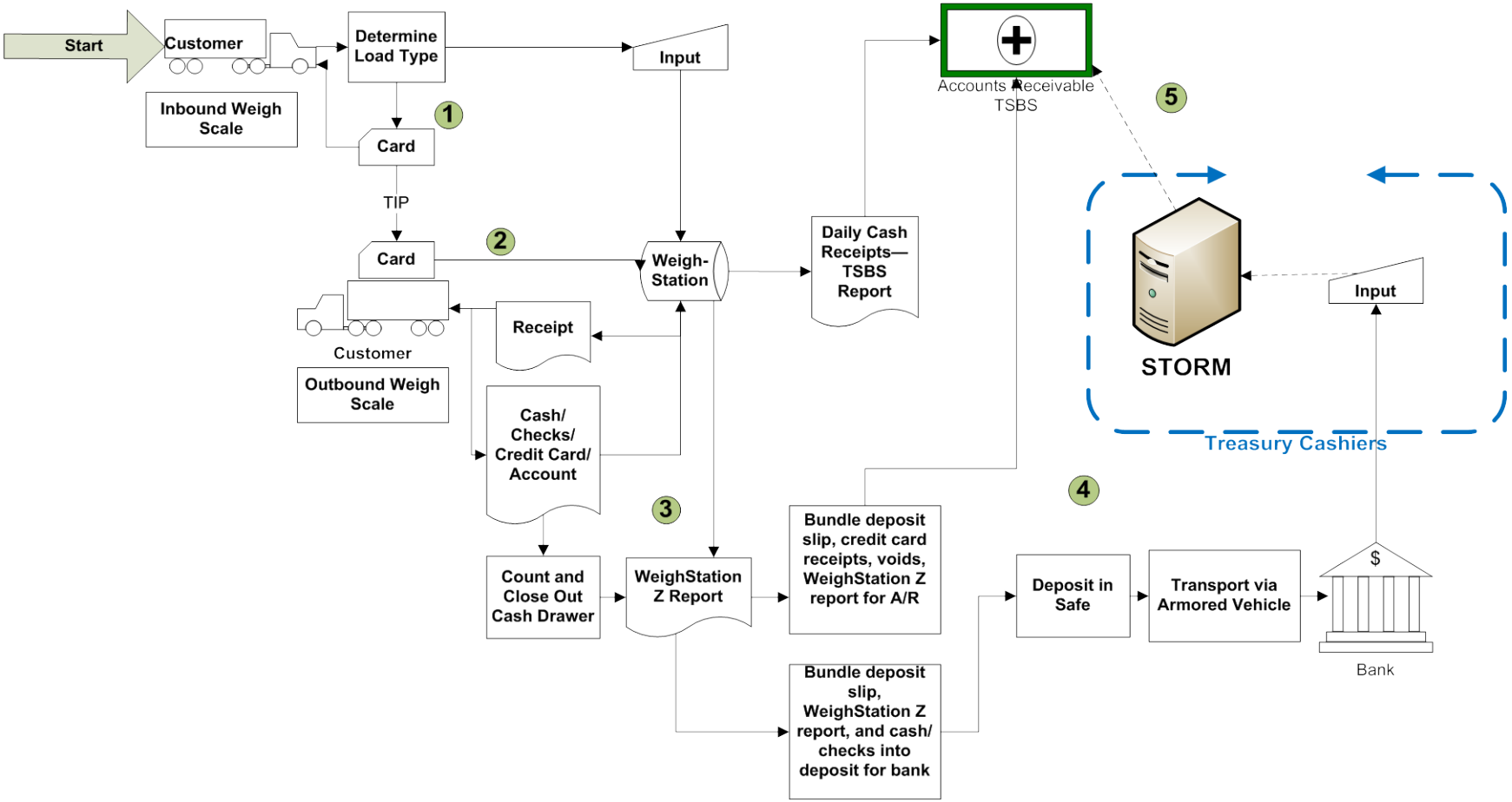
Regarding the control issues described below there is always the option to do nothing. SPU should quantify risk of loss from cash control or cash transactions and determine whether the potential amount of loss is too small to make any procedural changes due to cost benefit analysis.

- Staff might misapply fees to services requested.
- Services and charges are not approved by a level of management above the USG Staff.
- USG staff might not enter the charge or the correct amount into the ACCESS database for receipts, and they process the cash receipts and collect the checks, which are incompatible duties. There are no management or independent secondary reviews to determine that the charge is correct or that all revenues are collected.
- SPU should consider developing expectations for revenue that is compared to actual recorded revenues on a periodic basis (e.g., quarterly). Such expectations could be based on: Annual hydrants permit fees, taps fees, etc. However, USG reports taps and associated revenue on a monthly basis and this report is widely distributed at SPU.
- The USG group that uses the OTC systems may not be trained on the importance of recording revenue in the proper period. In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned. USG staff follows OTC protocol for cash handling/transactions.
- There is no method to match up all invoice requests to actual invoices processed.
- In most all cases, prices are based on approved standard charges or on site specific costs. However pricing is dependent upon the person entering the data to correctly price the service.
- In most cases, USG staff calculates the price and cost, without an independent review. In a few rare cases USG provides information to AR, which prepares invoices based on information from USG and/or field operations/SDOT engineering. USG staffs do not create any cost estimates. They convey standard charges or site specific costs and the USG receipt application has a built in calculator which can add, subtract, multiply and total charges.
- Regarding whether additions and modifications to the price master file are authorized by an appropriate level of management and or Council) and are made accurately and completely, the risk is that prices are changed without authorization. In some cases, prices are

based on approved standard charges or site specific costs. However, pricing is dependent upon the person entering the data to correctly price the service.

- Regarding whether sales contracts or invoices are authorized by someone not initiating the sale, or at a level of management above the person initiating the sale, the risk is that prices are changed to assist sales activity that are not consistent with policy.
- AR should contact payor to determine reasons for payment, or payment different than amounts invoiced.
- USG staff can access and modify the customer master files and process transactions, which is an incompatible segregation of duties. SPU should consider segregating these two functions. However, most services are paid in advance.
- There is no current method to match up all invoice requests to actual invoices processed, but USG does employ a tap tracking system to accomplish this objective.
- Regarding the ensured continued completeness and accuracy of accounts receivable transactions, whereby unauthorized input for nonexistent returns, allowances and write-offs could occur, this is an issue in that USG staff can make changes to customers and billing data without a second review.
- Consider Segregating AP cash handling function from processing AP vendor refunds/rebates, etc. Checks related to vendor reimbursements/rebates/returns are used to prepare a separate CTV, but this function is not segregated from the AP function and presents an incompatible segregation of duties.
- Consider use of lock-box or other arrangements to accelerate deposits and consider ability to have customers transfer funds electronically to the entity's bank account, and notify the entity of payment through Electronic Data Interchange (EDI).
- USG should contact payor to determine reasons for payment, or payment different than amounts invoiced.
- Regarding whether recorded accounts receivable are properly valued and include consideration of allowances, bad debts, and other applicable reserves and allowances, the risk is that information regarding accounts receivable valuation is not captured or provided to financial accountants.
- AR staff can access and modify the customer master files and process transactions, which is an incompatible segregation of duties. SPU should consider segregating these two functions.
- AR staff can make changes to AR customers and billing data without a second review.

Seattle Public Utilities Transfer Station Billing System Process



Notes to the Seattle Public Utilities Transfer Station Billing System Process Flowchart

Introduction: Seattle Public Utilities operates two transfer stations in the city limits. The transfer stations accept garbage, compostables, recyclables and appliances. Charges are based on the type of material, the type of vehicle and the weight. There is no charge for loads composed of only recyclable materials. The transfer stations use WeighStation, a module within the Transfer Station Billing System (TSBS) software package, to track each load and process receipts. The following illustrates the transfer station charges:

- Flat Rate Vehicles: Sedans, station wagons, and sport utility vehicles (all without trailers)
- Per Ton Rate Vehicles: All other vehicles including trucks, pick-up trucks, vans, minivans, vehicles with trailers, travel-alls, motor homes, and modified buses, aid cars and commercial vehicles

Rates Effective January 1, 2010

Material(s) in Load	Flat Rate Vehicles	Per Ton Rate Vehicles
Recyclables Only	no charge	no charge
Garbage	$30.00 per trip	$145.00 per ton, ($30.00 minimum charge)
Clean Yard Waste	$20.00 per trip	$110.00 per ton, ($20.00 minimum charge)
Clean Wood Waste	$20.00 per trip	$110.00 per ton, ($20.00 minimum charge)
Vehicle Tires Only	$13.00 per load (limit 4 per load)	$13.00 per load (limit 4 per load)
Large Appliances (All refrigerators must be empty and have doors removed.)	$30.00 per appliance (limit 2 per load)	$8.00 per appliance + tonnage rate for other materials
Unsecured Loads	$3.00	$5.00 if <= 1 ton $10.00 if > 1 ton
Sharps	no charge (limit one gallon per trip)	not accepted; household sharps only

The Transfer Stations collect recycled materials and scrap metal in separate locations. Scrap metal is delivered to Seattle Iron and Metal under a contract, where it is weighed. This company uses the weights and the current market for commodity prices to determine the amount due to SPU. A check for the total amount due is forwarded to AR (through the AP Cash Handling Unit) on a monthly basis. No invoice is prepared by SPU. Other recycled materials, such as glass, are delivered to Rebanco, where it is weighed. Rabanco prepares a

processing fee invoice based on load data. SPU does not receive any revenue from this recycled material. The processing fee invoice from Rebanco is processed through SPU's AP function. There is no current contract for this activity.

1 The process begins when a vehicle drives onto the inbound weigh scale. The attendant inquires as to the nature of the material and inputs the type of load and the vehicle license plate number into WeighStation. The load may be inspected at this point in the process. The appropriate bar-coded card for the load type is swiped and then given to the customer. The inbound scale records the beginning weight directly into WeighStation. The customer then proceeds to the unloading area. Note: there is a slightly different process for 'flat rate' loads, as they pay up front according to the rate schedule listed above, are issued a receipt, then after tipping, are free to depart, i.e. do not need to go across the outbound scale.

2 After unloading, the customer drives onto the outbound weigh scale and surrenders the card, which is again scanned. Based upon the information entered into WeighStation during the inbound scale process and the outbound scale weight, the fee is determined. The customer may pay via cash, check, credit card, or account, and the payment amount is entered into WeighStation. WeighStation prints out a receipt, and it is given to the customer. The cash, checks and credit card receipts are placed in the cash drawer.

3 At the end of the day, the scale attendants count the cash, add up the checks, and then enter those figures into the system. After the scale attendant has counted and closed out, the system then generates a "Z" report (an end of day WeighStation report). This report includes the quantity of each denomination of bills and coins per the scale attendant's count and per the system's count. Any discrepancy is researched and noted in a log. Discrepancies greater than $10 should be immediately reported to AR.
Scale attendants then complete a bank deposit slip, which documents the actual amount being deposited. The bank deposit slip is done in triplicate: the original goes to the bank, the pink copy goes to A/R, and the yellow copy is kept by the transfer station.
The WeighStation report and cash and checks are placed in a Wells Fargo bag with a deposit slip. This is then deposited in the safe.
Change is managed via a secure, automated change safe. All withdrawals and deposits are tracked electronically for each scale attendant by the change safe; it is a secure safe that scale attendants cannot open. At the beginning of the day, each cashier checks out their change from the change safe using their own change safe ID. During the day, scale attendants return this exact amount to the change safe, in large bills. If additional change is needed by a scale attendant during the day, it is again checked out of the change safe, and then returned later in the day using large bills. Garda delivers change twice a week by armored car. The safe is then filled by staff (not a scale attendant), and the large bills are removed from the safe and deposited into the bank.

4 The deposit bag includes the deposit slip, WeighStation report, cash and checks. It is deposited in an on-site secured (i.e., bolted down) safe (separate from the change safe discussed above) until it is picked up by armored vehicle (Garda). The safe can only be opened with two keys, Garda has one and SPU staff has the other, so both must be present when this safe is opened; SPU employees can only drop bags into the safe; they cannot remove items. Garda and an SPU employee opens the safe, retrieves the deposit bag(s), and transports the deposit bag(s) to the bank. The bank sends an electronic report to Treasury for balancing and entry into Storm.

5 Treasury forwards an electronic deposit report to A/R for reconciliation with the daily paperwork.

Policy Matters to Consider:

Exact recommendations regarding policy matters are usually difficult to arrive at because they involve weighing the cost/benefit of internal control improvements against some other public service improvement/detriment. The following points of discussion are designed to present the possible internal control improvements within the limitations that might exist in the public service environment. This discussion is presented so that this report's users can place specific comments on the internal control design in the next section in context.

- Customer service is a core value as expressed in SPU's Strategic Business Plan. The customer's ability to consummate a transaction at a front counter and pay in cash or check is a customer service, even though in those cases the desired segregation of handling cash and making entries into the revenue system is not obtained. Providing the desired segregation of duties may slow down the customer interaction and may require additional staffing (at additional costs) not currently available.

- Eliminating cash in revenue collection is likely impractical and may not be in alignment with other non-financial goals and objectives. Likewise, requiring all transactions to run through a billing and accounts receivable tracking system would not likely meet the customer service objectives.

- The accounts receivable and revenue reporting system described herein relies heavily on staff and management to interact with customers and properly manage SPU's affairs. SPU staff and management should be allowed to conduct their revenue producing activities without undue supervision, duplication and monitoring. However, a reasonable degree of supervision, duplication and monitoring to manage the risks that revenues are not collected or properly reported is appropriate. Finding the right balance between allowing staff and management to conduct their work is difficult and requires frequent review, to assure that the desired balance is achieved.

Internal Control Design Comments and Potential Responses:

Controls that appear to appropriately manage identified risks related to control objectives:

- Customers begin the process by driving to the Transfer station. Customers are handled on a first-come, first-served basis. Since the entry to the transfer station is restricted to one lane that must stop at the weigh station attendant, services are controlled.
- Services are captured at the weigh station. There is no need to forward service information to other departments (except for contracts). The system provides data on load types and weights to AR to bill on contracts.
- For Transfer station charges on contract, all Account Holders must submit an application with three business references and make a $300 deposit. Business references are checked prior to granting a contract.
- The vehicle license plate number is input into "WeighStation". The license plate number will flag Account Holders with credit collection issues and deny dumping privileges.
- The appropriate bar-coded card for the load type is swiped and then given to the customer.
- Services are billed according to contracts or revenue is collected based on drive in dumping service requests.

- Other than waste disposal contracts, all revenue is recorded when the dumping occurs and when paid.
- Prices are loaded into the WeighStation system based on approved standard charges or on contracts. However, pricing is dependent upon the person providing the card/entering the data to correctly price the service.
- At the end of the day, the scale attendants count the cash, add up the checks, and then enter those figures into the system. After the scale attendant has counted and closed out, the system then generates a "Z" report (an end of day WeighStation report). This report includes the quantity of each denomination of bills and coins per the scale attendant's count and per the system's count. Any discrepancy is researched and noted in a log. Discrepancies greater than $10 are immediately reported to AR.
- Scale attendants complete a bank deposit slip, which documents the actual amount being deposited. The bank deposit slip is done in triplicate: the original goes to the bank, the pink copy goes to A/R, and the yellow copy is kept by the transfer station. The WeighStation report and cash and checks are placed in a Wells Fargo bag with a deposit slip.
- Funds are deposited in a safe. Change is managed via a secure, automated change safe. All withdrawals and deposits are tracked electronically for each scale attendant by the change safe; it is a secure safe that scale attendants cannot open. At the beginning of the day, each cashier checks out their change from the change safe using their own change safe ID. During the day, scale attendants return this exact amount to the change safe, in large bills. If additional change is needed by a scale attendant during the day, it is again checked out of the change safe, and then returned later in the day using large bills. Garda delivers change twice a week by armored car. The safe is then filled by staff (not a scale attendant), and the large bills are removed from the safe and deposited into the bank.
- SPU restrictively endorses checks on receipt.
- SPU deposits receipts intact daily.
- Regarding the objective to maximize timely cash collections, the risk is that handling cash receipts internally can delay deposit of such receipts. SPU should consider "lock-box" arrangements whereby payments are remitted to a post office box and the bank (WAUSAU) collects and deposits such remittances. Regarding the risk that customers delay remittance, AR sends statements and dunning letters. If no payment, account is sent to NCO collection agency.

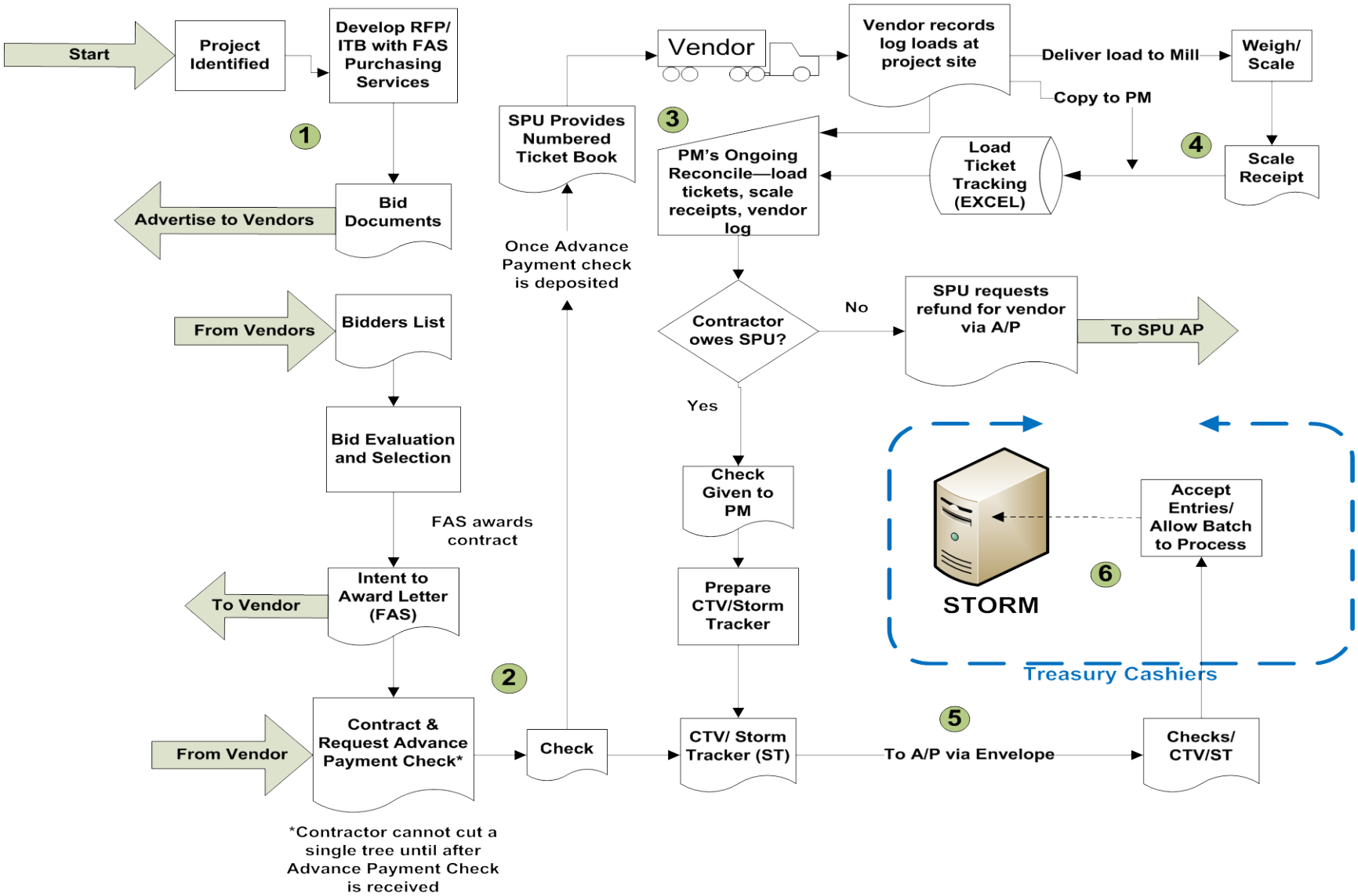
Controls that may not appropriately manage identified risks related to control objectives:

Regarding the control issues described below there is always the option to do nothing. SPU should quantify risk of loss from cash control or cash transactions and determine whether the potential amount of loss is too small to make any procedural changes due to cost benefit analysis.

- It is possible that the attendant could provide an incorrect card to the customer, as there is no control over this process.
- SPU should consider numerically controlling waste disposal contracts. Invoices should be matched one-on-one to each contract number and missing numbers should be investigated. Contract pricing should be approved by a management level not involved in negotiating the contract or determining the contract rate.
- SPU should consider developing expectations for revenue that is compared to actual recorded revenues on a periodic basis (e.g., quarterly). Such expectations could be based on: Weights recorded for garbage disposal, annual trends in recycling weights and billings, and contract disposals (contract charges from Transfer stations).
- Prices are loaded into the WeighStation system based on approved standard charges or on contracts. However, pricing is dependent upon the person providing the card/entering the data to correctly price the service.

- SPU should consider mailing account holder statements periodically, and individuals independent of the AR function should investigate and resolve disputes or inquiries. However, the invoices function much like a statement wherein past due invoices are displayed. The system does not have the functionality to produce statements.
- AR staff can access and modify the customer master files and process transactions, which is an incompatible segregation of duties. SPU should consider segregating these two functions.

Seattle Public Utilities Timber Sales Process



Notes to the Seattle Public Utilities Timber Sales Process Flowchart

Introduction: To improve habitat, the Seattle City Council passed ordinances to authorize the cutting and removal of trees from the Tolt (up to 5 million board feet over 5 years) and Cedar River (not to exceed 250,000 board feet in any single calendar year)—or seek ordinance authority for amounts above it for either watershed. The resulting logs are deemed surplus property and may be sold in accordance with applicable contracting and surplus property procedures.
Project sites are based on ecological priorities and forest health. Once a project site has been identified, SPU staff determines which types of trees are to be cut based on a general prescription. In general, smaller and less dominant trees are cut.

1 Trees are cut and sold via a timber sale contract. Contracts are established by the FAS Purchasing Services processes. Appraisals are sometimes developed by third parties to estimate a value associated with the logs. In other instances, SPU staff develops an estimate of timber value based on the volume of sale and market value of timber type. Some projects have minimum bids (and projects are rebid at a later date if bidders' prices are less than the established minimum bid).

2 Contractors are required to submit partial payment before starting work. The payment due in advance is based on a calculation of the bid price and an estimate of 30 days work, typically 20-21 working days. Watershed staff calculates payment due, requests payment from the contractor, receives the checks and puts them in a safe until the CTV—Check Transmittal Voucher--from the Storm Tracker System is complete.

3 Once work begins, each load gets a ticket for tracking. Ticket books containing 25 load tickets each are provided to the vendor. The date ticket books are issued and the date returned is tracked in the load ticket tracking Excel workbook. A random check of trucks leaving the site (estimated to range from 20 – 60%) by SPU staff ensures that the basic contract requirements and harvest prescriptions are met. Timber is sold by the ton. SPU receives scale receipts from the mill, delivered by the log truck drivers, who give them to the contractors. The mill may also collect tickets to log load tickets with the weight. The contractors must deliver all tickets to SPU. A missing ticket will cause the contractor to owe SPU $1500, so collection is rigorous. Each load is weighed at a certified scale or at a mill. The contractor is required to provide State Certification of all weighing facilities used. The actual tonnage is recorded in the load ticket tracking Excel workbook and compared to the advance payment made. Differences between payment and amounts owed/paid are reflected as credits and the reasons for the credits are documented in the Excel Workbook. In this flowchart "PM" stands for Project Manager. The PM is a Cedar Falls staff person who manages the timber contracts and processes.

4 Log weights are captured at the mill on log load tickets, which are then reconciled on a log tracking spread sheet kept on a common drive, with a copy in the contract folder. The tickets are kept in a drawer at the Cedar Falls Headquarters, with envelopes for each sale. The ticket with the weight receipt numbers are written on the outside of the envelope.

5 The envelope includes the checks and the storm tracker receipt, and it is hand delivered to SPU's A/P. A/P records the checks on the Check Log register and sends the materials to Treasury.

6 For all systems that feed Storm, the other city departments enter their cash receipt/revenue data into various systems, which are integrated into Storm/Summit. The TCs will review the information provided via CTVs, Storm Trackers, OTC balance reports, etc. and reconcile to the source system reports. If accepted then the entries "batch" will "be accepted", which means it can update Storm files and, therefore, the Summit GL.

Policy Matters to Consider:

Exact recommendations regarding policy matters are usually difficult to arrive at because they involve weighing the cost/benefit of internal control improvements against some other public service improvement/detriment. The following points of discussion are designed to present the possible internal control improvements within the limitations that might exist in the public service environment. This discussion is presented so that this report's users can place specific comments on the internal control design in the next section in context.

- Customer service is a core value as expressed in SPU's Strategic Business Plan. The customer's ability to consummate a transaction at a front counter and pay in cash or check is a customer service, even though in those cases the desired segregation of handling cash and making entries into the revenue system is not obtained. Providing the desired segregation of duties may slow down the customer interaction and may require additional staffing (at additional costs) not currently available.

- Eliminating cash in revenue collection is likely impractical. Likewise, requiring all transactions to run through a billing and accounts receivable tracking system would not likely meet the customer service objectives.

- The accounts receivable and revenue reporting system described herein relies heavily on staff and management to interact with customers and properly manage SPU's affairs. SPU staff and management should be allowed to conduct their revenue producing activities without undue supervision, duplication and monitoring. However, a reasonable degree of supervision, duplication and monitoring to manage the risks that revenues are not collected or properly reported is appropriate. Finding the right balance between allowing staff and management to conduct their work is difficult and requires frequent review, to assure that the desired balance is achieved.

Internal Control Design Comments and Potential Responses:

Controls that appear to appropriately manage identified risks related to control objectives:

- Timber sales are on contract, so there is no "Front End" order processing related to timber sales.
- Loads are tracked via sequentially numbered tickets in Excel, both the log loads at the project site and scale receipts from the mill. Missing numbers are followed-up.

- Vendors make advance payments on timber sales contracts, so contracts are managed at CRW and not forwarded to AR. If a vendor processes more logging than the advance payment then the vendor provides a settlement check to the CRW Project Manager. If actual logging is less, CRW requests a check to be processed to vendor through AP.
- Log loads and scale receipts are reconciled to monthly settlement, but not by an independent function.
- Services are billed in advance based on estimates of work for the following month. Monthly settlements are made based upon load and scale documents that are tracked to determine missing information.
- Prices are based on contracts from a competitive procurement.
- Contracts are awarded by a separate department.

Controls that may not appropriately manage identified risks related to control objectives:

Regarding the control issues described below there is always the option to do nothing. SPU should quantify risk of loss from cash control or cash transactions and determine whether the potential amount of loss is too small to make any procedural changes due to cost benefit analysis.

- Timber sales contracts should be prenumbered and sent to CRW, which should investigate any missing contract/documents.
- SPU should consider a secondary independent review of the ticket and scale receipt tracking focusing on tying contract values back to the signed contract. SPU should consider verifying log load, scale and contract terms before monthly settlement processing by an individual independent of the contract management functions.
- Regarding the objective of identifying expectations for all revenue sources, it could be possible, once a timber harvest project is identified and contracted, that the expected revenue could be reported to AR or revenue accounting to follow-up on significant trend variations.
- Revenue is recorded when the check is received and processed, but it is in advance of the month in which the revenue is earned.
- Log loads and scale receipts are reconciled to monthly settlement, but not by an independent function.
- SPU should consider changing its contract terms, retaining the requirement for the vendor to pay for logging in excess of estimates, but instead of processing a payment for "under-logging" allow the vendor to reduce its next month's advance payment. This may reduce AP processing volume.
- SPU should consider mailing vendor statements periodically, and individuals independent of the monthly settlement function should investigate and resolve disputes or inquiries.
- Consider "lock-box" arrangements whereby payments are remitted to a post office box and the bank (WAUSAU) collects and deposits such remittances. Consider ability to have customers transfer funds electronically to the entity's bank account, and notify the entity of payment through Electronic Data Interchange (EDI)
- Assign opening of mail to an individual with no responsibility for or access to files or documents pertaining to timber sales tracking files. Compare independently listed receipts to bank deposits (i.e., envelope to SPU's Cash Handling Unit).
- Contact payor to determine reasons for non-payment, or payments different than amounts invoiced.
- Segregate custodial and record-keeping functions.
- Individuals independent of recording cash receipts in project tracking systems should receive and prelist cash.
- Restrictively endorse checks on receipt.
- Deposit receipts intact daily.

Appendix B: SPU Risk Assessment Matrices

These risk assessment matrices presents SPU management's objectives in its cash handling and receipting processes, the risk that those objectives are not achieved and the actions or control activities employed to manage each identified risk.

Objective settling is a precondition to risk assessment. There must first be objectives before management can identify risks to their achievement and take necessary actions to manage the risks. SPU management provided objectives for the accounts receivable and cash revenue reporting function. There are three main categories of objectives, and an indication of the category of objective and related risk is made as follows: O=Operations, F=Financial and C=Compliance. For each stated objective, one or more risks that the objective will not be achieved are identified. For each risk, the actions or control activities employed to manage the risk are identified.

This risk assessment matrix does not specify the estimate of the significance or assessment of the likelihood that each risk will occur. However, in reviewing the sufficiency of the control activities in relation to the risk, certain areas were identified where the control activity did not appear to be commensurate with the significance or likelihood of the risk. Potential recommendations for enhancing the current control procedures are highlighted in this risk assessment matrix.

The risk assessment process focused on the design of the internal control structure and did not test its effectiveness in operation.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			Notes on items to be considered as potential recommendations
1. Handle customer service requests expeditiously and efficiently.	O	Inadequate information systems.	Various functions have different "intake" methods as is described under Objective # 6 below.
(See description of various functions' intake methods under Objective #6 below.)		Untrained Staff.	
2. Forward requests for services to appropriate department/function or process request at the front counter.	O	Information regarding service requests is lost.	Most functions handle their own requests for services. The possible exception is UST for 3" and larger taps and street restoration, which involves coordination with other functions.
3. Process service requests only for customers that are authorized to receive the service.	O,C	Incomplete, untimely or inaccurate information regarding the customer.	Various functions have different "intake" methods as is described under Objective # 6 below.
4. Process only valid service requests	O,F	Services may not be authorized.	Various functions have different "intake" methods as is described under Objective # 6 below.
5. Process all approved service requests	O	Service Request documentation may be lost.	Various functions have different "intake" methods as is described under Objective # 6 below.
6. All services are accurately documented, and such documentation is forwarded to accounts receivable/revenue on a timely basis.	O,F	Incorrect information is entered in service document.	See individual function comments below.
Functions:			
Real Property	F	Not all contracts are forwarded to AR. Contract pricing may be less than "market". Recorded revenue approximately $500K per year.	Most rental agreements are billed annually based on a contract negotiated between the customer and the SPU Real Estate Agent. AR prepares a "proforma" invoice for review and approval prior to finalizing and mailing.
			Road use permits are billed annually based on an agreement. AR prepares a "proforma" invoice for review and approval prior to finalizing and mailing.
			One-time permits ($1500 each) are reported to AR via an invoice request from the SPU Real Estate Agent.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			SPU should consider numerically controlling contracts and permits. Invoices should be matched one-on-one to each contract/permit number and missing numbers should be investigated. Contract or permit pricing should be approved by a management level not involved in negotiating the contract or determining the permit fee.
Survey	F	Billable time charges are underreported.	AR uses the King County Contract and looks up time charges posted to that activity number, compares to the balance remaining, prepares the invoice for the Biologist's review.
Vault- Virtual Base Station Network	F	Not all contracts are forwarded to AR. Recorded revenue approximately $100K per year.	AR maintains contracts filed by month and enters in new contracts into Excel Tracking sheet. Invoices are prepared by AR based on contracts and Excel Tracking and are reviewed by the function prior to mailing.
			Consider using MIS system access reports to determine completeness of contract files and Excel Tracking.
Vault- GIS Products	F	Sales are not captured in invoice request. Recorded revenue approximately $10K per year.	These products are all billed through AR.
			Consider using a log to match up map requests with maps provided and maps billed.
Utility Services Team (UST) < 3" taps	F	See OTC flowchart.	
Utility Services Team (UST) > 3" taps and Street Restoration	F	Work performed is not captured resulting in work that is not billed. See OTC flowchart.	Typically the site is inspected by field operations/ SDOT engineers and they provide either a site-specific cost or a time and materials cost estimate. Large Taps and Street Restoration work is collected on OTC prior to the work. The receipt number is posted to the work order system so that field operations know the work has been prepaid prior to performing the work.
			Work for other governments is not billed and collected in advance of the work, so AR must bill after the work is completed.
			All field operations work is posted to a work order through timekeeping systems. A work order cannot be set up without prepayment.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
Rebanco Recycling	F	Material that should be billed is not captured or billed.	This activity is managed under one contract. Recycling materials provided in excess of standard amount results in a billing. Materials under this amount result in a payment to Rebanco. The contract manager reviews the amount due from/due to based on weights and market prices and submits either an invoice request to AR or a payment request to AP.
Sewer Discharge	F	Information related to billable discharge is not provided to AR. Recorded revenue approximately $800K per year.	Sewer discharge information is provided from King County. Based on this KC information, an email is sent to AR to prepare a monthly or quarterly billing invoice.
Damage Claims	F	Reported losses are not identified or not reported to AR. Recorded revenue approximately $60K per year.	The SPU risk management function determines when a recoverable loss has occurred. They calculate the $ amount of the loss incurred and prepare a letter to the responsible party explaining the loss incurred and the calculation of the amount owed to SPU. This letter is sent to AR via email so that they can prepare the invoice. The invoice is sent back to risk management for mailing along with the damage claim letter to the customer.
Transfer station charges on contract	F	Information necessary to bill on contracts is not captured or provided to AR.	The TSBS tracks charges on contracts based on weights and load type. AR uses this information to process an invoice for these contracts.
Wholesale water	F		The function allocates costs of providing water to the Cascade Water Alliance and the Northshore Utility District. It is a substantial revenue source. By contract/agreement all parties agree to a cost sharing arrangement, the mechanics of which are agreed to in advance. Billings for each participant are set for the year and there is a year-end “true-up” of actual to estimated costs which roll into the next year’s standard billings. The annual costs and participant cost sharing are audited annually.
7. All time charges for SPU staff that should be posted to a work order that is to be billed is captured in the correct account.	O,F	Revenue producing work is not captured in time reporting or work order system.	All field operations work is posted to a work order through timekeeping systems. A work order cannot be set up without prepayment.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
8. Expectations for all revenue sources are identified.	F	Information regarding expected revenues is not captured or analyzed.	SPU should consider developing expectations for revenue that are compared to actual recorded revenues on a periodic basis (e.g., quarterly). Such expectations could be based on: real property contract and annual permits in force, annual trends in one-time real property permits, survey billings, Virtual Base Station Network subscriptions. sales of GIS products, UST taps and street restoration charges, recycling contract charges, Sewer discharge, damage claims and contract charges from Transfer Stations.
9. All services are accurately billed in the proper period.	F	Missing documents or incorrect information.	Services are billed according to contracts or requests for invoices from various functions.
			The various functions may not be trained about the importance of recording revenue in the proper period.
		Improper cutoff of services at the end of a period.	In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned.
10. Extending of credit and credit limits are authorized by someone other than the person initiating the sale.	O,F	Credit is extended without determining credit worthiness.	There are no obvious controls around the extending of credit, except for the transfer station contracts.
11. Additions and modifications to the price master file are authorized by an appropriate level of management and or Council) and are made accurately and completely.	F	Prices are changed without authorization.	In some cases, prices are based on approved standard charges or on contracts. However, pricing is dependent upon the person entering the data to correctly price the service.
12. Sales contracts or invoices are authorized by someone not initiating the sale, or at a level of management above the person initiating the sale.	O,F	Prices are changed to assist sales activity that are not consistent with policy.	See Objective # 6 above.
13. Invoices reflect prices that have been approved by someone other than the person making the sale.	F	An incorrect contract value is entered into the invoice request.	In many cases AR prepares invoices based on contracts independent of the person generating the revenue (also see Objective # 6 above).
			In some cases, prices rely on the person entering the data to correctly price the service.
14. Revenue from sales of products and services is recognized only upon satisfaction of the revenue recognition criteria.	F	Improper cutoff of services at the end of a period.	In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
15. Invoices are processed and recorded completely, accurately and timely.	F	Invoice is not accurate or timely.	Invoices are prepared based on contracts or invoice requests from other departments. In many cases the invoices are provided to the requesting function to review and approve prior to mailing.
		Invoice is not prepared from an invoice request.	There is no method to match up all invoice requests to actual invoices processed.
16. Revenue recorded is valid and recorded accurately, completely, and timely.	O,F	Missing documents or incorrect information.	See above.
			All invoices processed are integrated with the Summit/GL system.
	F	Improper cutoff of services at the end of a period.	In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned.
			Annual real estate leases, permits, GIS subscriptions, taps and street restoration may be recorded as revenue in advance of the period of "earned service".
17. Accurately record invoices for all authorized services and only for such services.	O,F	Missing documents or incorrect information.	Invoices are numerically sequenced.
			There is no method to match up all invoice requests to actual invoices processed.
18. Accurately record all authorized refunds/credits/deposits and only such refunds/credits/deposits.	O,F	Missing documents or incorrect information.	Journal and refund requests are approved by the AR Supervisor, who ensures that all documents are appropriate.
		Inaccurate input of data.	SPU should consider mailing vendor statements periodically, and individuals independent of the AR function should investigate and resolve disputes or inquiries.
19. Bad debts are recognized only in accordance with established policy.	F	Inappropriate write-offs occur.	SPU follows FAS write-off policies.
20. Ensure continued completeness and accuracy of accounts receivable transactions.	O,F	Unauthorized input for nonexistent returns, allowances and write-offs.	AR staff can make changes to AR customers and billing data without a second review.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
21. Safeguard accounts receivable records.	O,F	Unauthorized access to accounts receivable records and stored data.	Only AR staff are allowed "write-access" to AR records.
22. Maximize timely cash collections.	O,F	Handling cash receipts internally can delay deposit of such receipts.	Consider "lock-box" arrangements whereby payments are remitted to a post office box, and the bank (WAUSAU) collects and deposits such remittances.
		Customers delay remittance.	AR sends statements and dunning letters. If no payment, account is sent to NCO collection Agency.
		Excessive accounts receivable collection problems.	AR sends statements and dunning letters. If no payment, account is sent to NCO collection Agency.
23. Record cash receipts on accounts receivable completely and accurately.	O,F	Cash received is diverted, lost or otherwise not reported accurately to accounts receivable.	Mail is opened by the Cash Handling Unit of AP, which is separate (independent) from the AR function and has no "write-access" to AR module. They prepare a check log upon opening the mail. The log is used to compare the checks returned from AR after posting and to the CTV/Payment Detail/Storm Tracker prepared by AR. Any differences noted are investigated.
			Checks related to vendor reimbursements/rebates/returns are used to prepare a separate CTV, but this function is not segregated from the AP function and presents an incompatible segregation of duties.
			Consider use of lock-box or other arrangements to accelerate deposits
			Consider ability to have customers transfer funds electronically to the entity's bank account, and notify the entity of payment through Electronic Data Interchange (EDI)
		Receipts are for amounts different than invoiced amounts, or are not identifiable.	AR posts the payment to the AR module. Underpayments would be tracked by Summit AR module.
			Contact payor to determine reasons for non-payment, or payments different than amounts invoiced

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
24. Recorded accounts receivable in the General Ledger agrees to the customer Subsidiary Ledger.	F	A subsidiary system is not used or is not reconciled to the GL Control Account.	Since the AR module in Summit is integrated with the Summit GL, reconciliation is NA.
25. Recorded accounts receivable are properly valued and include consideration of allowances, bad debts, and other applicable reserves and allowances.	F	Information regarding accounts receivable valuation is not captured or provided to financial accountants.	Valuation of accounts receivable is subject to annual audit, but materiality may be more than appropriate for internal uses.
26. Safeguard cash and the related accounting records.	O,F,C	Inadequate physical security over cash and documents that can be used to transfer cash.	Mail is opened by the Cash Handling Unit of AP, which is separate (independent) from the AR function and has no "write-access" to AR module. They prepare a check log upon opening the mail. The log is used to compare the checks returned from AR after posting and to the CTV/Payment Detail/Storm Tracker prepared by AR. Any differences noted are investigated.
			Checks related to vendor reimbursements/rebates/returns are used to prepare a separate CTV, but this function is not segregated from the AP function and presents an incompatible segregation of duties.
			SPU restrictively endorses checks on receipt.
			SPU deposits receipts intact daily.
			Cedar River Watershed Education Center staff handles cash, checks and credit cards and also enters transactions into the SportsMan system and prepares the Storm Tracker. As a compensating control, a Manager matches up entries in the SportsMan system, the till (cash register) and the Storm Tracker to assure that all revenues that were recorded were collected and transmitted to the Cash Handling Unit.
27. Additions and modifications to the customer master file are authorized by an appropriate level and are made accurately and completely; Only appropriate personnel have access to master data files.	O,F	Inappropriate access to master files that could change cash receipts/accounts receivable results.	AR staff can access and modify the customer master files and process transactions, which is an incompatible segregation of duties. SPU should consider segregating these two functions.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			Notes on items to be considered as potential recommendations
1. Handle customer service requests expeditiously and efficiently.	O	Inadequate information systems.	Staff uses the OTC process to address customer requests for services.
		Untrained Staff.	Staff know how to use the OTC process.
			Staff might misapply fees to services requested.
2. Forward requests for services to appropriate department/function or process request at the front counter.	O	Information regarding service requests is lost.	In order to process a request for a 3" or larger tap, USG staff need to obtain a cost estimate from Field Operations/Engineering.
			USG Staff can receive a payment and enter it into the work order system without entering it into OST system. However, the USG tap tracking system should detect this.
3. Process service requests only for customers that are authorized to receive the service.	O,C	Incomplete, untimely or inaccurate information regarding the customer.	See objective number 1 above.
4. Process only valid service requests	O,F	Services may not be authorized.	See objective number 1 above.
5. Process all approved service requests	O	Service Request documentation may be lost.	Services are not approved by a level of management above the USG Staff.
6. All services are accurately documented, and such documentation is forwarded to accounts receivable/revenue on a timely basis.	O,F	Incorrect information is entered in service document.	Most services are processed at the front counter, using existing standard charges.
			USG staff might not enter the charge or the correct amount into OTC, and they process the cash receipts and collect the checks, which are incompatible duties. There is no management or independent secondary review to determine that the charge is correct.
7. All time charges for SPU staff that should be posted to a work order that is to be billed is captured in the correct account.	O,F	Revenue producing work is not captured in time reporting or work order system.	Engineering/Field Operations staff report their time in a timekeeping system integrated with the work order system. Time charges are reviewed by a supervisor.
8. Expectations for all revenue sources are identified.	F	Information regarding expected revenues is not captured or analyzed.	SPU should consider developing expectations for revenue that is compared to actual recorded revenues on a periodic basis (e.g., quarterly). Such expectations could be based on: annual hydrant permit fees, taps fees, etc.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
9. All services are accurately billed in the proper period.	F	Missing documents or incorrect information.	Services are billed according to OST standard cost entries or contracts for large taps/street restoration.
			The USG group that uses the OTC systems may not be trained about the importance of recording revenue in the proper period.
	F	Improper cutoff of services at the end of a period.	In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned.
10. Extending of credit and credit limits are authorized by someone other than the person initiating the sale.	O,F	Credit is extended without determining credit worthiness.	Almost all work is prepaid so granting of credit is not a significant risk.
11. Additions and modifications to the price master file are authorized by an appropriate level of management and or Council) and are made accurately and completely.	F	Prices are changed without authorization.	In some cases, prices are based on approved standard charges or on contracts. However, pricing is dependent upon the person entering the data to correctly price the service.
12. Sales contracts or invoices are authorized by someone not initiating the sale, or at a level of management above the person initiating the sale.	O,F	Prices are changed to assist sales activity that are not consistent with policy.	USG staff might not enter the charge or the correct amount into OTC, and they process the cash receipts and collect the checks, which are incompatible duties. There is no management or independent secondary review to determine that the charge is correct.
13. Invoices reflect prices that have been approved by someone other than the person making the sale.	F	An incorrect contract value is entered into the invoice request.	In most cases, USG staff calculates the price and cost, without an independent review. In a few cases UST provides information to AR, which prepares invoices based on information from USG and/or field operations/engineering. (also see Objective # 6 above).
			In some cases, prices are based upon the person entering the data to correctly price the service.
14. Revenue from sales of products and services is recognized only upon satisfaction of the revenue recognition criteria.	F	Improper cutoff of services at the end of a period.	In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned.
15. Invoices are processed and recorded completely, accurately and timely.	F	Invoice is not accurate or timely.	In most cases, invoices (service receipts) are prepared based on standard charges in the presence of the customer.
		Invoice is not prepared from an invoice request.	There is no method to match up all invoice requests to actual invoices processed.
16. Revenue recorded is valid and recorded accurately, completely, and timely.	O,F	Missing documents or incorrect information.	See above.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			All charges processed in OTC are provided to Treasury and deposited directly to the bank. The OTC balancing report and the bank deposit slip is faxed to Treasury.
	F	Improper cutoff of services at the end of a period.	In many cases, revenue is recorded when the check is received and processed, regardless of the month in which the revenue is earned.
17. Accurately record invoices for all authorized services and only for such services.	O,F	Missing documents or incorrect information.	Service Receipts are numerically sequenced as assigned by the Access system.
			There is no method to match up all invoice requests to actual invoices processed.
18. Accurately record all authorized refunds/credits/deposits and only such refunds/credits/deposits.	O,F	Missing documents or incorrect information.	Journal and refund requests are approved by the AR Supervisor, who ensures that all documents are appropriate.
	F	Inaccurate input of data.	SPU should consider mailing vendor statements periodically and investigate and resolve disputes or inquiries, by individuals independent of the AR function.
19. Bad debts are recognized only in accordance with established policy.	F	Inappropriate write-offs occur.	SPU follows FAS write-off policies.
20. Ensure continued completeness and accuracy of accounts receivable transactions.	O,F	Unauthorized input for nonexistent returns, allowances and write-offs.	Staff can make changes to AR customers and billing data without a second review.
21. Safeguard accounts receivable records.	O,F	Unauthorized access to accounts receivable records and stored data.	Only UST staff are allowed "write-access" to OTC records, but UST staff can change customer records.
22. Maximize timely cash collections.	O,F	Handling cash receipts internally can delay deposit of such receipts.	Consider "lock-box" arrangements whereby payments are remitted to a post office box, and the bank (WAUSAU) collects and deposits such remittances.
	F	Customers delay remittance.	Other than the occasional use of the SPU AR function all services are paid in advance.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
	F	Excessive accounts receivable collection problems.	Other than the occasional use of the SPU AR function all services are paid in advance.
23. Record cash receipts on accounts receivable completely and accurately.	O,F	Cash received is diverted, lost or otherwise not reported accurately to accounts receivable.	Cash/checks are received by the same function recording the charge in OTC. As such, there is a lack of segregation of duties between handling cash payments and recording revenue.
			Consider use of lock-box or other arrangements to accelerate deposits.
			Consider ability to have customers transfer funds electronically to the entity's bank account, and notify the entity of payment through Electronic Data Interchange (EDI)
	F	Receipts are for amounts different than invoiced amounts, or are not identifiable.	Other than the occasional use of the SPU AR function all services are paid in advance.
24. Recorded accounts receivable in the General Ledger agrees to the customer Subsidiary Ledger.	F	A subsidiary system is not used or is not reconciled to the GL Control Account.	The OTC system is not integrated with the Summit GL, but it does not offer a subsidiary system function, so reconciliation is NA.
25. Recorded accounts receivable are properly valued and include consideration of allowances, bad debts, and other applicable reserves and allowances.	F	Information regarding accounts receivable valuation is not captured or provided to financial accountants.	Valuation of accounts receivable is subject to annual audit, but materiality may be more than appropriate for internal uses.
26. Safeguard cash and the related accounting records.	O,F,C	Inadequate physical security over cash and documents that can be used to transfer cash.	Cash/checks are received by the same function recording the charge in OTC. As such, there is a lack of segregation of duties between handling cash payments and recording revenue.
			SPU restrictively endorses checks on receipt.
			SPU deposits receipts intact within 48 hours.
27. Additions and modifications to the customer master file are authorized by an appropriate level and are made accurately and completely. Only appropriate personnel have access to master data files.	O,F	Inappropriate access to master files that could change cash receipts/accounts receivable results.	Other than the occasional use of the SPU AR function all services are paid in advance. As such, there are no customer master file issues involved in the OTC process.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			Notes on items to be considered as potential recommendations
1. Handle customer service requests expeditiously and efficiently.	O	Inadequate information systems.	Customers begin the process by driving to the Transfer Station. Customers are handled on a first-come, first-served basis.
		Untrained Staff.	
2. Forward requests for services to appropriate department/function or process request at the front counter.	O	Information regarding service requests is lost.	Services are captured at the weigh station. There is no need to forward service information to other departments (except for contracts?)
3. Process service requests only for customers that are authorized to receive the service.	O,C	Incomplete, untimely or inaccurate information regarding the customer.	The vehicle license plate number is input into "WeighStation". This system identifies customers with credit issues and denies access.
4. Process only valid service requests	O,F	Services may not be authorized.	See above.
5. Process all approved service requests	O	Service Request documentation may be lost.	Customers are handled on a first-come, first-served basis.
6. All services are accurately documented, and such documentation is forwarded to accounts receivable/revenue on a timely basis.	O,F	Incorrect information is entered in service document.	The appropriate bar-coded card for the load type is swiped and then given to the customer.
			It is possible that the attendant could provided an incorrect card to the customer, as there is no control over this process.
Contract Disposals	F	Not all contracts are forwarded to Transfer Stations. Contract pricing may be less than "market".	The TSBS tracks charges on contracts based on weights and load type. AR uses this information to process an invoice for these contracts.
			SPU should consider numerically controlling waste disposal contracts. Invoices should be matched one-on-one to each contract number and missing numbers should be investigated. Contract pricing should be approved by a management level not involved in negotiating the contract or determining the contract rate.
Rebanco Recycling	F	Material that should be billed is not captured or billed.	Delivery to Rebanco does not result in revenue, per current arrangement (no current contract).

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			The solid waste function in charge of this contract should provide weights or other measurement to support the billing?
Transfer Station charges on contract	F	Information necessary to bill on contracts is not captured or provided to AR.	The TSBS tracks charges on contracts based on weights and load type. AR uses this information to process an invoice for these contracts.
7. All time charges for SPU staff that should be posted to a work order that is to be billed is captured in the correct account.	O,F	Revenue producing work is not captured in time reporting or work order system.	Not applicable for the Solid Waste Transfer Station Process as charges are not based on labor charges.
8. Expectations for all revenue sources are identified.	F	Information regarding expected revenues is not captured or analyzed.	SPU should consider developing expectations for revenue that are compared to actual recorded revenues on a periodic basis (e.g., quarterly). Such expectations could be based on: weights recorded for garbage disposal, annual trends in recycling weights and billings and contract disposals (contract charges from Transfer Stations).
9. All services are accurately billed in the proper period.	F	Missing documents or incorrect information.	Services are billed according to contracts or revenue is collected based on drive in dumping service requests.
			Other than waste disposal contracts all revenue is recorded when the dumping occurs and when paid.
	F	Improper cutoff of services at the end of a period.	Other than waste disposal contracts all revenue is recorded when the dumping occurs and when paid.
10. Extending of credit and credit limits are authorized by someone other than the person initiating the sale.	O,F	Credit is extended without determining credit worthiness.	All Account Holders must submit an application with three business references and make a $300 deposit. Business references are checked prior to granting a contract.
11. Additions and modifications to the price master file are authorized by an appropriate level of management and or Council) and are made accurately and completely.	F	Prices are changed without authorization.	Prices are loaded into the WeighStation system based on approved standard charges or on contracts. However, pricing is dependent upon the person providing the card/entering the data to correctly price the service.
12. Sales contracts or invoices are authorized by someone not initiating the sale, or at a level of management above the person initiating the sale.	O,F	Prices are changed to assist sales activity that are not consistent with policy.	Most sales are not on contract, but there are contracts for some waste disposal customers.
13. Invoices reflect prices that have been approved by someone other than the person making the sale.	F	An incorrect contract value is entered into the Invoice request.	Most revenue is not invoiced. In some cases AR prepares invoices based on contracts independent of the person generating the revenue.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			In most cases, prices are based upon the person providing the weight card/entering the data to correctly price the service.
14. Revenue from sales of products and services is recognized only upon satisfaction of the revenue recognition criteria.	F	Improper cutoff of services at the end of a period.	Other than waste disposal contracts all revenue is recorded when the dumping occurs and when paid.
15. Invoices are processed and recorded completely, accurately and timely.	F	Invoice is not accurate or timely.	Other than contracts, no amounts are invoiced. Invoices are prepared based on contracts and load data.
		Invoice is not prepared from an invoice request.	Invoice is prepared based on system produced contract tracking data.
			Scrap metal is not invoiced. SPU relies on scrap metal contractor for weights and prices.
16. Revenue recorded is valid and recorded accurately, completely, and timely.	O,F	Missing documents or incorrect information.	See above.
			All invoices processed are integrated with the Summit/GL system.
		Improper cutoff of services at the end of a period.	Other than waste disposal contracts, all revenue is recorded when the dumping occurs and when paid.
17. Accurately record invoices for all authorized services and only for such services.	O,F	Missing documents or incorrect information.	Most revenue collections are received at the transfer station. For waste disposal contracts, invoices are numerically sequenced.
			The system provides charges for all loads on disposal contracts for billing.
			Scrap metal is not invoiced. SPU relies on scrap metal contractor for weights and prices.
18. Accurately record all authorized refunds/credits/deposits and only such refunds/credits/deposits.	O,F	Missing documents or incorrect information.	Journal and refund requests are approved by the AR Supervisor, who ensures that all documents are appropriate.
	F	Inaccurate input of data.	SPU should consider mailing vendor statements periodically and investigate and resolve disputes or inquiries, by individuals independent of the AR function.
19. Bad debts are recognized only in accordance with established policy.	F	Inappropriate write-offs occur.	SPU follows FAS write-off policies.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
20. Ensure continued completeness and accuracy of accounts receivable transactions.	O,F	Unauthorized input for nonexistent returns, allowances and write-offs.	Staff can make changes to AR customers and billing data without a second review.
21. Safeguard accounts receivable records.	O,F	Unauthorized access to accounts receivable records and stored data.	Only AR staff are allowed "write-access" to AR records, but most revenue collections are received at the transfer station.
22. Maximize timely cash collections.	O,F	Handling cash receipts internally can delay deposit of such receipts.	Most revenue collections are received at the transfer station.
	F	Customers delay remittance.	Other than the occasional use of the SPU AR function all services are paid in advance.
	F	Excessive accounts receivable collection problems.	Other than the occasional use of the SPU AR function all services are paid in advance.
23. Record cash receipts on accounts receivable completely and accurately.	O,F	Cash received is diverted, lost or otherwise not reported accurately to accounts receivable.	At the end of the day, the scale attendants count the cash, add up the checks, and then enter those figures into the system. After the scale attendant has counted and closed out, the system then generates a “Z” report (an end of day WeighStation report). This report includes the quantity of each denomination of bills and coins per the scale attendant’s count and per the system’s count. Any discrepancy is researched and noted in a log. Discrepancies greater than $10 are immediately reported to AR.
			Scale attendants complete a bank deposit slip, which documents the actual amount being deposited. The bank deposit slip is done in triplicate: the original goes to the bank, the pink copy goes to A/R, and the yellow copy is kept by the Transfer Station. The WeighStation report and cash and checks are placed in a Wells Fargo bag with a deposit slip.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			Funds are deposited in a safe. Change is managed via a secure, automated change safe. All withdrawals and deposits are tracked electronically for each scale attendant by the change safe. It is a secure safe that scale attendants cannot open. At the beginning of the day, each cashier checks out their change from the change safe using their own change safe ID. During the day, scale attendants return this exact amount to the change safe, in large bills. If additional change is needed by a scale attendant during the day, it is again checked out of the change safe, and then returned later in the day using large bills. Garda delivers change twice a week by armored car. The safe is then filled by staff (not a scale attendant), and the large bills are removed from the safe and deposited into the bank.
	F	Receipts are for amounts different than invoiced amounts, or are not identifiable.	AR posts the payment to the AR module. Underpayments would be tracked by Summit AR Module.
			Contact payor to determine reasons for non-payment, or payments different than amounts invoiced
24. Recorded accounts receivable in the General Ledger agrees to the customer Subsidiary Ledger.	F	A subsidiary system is not used or is not reconciled to the GL Control Account.	Since the AR module in summit is integrated with the Summit GL, reconciliation is NA.
25. Recorded accounts receivable are properly valued and include consideration of allowances, bad debts, and other applicable reserves and allowances.	F	Information regarding accounts receivable valuation is not captured or provided to financial accountants.	Valuation of accounts receivable is subject to annual audit, but materiality may be more than appropriate for internal uses.
26. Safeguard cash and the related accounting records.	O,F,C	Inadequate physical security over cash and documents that can be used to transfer cash.	See Above.
			SPU restrictively endorses checks on receipt.
			SPU deposits receipts intact daily.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
27. Additions and modifications to the customer master file are authorized by an appropriate level and are made accurately and completely; Only appropriate personnel have access to master data files.	O,F	Inappropriate access to master files that could change cash receipts/accounts receivable results.	AR staff can access and modify the customer master files and process transactions, which is an incompatible segregation of duties. SPU should consider segregating these two functions.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			Notes on items to be considered as potential recommendations
1. Handle customer service requests expeditiously and efficiently.	O	Inadequate information systems.	Timber sales are on contract, so there is no "Front End" order processing related to timber sales.
		Untrained Staff.	
2. Forward requests for services to appropriate department/function or process request at the front counter.	O	Information regarding service requests is lost.	Timber sales contracts should be prenumbered and sent to CRW, which should investigate any missing contract/documents.
3. Process service requests only for customers that are authorized to receive the service.	O,C	Incomplete, untimely or inaccurate information regarding the customer.	Timber sales are on contract, so there is no "Front End" order processing related to timber sales.
4. Process only valid service requests	O,F	Services may not be authorized.	Timber sales are on contract, so there is no "Front End" order processing related to timber sales.
5. Process all approved service requests	O	Service request documentation may be lost.	Timber sales contracts should be prenumbered and sent to CRW, which should investigate any missing contract/documents.
6. All services are accurately documented and such documentation is forwarded to account receivable/revenue on a timely basis.	O,F	Incorrect information is entered in service document.	Loads are tracked via sequentially numbered tickets in Excel, both the log loads at the project site and scale receipts from the mill. Missing numbers are followed-up.
			Vendors make advance payments on timber sales contracts, so contracts are managed at CRW and not forwarded to AR. If a vendor processes more logging than the advance payment then the vendor provides a settlement check to the CRW Project Manager. If actual logging is less, CRW requests a check to be processed to vendor through AP.
			SPU should consider a secondary independent review of the ticket and scale receipt tracking.
7. All time charges for SPU staff that should be posted to a work order that is to be billed is captured in the correct account.	O,F	Revenue producing work is not captured in time reporting or work order system.	Not applicable for the Timber Sales Process.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
8. Expectations for all revenue sources are identified.	F	Information regarding expected revenues is not captured or analyzed.	It could be possible, once a timber harvest project is identified that the expected revenue could be reported to AR or revenue accounting to follow-up on significant trend variations.
9. All services are accurately billed in the proper period.	F	Missing documents or incorrect information.	Services are billed in advance based on estimates of work for the following month. Monthly settlements are made based upon load and scale documents that are tracked to determine missing information.
	F	Improper cutoff of services at the end of a period.	Revenue is recorded when the check is received and processed, but it is in advance of the month in which the revenue is earned.
10. Extending of credit and credit limits are authorized by someone other than the person initiating the sale.	O,F	Credit is extended without determining credit worthiness.	Payments are made in advance.
11. Additions and modifications to the price master file are authorized by an appropriate level of management and or Council) and are made accurately and completely.	F	Prices are changed without authorization.	Prices are based on contracts from a competitive procurement.
12. Sales contracts or invoices are authorized by someone not initiating the sale, or at a level of management above the person initiating the sale.	O,F	Prices are changed to assist sales activity that are not consistent with policy.	Contracts are awarded by a separate department.
13. Invoices reflect prices that have been approved by someone other than the person making the sale.	F	An incorrect contract value is entered into the Excel Tracking Log.	SPU should consider a secondary independent review of the ticket and scale receipt tracking focusing on tying contract values back to the signed contract.
14. Revenue from sales of products and services is recognized only upon satisfaction of the revenue recognition criteria.	F	Improper cutoff of services at the end of a period.	Revenue is recorded when the check is received and processed, but it is in advance of the month in which the revenue is earned.
15. Invoices are processed and recorded completely, accurately and timely.	F	Settlement is not accurate or timely.	Loads are tracked via sequentially numbered tickets in Excel, both the log loads at the project site and scale receipts from the mill. Missing numbers are followed-up.
			Prices are based on a contract.
16. Revenue recorded is valid and recorded accurately, completely, and timely.	O,F	Missing documents or incorrect information.	See above.
			SPU should consider verifying log load, scale and contract terms before monthly settlement processing by an individual independent of the contract management functions.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
	F	Improper cutoff of services at the end of a period.	Revenue is recorded when the check is received and processed, but it is in advance of the month in which the revenue is earned.
			Log loads and scale receipts are reconciled to monthly settlement, but not by an independent function.
17. Accurately record invoices for all authorized services and only for such services	O,F	Missing documents or incorrect information.	Log load tickets are prenumbered and tracked in Excel.
			Log load tickets are matched to scale receipts and both are compared to the advance payment to determine whether an additional payment is due or a vendor refund is to be paid to the vendor, but not by an independent function.
			SPU should consider changing its contract terms, retaining the requirement for the vendor to pay for logging in excess of estimates, but instead of processing a payment for "under-logging" allow the vendor to reduce its next month's advance payment. This may reduce AP processing volume.
18. Accurately record all authorized refunds/credits/deposits and only such refunds/credits/deposits	O,F	Missing documents or incorrect information.	The monthly settlement process is described above, which includes refunds, credits, etc.
	F	Inaccurate input of data.	SPU should consider mailing vendor statements periodically, and individuals independent of the monthly settlement function should investigate and resolve disputes or inquiries.
19. Bad debts are recognized only in accordance with established policy.	F	Inappropriate write-offs occur.	Payments are made in advance, so N/A for Timber Sales.
20. Ensure continued completeness and accuracy of accounts receivable transactions.	O,F	Unauthorized input for nonexistent returns, allowances and write-offs.	Payments are made in advance, so N/A for Timber Sales.
21. Safeguard accounts receivable records.	O,F	Unauthorized access to accounts receivable records and stored data.	Timber sales are not processed through SPU's AR function.

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
22. Maximize timely cash collections.	O,F	Handling cash receipts internally can delay deposit of such receipts.	Consider "lock-box" arrangements whereby payments are remitted to a post office box and the bank (WAUSAU) collects and deposits such remittances.
	F	Customers delay remittance.	Payments are made in advance, so N/A for Timber Sales.
	F	Excessive accounts receivable collection problems.	Payments are made in advance, so N/A for Timber Sales.
23. Record cash receipts on accounts receivable completely and accurately.	O,F	Cash received is diverted, lost or otherwise not reported accurately to accounts receivable.	Assign opening of mail to an individual with no responsibility for or access to files or documents pertaining to timber sales tracking files; compare independently listed receipts to bank deposits (i.e., envelope to SPU's Cash Handling Unit).
			Consider use of lock-box or other arrangements to accelerate deposits
			Consider ability to have customers transfer funds electronically to the entity's bank account, and notify the entity of payment through Electronic Data Interchange (EDI)
	F	Receipts are for amounts different than invoiced amounts, or are not identifiable.	The monthly settlement process is described above, which includes refunds, credits, etc.
			Contact payor to determine reasons for payment, or payment different than amounts invoiced
24. Recorded accounts receivable in the General Ledger agrees to the customer Subsidiary Ledger.	F	A subsidiary system is not used or is not reconciled to the GL Control Account.	Payments are made in advance, so N/A for Timber Sales.
25. Recorded accounts receivable are properly valued and include consideration of allowances, bad debts, and other applicable reserves and allowances.	F	Information regarding accounts receivable valuation is not captured or provided to financial accountants.	Payments are made in advance, so N/A for Timber Sales.
26. Safeguard cash and the related accounting records.	O,F,C	Inadequate physical security over cash and documents that can be used to transfer cash.	Segregate custodial and record-keeping functions

Activity: Process Accounts Receivable and Cash Receipts			
Objectives	**O,F,C**	**Risks**	**Points of Focus for Actions/Control Activities**
			Receive and prelist cash by individuals independent of recording cash receipts in project tracking systems.
			Restrictively endorse checks on receipt.
			Deposit receipts intact daily.
27. Additions and modifications to the customer master file are authorized by an appropriate level and are made accurately and completely; Only appropriate personnel have access to master data files.	O,F	Inappropriate access to master files that could change cash receipts/accounts receivable results.	Timber Sales does not use a customer-based AR system (separate from its load tracking (Excel) , so this is NA for Timber Sales.

Appendix C: SPU Revenue Inventory

			Revenues Excluded from Scope	
Function	**Revenue Description**	**Report Section**	**Utility Billing (CCSS)**	**Projects / Extensions**
Contact Center (Call Center)				
	Walk-in Center Billing Receipts		**X**	
	Escrow Payments		**X**	
Finance				
	Cash Receipt Log	**A-2, B-1**		
	Mailroom Receipt	**A-2, B-1**		
	Grants and Agreements with other Agencies	**A-2, B-1**		
Facilities				
	Real Property Rental Agreements, leases, and permits	**A-2, B-1**		
Solid Waste				
	Transfer Stations	**A-19, B-X**		
	Transfer Stations - recycling and scrap sales	**A-19, B-X**		
Utility Service Team				
	Hydrant Permits	**A-13, B-X**		
	Shut-off Payment Fees		**X**	
	Street Restoration Fees	**A-13, B-X**		
	Stormwater/Groundwater Discharge Fees	**A-2, B-1**		
Planning & Scheduling				
	Miscellaneous Fees			
Watershed				
	Timber Sales	**A-25, B-1**		
	Education Center	**A-2, B-1**		
	Road Use Permits	**A-2, B-1**		
	Wildland Fire	**A-2, B-1**		

			Revenues Excluded from Scope	
Function	**Revenue Description**	**Report Section**	**Utility Billing (CCSS)**	**Projects / Extensions**
	Customer Program – Registration Fees	**A-2, B-1**		
Solid Waste				
	Customer billing: garbage, yard waste, recycling		**X**	
	Recycling Payments	**A-2, B-1**		
Drainage				
	Customer billing via KC property tax statement	**NOTE 1**		
Wastewater				
	Customer billing for sewer		**X**	
	Business Inspections	**A-2, B-1**		
	Surveyors	**A-2, B-1**		
	Vault - sales of maps, standard plans & specifications	**A-2, B-1**		
	Virtual Base Station Network	**A-2, B-1**		
PMED				
	Checks from other agencies	**A-13, B-X**		
	Drainage & Wastewater Availability Certificates	**NOTE 3**		
Drinking Water				
	Wholesale Customers	**A-2, B-1**		
Information Technology				
	GIS Products & Services	**A-2, B-1**		
Various & Other				
	Miscellaneous Checks / payments	**NOTE 2**		
	Scrap, surplus, salvage	**A-3**		
	Public Disclosure Request payments	**A-2, B-1**		
	Subrogation Claims Payments	**A-2, B-1**		
	HR Payments: Jury duty, Benefit Premiums, etc.	**A-2, B-1**		
	Water main extensions - standard charges for developers			**X**
	Contributions in Aid of Construction			**X**

NOTE 1: Drainage assessments are collected via the King County Property Tax system and are remitted directly from King County to the Treasury function within Finance and Administrative Services. Since this revenue source does not run through any SPU revenue or cash collection system, it is not included in any of the process descriptions in Appendix A or risk assessments in Appendix B.

NOTE 2: This is a "catch-all" phrase. Several revenue sources considered "miscellaneous" are processed through the Accounts Receivable function, and are therefore, included in the process documentation (Appendix A) and the risk assessment work (Appendix B). Not all revenue sources are processed through the Accounts Receivable function, and therefore won't be reflected in the process descriptions. There are some terminology differences that might account for certain items that do not appear to be reflected in the process descriptions. The items that may not be addressed by the process descriptions are as follows:

- Core Cuts are side sewer line cuts into the mainline.
- Long Haul is a cost but may involve vendor rebates that are cash collections but not revenue.
- Sewer District Fees are interagency agreements/contracts related to sewer connections between agencies. This activity is likely addressed in the Accounts Receivable function description.

NOTE 3: SPU does not currently issue Drainage & Wastewater Availability Certificates.