

REPORT HIGHLIGHTS

Seattle Office of City Auditor – February 14, 2008

A copy of the Office of City Auditor's report regarding Seattle Public Utilities (SPU) Transfer Stations Revenue Cycle can be obtained at the Auditor's website at <http://seattle.gov/audit> or by calling (206) 233-3801. Please direct any questions or comments regarding this report, or suggestions for future audits to Susan Cohen, Seattle City Auditor, at (206) 233-3801 or susan.cohen@seattle.gov.

SEATTLE PUBLIC UTILITIES TRANSFER STATIONS REVENUE CYCLE



Photo from Seattle Municipal Archives

AUDIT OBJECTIVES

We evaluated internal controls governing the charging and collecting of Transfer Station fees.

BACKGROUND

Seattle Public Utilities (SPU) operates two Transfer Stations in the City, one in the north-end and one in the south, to receive solid waste materials from self-haul customers and the City's solid waste contractors. Some customers pay for services at the Transfer Stations, while other regular customers are billed monthly by SPU Accounting. In 2006, SPU received about \$11.3 million in Transfer Station fee revenues.

AUDIT CONCLUSIONS

Overall, we found internal controls were adequate for the policies, procedures, and practices involved in charging and collecting Transfer Station fees. However, we noted some significant issues. Procedures for handling transactions at the Transfer Stations are not adequate to prevent and/or detect potential employee theft, and there are several other control weaknesses relating to cash procedures and operations at the Transfer Station scale houses. Controls relating to delinquent account collections functions need significant improvements and this is negatively impacting SPU's ability to maximize recovery of revenues. There are also issues with policies and procedures for handling customers who are delinquent, pay with a non-sufficient funds (NSF) check, or do not pay at all. We are pleased that SPU developed "Action Plans" to address the findings in this report. The Action Plans are listed in the table at the end of this document.

Transfer Station Fees Revenues

2002	\$10,350,210
2003	\$10,790,598
2004	\$10,924,087
2005	\$11,002,395
2006	\$11,267,517

Transfer Station Transactions and Cash Procedures: Controls over Transfer Station transactions and cash procedures need significant improvements. 1) Transaction procedures do not ensure potential employee theft is prevented and/or detected. Undetected thefts could occur in several ways. This is even more significant because some Transfer Station employees own or have owned hauling company businesses. 2) Check acceptance procedures at the Transfer Stations and procedures for handling NSF checks do not minimize losses. 3) Policies and procedures do not minimize losses from customers who exit without paying (skip out). 4) The daily cash and transaction reconciliation process needs improvements to ensure any potential errors and/or thefts are detected. 5) Safe restocking procedures do not provide adequate security for funds or employees. 6) The video camera system is not sufficient to monitor scale house transactions and operations, or for security purposes. The picture quality is not clear and cameras have been turned away from the registers and towards the wall. 7) Proceeds from the sales of recycling waste are received and reconciled by the same employee.

AUDIT CONCLUSIONS (Continued)

Delinquent Account Collections: Controls over the collections functions for delinquent Transfer Station accounts need significant improvements and this is negatively impacting the collections rate and revenue recoveries. Delinquent accounts are not consistently sent to the collection agency in a timely manner. Accounts in collections are not adequately tracked and monitored, and collection policies and procedures do not help ensure maximum revenue recovery. Customer payments made to the collection agency are not transferred to the City in a timely manner. There are some issues relating to collection fees and collection agency commission charges that should be re-evaluated, including the way fees are applied to delinquent accounts and SPU's lack of validation of the fees charged.

Other Significant Findings:

- ❖ Some improvements are needed with coding/blocking delinquent Transfer Station accounts to prevent customers from further use of Transfer Station services.
- ❖ The percentage of billed Transfer Station customers who are delinquent with payments is fairly high.

SPU Transfer Stations Revenue Cycle - Risk Matrix

Green: Low risk – Internal controls appear to be adequate

Yellow: Medium risk – It would be ideal to strengthen internal controls

Red: High risk – Internal controls should be strengthened as soon as possible

Scope Area and Issues	Risk Level
Rates and Service Usage	Green
Billing and Account Adjustments	Yellow
Payment Processing	Green
Accounts Receivable Management	Yellow
Collections and Write-Offs	Red
Fund Accounting – Revenues & Receivables	Green
Information Technology	Yellow
Scale House Transactions and Cash Procedures	Red



Photo from Seattle Municipal Archives

SIGNIFICANT AUDIT RECOMMENDATIONS

- 1) Transfer Station transaction reports need to be established to identify overrides, voids, and other exceptions; and these reports should be regularly reviewed by management to detect potential employee errors and/or abuse.
- 2) Transfer Station policies and procedures should be revised and strengthened for acceptance of check payments, skip-outs, safe re-stocking, sales of recycling waste, and daily reconciliations.
- 3) The camera system at the Transfer Stations should be replaced, upgraded, and used appropriately to monitor transactions and ensure security.
- 4) Collections policies and procedures should be strengthened and compliance with existing collections procedures needs to be improved. Specifically, accounts should be submitted timely to the collection agency, tracked and monitored, reconciled to collection agency data, and commission fees charged should be validated.
- 5) Policies and procedures should be strengthened to ensure delinquent customer accounts are coded/blocked to prevent further use of services.

Audit Conclusion	Risk	Management Action Plan
1. Certification of Scales - SPU's scales have not been licensed with or tested by the State.	High	SPU will work with the State of Washington Weights and Measures unit to get the Transfer Station scales licensed and set up for periodic testing.
2. Skip-Out Handling - Procedures need improvement to minimize losses from Transfer Station customers who skip-out.	High	1) SPU will ensure accounts are turned in timely for collections, research options to reduce skip-outs, seek advice on the options of billing skip-out customers and work with Treasury to expedite collections. 2) Treasury will send returned bad address items to NCO to work and return the letter to the department.
3. Account Adjustments - Controls over adjusting customer accounts in TSBS may need to be improved.	Medium	SPU will enforce compliance with the current adjustment policy, and work with the system vendor to develop a report to track all customer adjustments.
4. Deposits of Customer Payments for Billed Accounts - The timeliness of deposit of billed Transfer Station customer payments could be improved.	Medium	Treasury cashiers will continue to strive to make deposits timely and will consider staff scheduling opportunities to mitigate monthly workload peaks. Treasury will be implementing a new cash receipt system that may improve input efficiency.
5. Coding/Blocking Customer Accounts - Some improvements are needed with coding accounts.	High	SPU will work with the billing system vendor to automate the process of blocking delinquent, skip-out, and NSF customers from using the transfer stations.
6. Customer Account Delinquency Rates - The percentage of billed Transfer Station customers who are delinquent with payments is fairly high.	High	SPU plans to establish new policies and procedures to disallow skip-out and NSF customers from using the Transfer Stations until amounts owed are paid. The estimated implementation target date is summer 2008.
7. Penalty Charge Policies for Delinquent Accounts - There could be more incentive provided for billed customers to pay timely.	Medium	SPU and Treasury will consider the options recommended - (1) to apply interest to accounts in collection, and 2) to assess a collection fee to these accounts - and arrive at a decision in spring 2008.
8. Timeliness of Turn-In to Collection Agency - Delinquent accounts are not sent to collections in a timely manner.	High	SPU will provide clear instruction and training to accounting staff for handling delinquent accounts and work with Treasury to expedite the collection effort.
9. Monitoring Accounts in Collections - SPU is not adequately monitoring the performance and status of Transfer Station accounts in collections.	High	Starting in 2008, Treasury will provide SPU collections reports from Treasury's and NCO's systems. SPU will reconcile these reports with SPU's records every six months (or more if needed).
10. Collections Rate Performance - Procedures are not adequate to maximize the collections rate and revenue recoveries for Transfer Station accounts.	High	Since early 2007, SPU has been reviewing aging reports monthly and turning accounts over 90 days delinquent for collections. SPU will work with Treasury to ensure accounts are passed to NCO timely and start measuring NCO's performance spring 2008.
11. Collection Agency Remission of Customer Payments - Policies and procedures for remission of payments made to NCO need improvements.	High	The 30-day hold was to meet the City's requirement for guaranteed funding. When Treasury re-bids/renegeotiates the contract, it intends to alter this requirement for holding funds.
12. Collection Agency Commission Fees - Policies and procedures related to collection agency commission fees need some improvement.	High	1) Treasury will consider whether recording the agency fee would assist in full collection efforts. 2) SPU will work with Treasury to ensure the Payment and Commission Fee reports are sent timely, and SPU will verify the accuracy of commission fee charges.

Audit Conclusion	Risk	Management Action Plan
13. Reserving for Bad Debts - The current method for estimating Transfer Station bad debt expense may not ensure sufficiently accurate reserves.	Medium	SPU is reevaluating the calculation method used for the TSBS allowance for doubtful accounts. This review should be completed and resolved by the spring of 2008.
14. System Access Rights - System access rights to the Transfer Station TSBS system need to be updated.	Medium	SPU Accounting will notify SPU IT when access rights should be added/removed/changed. SPU Accounting will review TSBS access rights quarterly.
15. Network Monitoring – Procedures for monitoring exception-type activity on the Transfer Station TSBS system could use some improvement.	Medium	SPU IT will work on getting a report from CS MARS to alert SPU IT of unusual activity or access in the first quarter of 2008. These reports would show logins to the Scale House servers that would be deemed non-standard as well as access to the ICVerify files by anyone deemed non-standard.
16. Transaction Controls - Transfer Station transaction controls are not adequate to prevent and/or detect potential employee theft.	High	<p>SPU will work with the scale system vendor to evaluate reporting options in order to implement review of exception and void transactions. Also:</p> <ol style="list-style-type: none"> 1) SPU is researching options and pricing for installing a traffic light and gate for the Transfer Stations. 2) SPU is installing signs at the inbound windows telling customers they should always receive a receipt. 3) SPU will investigate ways to track the number of vehicles that cross the scales at the Stations daily to reconcile this to transactions. 4) SPU plans to have each scale attendant complete and sign an "affidavit" attesting to any ownership interest in a hauling (or similar) business.
17. Check Acceptance and NSF Check Procedures - Procedures need improvement to minimize NSF check losses at the Transfer Stations.	High	<ol style="list-style-type: none"> 1) SPU will determine whether or not checks should continue to be accepted at the Transfer Stations. 2) SPU will implement procedures to record vehicle license numbers for all transactions.
18. Scale House Closing and Reconciliation - These procedures could be improved.	High	SPU will work with the scale computer system vendor on implementing an initial blind count procedure before the final report can be run.
19. Scale House Safe Procedures - Employees are still picking up the money to restock the safes instead of having it delivered by armored car.	High	<ol style="list-style-type: none"> 1) SPU is researching new safe options, since the safes require replacement. 2) SPU is exploring new change delivery options and will subsequently implement a new procedure.
20. Scale House Camera System - There are issues with the video camera system set-up used to monitor Transfer Station scale house operations.	High	<ol style="list-style-type: none"> 1) The cameras at South have been replaced. 2) Replacement for North is scheduled for 2008. 3) SPU will investigate the feasibility of retaining scale house video for longer than the current 2 weeks. 4) SPU will review and revise its camera policies.
21. Transfer Station Sale of Recycling Waste - Procedures aren't adequate to provide proper separation of duties for the receipt of funds for the Transfer Stations' sale of recycling waste.	High	<ol style="list-style-type: none"> 1) Checks for recycling waste proceeds are now sent to SPU Finance Administration. 2) SPU will review and amend procedures to ensure the same person who receives the checks does not also perform the recordkeeping.

**SEATTLE PUBLIC UTILITIES REVENUE CYCLE AUDIT
– TRANSFER STATIONS
Internal Controls Review**

February 14, 2008

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Susan Cohen, City Auditor

February 14, 2008

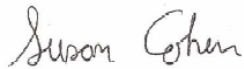
The Honorable Greg Nickels
Seattle City Councilmembers
City of Seattle
Seattle, Washington 98104

Dear Mayor Nickels and City Councilmembers:

Attached is our report on *Seattle Public Utilities Revenue Cycle Audit – Transfer Stations*. The audit's primary objectives were to determine whether internal controls surrounding the billing and collection of fees for Transfer Station services were adequate. This report is one part of an audit of the revenue cycle of all of the Seattle Public Utilities (SPU) primary utility services - Drainage, Solid Waste, Water, and Wastewater. The report for the Drainage Revenue Cycle audit was issued on February 8, 2007 and the reports for the remaining modules of the audit will be issued as the work is completed. We selected the SPU utility services revenue cycle for audit due to the magnitude of its revenue stream, which is over \$400 million annually.

We appreciate the excellent cooperation of SPU management and staff during the review process, and that of other City departments. SPU's response to our review is included under the 'Actions Planned' section for each issue in the report.

Sincerely,



Susan Cohen
City Auditor

SC:rh

Attachment

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CHAPTER 1: INTRODUCTION AND BACKGROUND

Seattle Public Utilities (SPU) operates two Transfer Stations in the City to receive solid waste materials from self-haul customers and waste delivered by the City's solid waste collection contractors. Some self-haul customers pay at the Transfer Stations, while other regular customers are billed by SPU Accounting. The contractors' fees are built into the terms of their collection contracts. In 2006, SPU received about \$11.3 million in Transfer Station fee revenues. (See Appendix 1 for data on Transfer Station revenues for the past 5 years.)

This audit evaluated the internal controls governing the charging and collecting of Transfer Station fees. We evaluated the policies, procedures, and operations involved in these processes. This report is one part of a larger audit of the revenue cycle for all of the SPU primary utility services - Drainage, Solid Waste, Water, and Wastewater. The report for the Drainage Revenue Cycle audit was issued on February 8, 2007 and the reports for the remaining modules of this audit project will be issued as the work is completed. This area was selected for audit due to the size of the revenue stream associated with SPU's utility services, which is over \$400 million annually.

RESULTS IN BRIEF

Overall, we found internal controls were adequate for the policies, procedures, and operations governing charging and collecting fees for Transfer Station services. However, procedures for handling transactions at the Transfer Stations are not adequate to prevent and/or detect potential employee theft. These transaction control weaknesses are even more significant in light of the fact that some Transfer Station employees currently own or have recently owned hauling company businesses. There are other control weaknesses relating to cash procedures and operations at Transfer Station scale houses, including those relating to the daily reconciliation process, check acceptance procedures, scale certifications, the video camera system setup, restocking safes, and handling proceeds from the sale of recycling waste. Control procedures relating to collections functions require significant improvements and control weaknesses in this area include those relating to forwarding accounts to the collection agency in a timely manner, monitoring accounts and collections performance, timely remission of customer payments from the collection agency, and the handling of the agency commission fees. We also found issues with the policies and procedures for handling customers who are delinquent on their accounts, paid with an NSF (non-sufficient funds) check, or "skipped-out" (i.e., left a Transfer Station without paying) that decrease SPU's ability to maximize revenue recovery. Further, we identified potential improvements in other areas, including customer account adjustments, timely deposit of customer payments, reserving for bad debt, system access rights, and network monitoring. See Appendix 2 for a color-coded risk level chart for the audit's major areas and the individual findings within these areas.

Rates and Service Usage Tracking: We found proper controls are in place and functioning adequately for rates and service usage tracking functions. We concluded Transfer Station rates are established in a logical and equitable manner, rates are accurately applied for Transfer Station services, and customer usage of Transfer Station services is generally accurately tracked.

We noted that the SPU Transfer Station scales have not been licensed or tested by the State of Washington.

Billing and Customer Account Adjustments: The controls for the billing and customer adjustment functions could be improved. We found that customer accounts were properly set up, deposits for accounts were collected, and customers are billed accurately and timely for Transfer Station services. However, procedures need improvements to ensure losses from customers who skip-out are minimized. And, some improvements may be needed for ensuring adjustments made to customer accounts in the Transfer Station Billing System (TSBS) system are properly approved and authorized.

Payment Processing and Handling: We found that proper controls are in place and functioning adequately for payment processing and handling functions for the customers who are billed. We concluded customer payments received for the billed Transfer Station accounts are processed accurately, timely, and securely, and customer accounts are properly updated. However, the timeliness of the deposit of these payments could be improved.

Accounts Receivable Management: Control improvements are needed for the accounts receivable management functions. We concluded that accounts receivable are properly tracked and aged, and interest charges are accurately assessed, tracked, and collected for delinquent accounts. However, delinquent accounts are not always coded or blocked accurately in the TSBS system to prevent these customers' further use of Transfer Station services. The percentage of billed Transfer Station customers who are delinquent is fairly high, specifically for those accounts set up to bill customers who paid with a bad check or skipped out. And, interest charges do not appear to provide sufficient incentive to encourage customers to pay in a timely manner.

Collections and Write-offs: We concluded that significant improvements in control procedures are needed over the functions involved with collections, but controls are adequate for receivable write-off functions. Delinquent Transfer Station accounts are not consistently sent to the collection agency in a timely manner, and this negatively affects the collections rate and revenue recoveries. Accounts in collections are not adequately tracked and monitored. We concluded collection policies and procedures do not help ensure maximum revenue recovery. Customer payments made to the collection agency are remitted accurately to the City, but not timely. Customer accounts are updated accurately for these payments. There are some issues with the policies and procedures relating to collection fees and commission charges for the City's accounts that need to be re-evaluated, including the way fees are applied to accounts and SPU's lack of validation of the fees charged. Bad debts are written off appropriately when they are deemed no longer recoverable.

Solid Waste Fund Accounting – Revenues and Receivables: We found controls are adequate over Solid Waste Fund accounting for revenues and receivables. We concluded that the Transfer Station Receivable account is properly and regularly reconciled, and reconciliations are properly documented and approved by SPU Finance management. Significant reconciliation exceptions are reviewed, resolved, and documented. We found that the Transfer Station Revenue account is accurate and properly monitored by SPU Fund Accounting. However, we noted that the current

method for estimating Transfer Station bad debt expense may not always result in the most accurate reserve amount.

Information Technology: We found that the controls for information technology functions for Transfer Station transactions need some improvement. Transfer Station systems are backed up regularly and back-up files are stored securely in an off-site location. There appeared to be proper procedures in place for any changes made to Transfer Station systems. We concluded that access rights are properly assigned to TSBS in a secure manner and using the principle of “least privileges,” but access rights are not consistently updated when personnel leave SPU or change job responsibilities. We found there are adequate audit trails (i.e., audit logging) in place for Transfer Station systems, but that the review of exception-type system activity (i.e., network monitoring) could be improved.

Scale House Transactions and Cash Procedures: Significant improvements in control procedures are needed over Transfer Station transactions and cash procedures to ensure customer transactions and funds are handled accurately, properly, and securely. We concluded that fees for Transfer Station services are calculated and charged accurately to customers who pay at the Stations, and deposits of funds received are made timely. However, transaction procedures are not adequate to prevent and/or detect potential employee theft, and currently undetected theft could occur in several different ways. These transaction control weaknesses are even more significant in light of the fact that some Transfer Station employees currently own or have recently owned hauling company businesses. Policies and procedures for check acceptance at the Transfer Stations, and for the handling of returned NSF checks, are not adequate to ensure losses from NSF checks are minimized. We found that while there are many good controls built into the Transfer Station daily reconciliation process, controls could be further improved upon to ensure funds are accurately accounted for. Transfer Station employees are still picking up the money for restocking the scale house safes instead of having it delivered by armored car service, and this practice is neither safe nor secure. The current video camera system set-up is not adequate to monitor scale house operations and provide sufficient security. And, there is inadequate separation of duties over the receipt of funds from the sale of Transfer Station recycling waste.

BACKGROUND

SPU operates two Transfer Stations in the City, one in the north-end of the City and one in the south. Residential and commercial customers bring in their waste materials, including garbage, recyclables, appliances, etc., and pay a fee to dump them. Fees are based on tonnage for the waste commodity type, or are a flat rate for small loads. There is no charge for recyclables. In 2006, the Transfer Stations collected about \$11.3 million in fees for transfer services. SPU’s two solid waste collection contractors, Allied Waste/Rabanco and Waste Management, also utilize the SPU Transfer Stations to dump the waste they collect regularly from the City’s residential and commercial solid waste customers. Each Transfer Station has a “scale house” near the entrance, and this is where customer vehicles are weighed and payment is made for the transactions. Customers may pay at the Transfer Station, or regular customers may be set up on

account and billed monthly for their transactions. After entering at the scale house, customers drive on to the “tipping house,” where they dump their waste materials.

At the end of each day, the Transfer Stations load garbage waste into truck containers using a specialized compacting/ramming machine, and SPU truck drivers deliver them to the Union Pacific rail yard in south Seattle. Union Pacific then transports the containers of garbage by railcar to the Columbia Ridge Landfill in eastern Oregon. Transfer Stations load yard waste into containers and truck them to Cedar Grove Composting in Maple Valley. Cedar Grove is the vendor SPU contracts with for yard waste processing services. The Transfer Stations sell and deliver the recycling materials they collect to either the Allied Waste/Rabanco recycling plant in Seattle, or Seattle Iron & Metal.

SCOPE AND METHODOLOGY

During this review, we focused on internal controls that affect SPU’s and the City’s revenues and expenses. In addition to reviewing control procedures, we tested compliance with procedures whenever possible. Specifically, we reviewed internal controls relating to the following areas:

- Rates and service usage tracking
- Billing and customer account adjustments
- Payment processing and handling
- Accounts receivable management
- Collections and write-offs
- Solid Waste Fund accounting – revenues and receivables
- Information technology
- Scale house transactions and cash procedures

We based our audit conclusions on interviews with City personnel, interviews with SPU’s solid waste vendors, testing of data found in reports and computerized systems, and review and analyses of procedures, policies, and available documentation and electronic data. We observed operations related to the scope of this review, including visiting the SPU Transfer Stations several times.

We conducted the audit fieldwork and analysis phase of this review between August 2006 and August 2007.

We used sampling techniques based on a risk-based approach, which is a cost-effective way to review significant controls. Our review, therefore, would not necessarily disclose all significant weaknesses and irregularities. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CHAPTER 2: SEATTLE PUBLIC UTILITIES REVENUE CYCLE AUDIT – TRANSFER STATIONS - INTERNAL CONTROLS REVIEW

The Office of City Auditor conducted this review to assess the condition of internal controls for the Seattle Public Utilities (SPU) Transfer Station revenue cycle functions policies, procedures, and operations. Overall, we found internal controls were adequate for these areas. However, we found procedures for handling transactions at the Transfer Stations are not adequate to prevent and/or detect potential employee theft, and there are several other control weaknesses relating to cash procedures and operations at Transfer Station scale houses. Controls relating to collections functions need significant improvements and there are several issues in this area that negatively impact SPU's ability to maximize recovery of revenues. There are issues with the policies and procedures for handling customers who are delinquent, pay with an NSF check, or do not pay at all. Further, we identified potential improvements in other areas, including customer account adjustments, timely deposit of customer payments, reserving for bad debt, system access rights, and network monitoring.

I. RATES AND SERVICE USAGE TRACKING - *Controls are adequate overall -*

Background: Solid Waste rates, including the fees or rates for the use of the SPU Transfer Stations, are formally adopted by the City Council in the form of an ordinance. New rates are usually adopted about every two or three years, and rate changes are generally the result of a rate study conducted by SPU. Rate studies involve analyzing current and projected costs, including the costs of operations and capital projects, and setting rates at the level needed to cover these expected costs. SPU strives to keep the rates as low as possible but high enough to cover costs. Rates are also set with the objective of meeting SPU and City policy goals, such as encouraging recycling and discouraging illegal dumping.

Customers pay to dump garbage, recycling materials, yard-waste, old appliances, etc. at the two SPU Transfer Stations. Passenger cars pay a flat rate of \$20 for a load of “regular” waste or garbage, \$13 for a load of yard waste or “clean green,” and nothing for a load of recycling waste. Customers with larger or truck-loads of waste pay \$110 per ton for garbage and \$80 per ton for yard waste. There are different charges for dumping wood waste, appliances, vehicle tires, etc. Passenger cars pay at the inbound scale at the Transfer Stations, and they pay the flat-rate minimum for the waste commodity type they have. Trucks are weighed in at the inbound scale and their gross weight (or weight of the truck plus the load) is recorded in the Transfer Station Scale Boss system and the driver is issued a scannable card. Drivers turn in their scannable card at the outbound scale after they have dumped their loads and the empty trucks are weighed again. The system calculates the net weight of the waste load and calculates the total charge based on tonnage and waste commodity type. These truck customers may either pay at the outbound scale or be set up on an account to receive a monthly bill.

Audit work we performed: We reviewed the processes and functions related to Transfer Station rate-setting and service usage tracking to determine whether internal controls were adequate. We conducted a high level review of the rate-setting functions by reviewing the control procedures

over the rate-setting process and the methodology utilized. We reviewed service usage tracking at a detailed level, which included reviewing the controls in place over these processes and testing controls to verify that they were functioning properly. Specifically, we evaluated whether controls would ensure SPU Transfer Station rates are established in a logical and equitable manner and customer usage of Transfer Station services is accurately tracked and recorded. This included reviewing the most recent rate-study and the methodology utilized and the results of the study. We verified rates were properly reflected in the Transfer Station Scale Boss system, and we observed Transfer Station transactions on two separate occasions.

Conclusion: Overall, we found that proper controls were in place and functioning adequately. We noted one opportunity for improvement in that the Transfer Station scales have not been licensed with or tested by the State of Washington. Details on this issue are discussed below.

Certification of SPU Scales - Conclusion 1: The Scales At SPU's North And South Transfer Stations Have Not Been Licensed With Or Tested By The State of Washington.
High risk

Background

Washington State Department of Licensing (DOL) requires that “a weighing and measuring device that’s used to determine the charges for a product or service on the basis of weight or measure” is licensed annually with the State and the license must be posted at each location where the licensee operates. Both SPU Transfer Stations have an inbound and an outbound scale that accommodates the full length of a large truck and the scales are used to determine customer charges. These scales are comprised of several load cells. Each load cell needs to be calibrated within a certain level of tolerance to ensure the scale weighs vehicles accurately. It is transfer station industry practice and SPU policy for scales to be tested and certified regularly by an independent party. In addition, the State of Washington Weights and Measures unit, which is part of the Department of Agriculture (WSDA), has an oversight role for the entire State to ensure scale accuracy. The objective of the State’s Weights and Measures Program is to promote marketplace equity in commercial transactions through testing and inspection of commercial devices. According to the Manager of the State Weights and Measures unit, all scales that are licensed with DOL are tested by his unit about every 28 months.

Issue, Impact, and Recommendation

SPU Transfer Stations scales should be licensed annually with the State of Washington, the licenses should be posted at the Transfer Stations, and the scales should be periodically tested by the WSDA Weights and Measures unit. Transfer Station scales should also be regularly tested and certified by an independent testing vendor to ensure they are accurate, and thereby ensure customer charges are accurate. SPU’s transfer station scales have not been licensed with the State DOL and consequently are not tested periodically by State Weights and Measures. These scales are tested and certified regularly and at least annually, but we noted they are currently tested by the same company that manufactured the scales. While it is not an uncommon practice for a manufacturer to test the scales they produced, this could appear to compromise the

independence of the test. The State of Washington testing and certification process would serve as an additional control to verify and ensure scale accuracy.

ACTIONS PLANNED OR TAKEN

SPU Solid Waste Operations and Transfer Station management will work with the State of Washington Weights and Measures unit to get the SPU Transfer Stations scales licensed and set up for periodic testing. If needed, SPU will coordinate with King County Solid Waste and/or the City's Weights and Measures unit to supervise scale testing performed by a service company vendor.

II. BILLING AND ACCOUNT ADJUSTMENTS - *Some controls need improvement* -

Background: Customers who regularly use the SPU Transfer Stations may request to be set up on an account and billed monthly, instead of paying for each transaction at the Stations. In 2006, the Transfer Station transactions billed on monthly accounts was about \$2.6 million out of a total transaction volume of about \$11.3 million. Customers are required to provide a deposit of \$300 in order to be set up on a monthly account, and deposits are returned when/if the customer closes the account. All Transfer Station transactions are posted individually to the customer's monthly statement. Customers have 30 days to make payment or they are charged interest at the rate of 1% per month on the outstanding balance.

In addition to the regular customers set up on account, SPU also sets up customers with an account if they paid at the Transfer Stations with an NSF check or if they skipped out without paying or without paying the full amount due. These customers are set up on an account and billed monthly, as regular customers are, except that they have not put down a deposit and their account will be blocked to prevent them from future use of the Transfer Stations until their accounts have been paid.

Transfer Station customer accounts are tracked in the TSBS system. The Scale Boss system, which is used to track and record transactions at the Transfer Stations, is a module of the TSBS system. Customer account data in TSBS and Scale Boss Transfer Station transaction data are updated daily and the data elements needed by the other system module are passed daily via a download/upload process. The SPU Accounts Receivable unit makes adjustments and corrections to customer accounts, as needed, in situations in which there are errors, customers are disputing a transaction, etc.

Audit work we performed: We reviewed the billing and customer account adjustment functions to determine whether internal controls are adequate. Specifically, we evaluated whether controls would ensure Transfer Station customers are billed accurately and timely, and any customer account adjustments are accurate, proper, properly approved, and made securely. This included:

- verifying that accounts were set-up properly and deposits were obtained,
- transactions were accurately calculated and charged at the Transfer Stations,
- transactions posted accurately to customer accounts, statements were mailed to customers monthly,

- accounts were set up timely and accurately for customers who skipped out or paid with an NSF check, and
- customer account adjustments were made properly and appropriately.

We tested samples of individual accounts to verify compliance with control procedures for these functions, observed operations and transaction processing at the North Transfer Station scale house on two occasions, and interviewed SPU personnel involved in these functions.

Conclusion: We found controls in these areas need some improvements. Current procedures do not ensure losses from customers who skip-out without paying are minimized, and compliance with control procedures for making customer account adjustments could be strengthened. Details on these issues are discussed below.

Skip-Out Handling - Conclusion 2: Procedures need improvements to ensure losses from customers who skip out at the Transfer Stations are minimized. *High risk*

Background

Because passenger cars pay at the inbound scale at the SPU Transfer Stations and trucks pay at the outbound scale, there is an outgoing lane that does not pass by the scale house window. This means that there is no physical barrier to prevent trucks from exiting the Stations without paying. This practice is called “skipping out.” We estimate there are annually over 250 skip-out transactions at the Transfer Stations. Skip-out transactions are discovered the next business day by SPU Accounting because the transactions are not closed out on the Transfer Station’s Scale Boss system. SPU Accounts Receivable sets up a “temporary account” in TSBS for the amount owed for the registered owner of the vehicle and bills them for the amount. It is Transfer Station policy and procedure for scale house attendants to enter the vehicle license number at the inbound scale for every customer, and SPU Accounting can use this information to look up the vehicle owner using the State Department of Licensing (DOL) database. SPU Accounts Receivable bills these customers monthly for 90 days, before forwarding delinquent accounts to the City’s Treasury unit in the Department of Executive Administration (DEA), which sends the accounts to the collection agency.

Issue, Impact, and Recommendation

Losses from bad debts are borne by Transfer Station customers who pay their charges because bad debt expenses are rolled into the rates/fees for services. Policies and procedures should ensure losses from skip-outs transactions at the Transfer Stations are minimized. Current policies and procedures do not accomplish this. Details are described below:

- SPU bills skip-out customers the \$20 minimum fee and does not charge them a penalty fee for skipping out. Since SPU Accounting can use the DOL database to look up the actual empty or tare weight of the vehicle, they can and do calculate the estimated actual weight of the load dumped. Accounting sometimes records these actual load tonnages on the account in a comments field, and they told us the charges often should have been considerably higher than the \$20 minimum. (It was not possible for us to estimate the actual revenue losses from skip-out transactions because the actual charge amounts are not consistently recorded in a comments field.) We recommend SPU charge skip-out

customers for the estimated actual weight of the waste load based on DOL vehicle weight data, and apply a penalty fee for skipping out, similar to the \$25 fee SPU charges for customers who pay with NSF checks.

- Transfer Station personnel said that some trucks come in to the Transfer Stations without a vehicle license plate or driver's license, most often rental trucks, and then skip out. We were informed these trucks are allowed in the Transfer Stations to dump if they are paying in cash and show the cash to an attendant at an in-bound scale. However, showing the cash at the inbound scales does not prevent the drivers from skipping out without paying at the outbound scale. Without a vehicle license or driver's license number, SPU can not trace the skip-out customer and tie the charge for service to the person who received the service. We recommend that this practice be stopped.
- Customers who skip out at the Transfer Stations and are set up on temporary accounts generally do not pay later when they are billed. We sampled temporary accounts and noted that almost every account sampled was delinquent at one time (12 out of 13 or 92%). Only four customers in the sample paid, and three of these were delinquent customers who paid only after their accounts were forwarded to the collection agency. Consequently, we recommend SPU forward temporary accounts to Treasury for collections immediately or after 30 days at the latest, instead of billing them for 90 days, which is the current SPU procedure. The delinquency rates of these customers emphasize the importance of minimizing the number of skip out transactions at the Transfer Stations.
- Temporary accounts are not consistently turned in for collections timely or in accordance with current policy. Four accounts sampled (or 31%) were turned in by SPU Accounts Receivable to Treasury several months later than the 90-day timeframe, and two accounts sampled (or 15%) were not submitted to the collection agency because the collection notice letter sent by Treasury was returned for a bad address. Treasury should have forwarded these last two accounts to the collection agency which could have tried to locate the customers.

SPU could also consider reconfiguring the Transfer Stations so that all exiting vehicles passed through the outbound scale house window and it could be verified that all customers paid. SPU Operations management noted that at the Snohomish County transfer station, vehicles exit through a gate with a stop light as they approach the outbound scale house window. This would basically eliminate the possibility of skip-outs, though not eliminate customers arriving at the outbound window without sufficient funds to pay their bill. This type of procedural change might require additional staffing to execute and/or increase vehicle exit wait times. The direct and operational costs of the additional level of control need to be weighed against the potential benefits of eliminating skip-out transactions.

ACTIONS PLANNED OR TAKEN

SPU agrees that changes are needed in the handling of skip-out customers. SPU Accounts Receivable and SPU Solid Waste Operations will ensure delinquent accounts are turned in for collection timely, research options to reduce the opportunity for customers to skip-out without

paying at the stations, seek advice from the City Attorney's Office on the options of billing skip-out customers and work with Treasury to expedite the collection process.

DEA Treasury will always send items returned with a bad address on to the collection agency so the collection agency can perform skip/trace in order to locate a valid address. In addition, Treasury will return the letter to the originating department when an item has been returned for a bad address. This will act as an alert to the department that the address is no longer valid.

Customer Account Adjustments - Conclusion 3: Some controls over adjusting customer accounts in the TSBS system may need to be improved. *Medium risk*

Background

SPU Accounts Receivable makes adjustments and corrections to Transfer Station customer accounts, as needed, when errors have been made, the customer is disputing a charge, finance charges are reversed due to various circumstances, etc. Only a limited number of personnel have the ability to make adjustments to customer charges and balances, and it is SPU policy and procedure for the Supervisor of Accounts Receivable to approve adjustments. In addition, all adjustments are recorded in an adjustment log.

Issue, Impact, and Recommendation

Controls should ensure adjustments made to customer accounts in TSBS are accurate, proper, properly approved and authorized, and made securely. While SPU's policies and procedures provide the proper level of control over customer adjustments, compliance with the procedures may need some improvement:

- During our testing of customer adjustments, we noted one adjustment (or 7% of the sample) that was not properly approved, for a credit of \$166 to a customer's account.

ACTIONS PLANNED OR TAKEN

SPU Accounts Receivable will enforce compliance with the current policy that all adjustments made to TSBS customers are reviewed and approved by either a supervisor or manager. SPU Accounts Receivable will also work with the billing system company to develop a report(s) to track all customer adjustments made.

III. PAYMENT PROCESSING AND HANDLING - *Controls are adequate overall* -

Background: Transfer Station customers who are billed mail their check payments to the SPU Finance Administration area, which receives checks for a variety of SPU services. Currently, customers cannot make payment on these accounts on-line or over the phone using either a credit card or an Automated Clearing House (ACH) transfer. SPU Finance Administration logs the checks and forwards them to SPU Accounts Receivable, which updates the customer accounts with the payment information. The checks are returned to SPU Finance Administration, who updates the check log and forwards the checks to Treasury to be deposited and entered into the

City's Cash Receipting System (CRS). SPU Accounts Receivable posts the total customer payment revenues to the City's Summit financial system at month-end.

Audit work we performed: We reviewed the payment processing and handling functions to determine whether internal controls are adequate. Specifically, we evaluated whether controls would ensure Transfer Station customer payments are processed, posted, and deposited accurately, timely, and securely. This included performing audit work to verify that checks were:

- logged and handled with appropriate segregation of duties,
- posted to customer accounts in TSBS accurately and timely,
- deposited timely, and
- posted to Summit and CRS.

We observed these business processes, and then tested a sample of payments from a prior period and traced them all the way through these processes. We traced a sample of payments to individual customer accounts and a few days' payment totals to CRS, Summit, and the bank deposits.

Conclusion: Overall, we found that controls are adequate over these functions. We noted one opportunity for improvement relating to the timeliness of depositing checks to the bank. Details are covered below.

Deposits of Customer Payments for Billed Accounts - Conclusion 4: The timeliness of the deposit of customer payments for billed Transfer Station accounts could be improved.

Medium risk

Background

As described earlier, there are several steps and work units involved in payments handling and processing of payments from billed Transfer Station customers. Below is a list of the steps and who completes them:

- SPU Finance Administration – Log checks
- SPU Accounts Receivable – Post payments to customer accounts, prepare a Cash Transmittal Voucher (CTV) for the total amount of the customer payments
- SPU Finance Administration – Update check log, forward checks and CTV to Treasury
- Treasury – Enter CTV for payment total into CRS and the General Ledger/Summit, send copy of CTV back to SPU Finance Administration, deposit checks
- SPU Finance Administration – Update check log to show CTV was completed
- SPU Accounts Receivable – Reconcile payments posted to TSBS to the GL/Summit and to bank deposits at month-end

Issue, Impact, and Recommendation

The payment checks from the billed Transfer Station customers should be processed and deposited as quickly as possible, in compliance with City policy to deposit checks within 48

hours of receipt, if at all possible. Timely deposits improve cash flow for the City. Currently, the timeliness could be improved for the deposit of customer payments. Our audit sample of CTV's from 2006 indicated that payments were not deposited until about a week after they were received. The results of this payment sample showed that SPU Finance Administration processed checks the same day they were received and that SPU Accounts Receivable updated customer accounts within a day of receiving the checks, but there appeared to be a delay of several days to a week in Treasury before CTV's were entered into CRS and checks were deposited to the bank. It would be better to deposit checks more timely.

ACTIONS PLANNED OR TAKEN

The Treasury cashiers will continue to strive to make all deposits timely. In 2008, the Treasury Cashier's office will be looking at some staff scheduling opportunities to mitigate the monthly workload peaks that lead to posting delays. Additionally, Treasury will be implementing a new cash receipt application that may lead to greater input efficiency.

IV. ACCOUNTS RECEIVABLE MANAGEMENT - *Some controls need improvement* -

Background: All billed Transfer Station customer accounts are tracked in the TSBS system at the customer-level, and the total of these account balances is recorded in the Summit TSBS Receivable account. TSBS serves as the sub-ledger system for Transfer Station billed customers. As of fourth quarter 2006, the TSBS Receivable balance was about \$387,000. Account numbers identify whether the account is a "regular" monthly account, or an 'N' account that is for a customer who paid with an NSF check, or a 'T' account or "temporary" account used for customers who either skipped out or left without paying their full charges. Each billed customer receives a monthly statement as long as they have activity on their account. Customers have 30 days to pay or the system automatically applies interest at the rate of 1% per month on the outstanding balance.

When accounts are 30-days delinquent, TSBS automatically applies a Code 2 to the account, indicating the account is delinquent by a month and Transfer Station personnel see this on their Scale Boss screens when the customer arrives. When accounts are delinquent by two months, SPU Accounts Receivable manually codes the accounts with a Code 3, which indicates customers are now only allowed to make "Cash Only" transactions at the Transfer Stations. When accounts are delinquent by about 90-days or so, SPU Accounts Receivable begins the process to turn the account over to Treasury, which then forwards it to the City's collection agency.

Audit work we performed: We reviewed the accounts receivable management functions to determine whether internal controls were adequate. Specifically, we evaluated whether controls would ensure Transfer Station accounts receivable are properly tracked, and followed up on to ensure compliance with procedures and maximum recovery of monies owed. We also evaluated whether controls ensured interest charges were accurately applied per SPU policy, and whether these charges provided adequate incentive to encourage timely payment of monies due. This included performing audit work to verify interest was properly and accurately applied to delinquent accounts, delinquent accounts were properly coded, and reviewing TSBS Aging

reporting to identify delinquency rates for all types of accounts. We interviewed SPU personnel, reviewed customer accounts on TSBS, observed transactions at the North Transfer Station on two occasions, and identified the customer data available to Scale House Attendants on the Scale Boss screens. We selected a sample of delinquent accounts and performed detailed test work to verify that interest charges were accurately applied and accounts were properly coded.

Conclusion: We found that controls over these functions need improvements. Improvements are needed for coding or blocking customer accounts to ensure those who have outstanding debts with SPU from prior skip-outs or NSF payments are not allowed continued use of the Transfer Stations. We noted that the delinquency rate for billed customers is fairly high, specifically for certain types of accounts, and current policies and practices do not appear to provide sufficient incentive for customers to pay timely. Details on these issues are covered below.

Coding/Blocking Customer Accounts - Conclusion 5: Improvements are needed with coding/blocking Transfer Station accounts in the TSBS system. *High risk*

Background

SPU Accounts Receivable can code or block customer accounts so that Transfer Station personnel will be notified via the Scale Boss system screens that the customer, for example, should not be allowed to dump, or can dump but must pay only with cash. Currently, it is SPU policy to code accounts if the customer has previously paid with an NSF check, skipped out without paying, or their account is delinquent. The TSBS system automatically applies a code to accounts that are delinquent by a month, but otherwise, accounts are coded manually by SPU Accounts Receivable.

Issue, Impact, and Recommendation

SPU policies and procedures for coding/blocking Transfer Station accounts should help to minimize losses from customers who have a history of non-payment. Policies and procedures should be clear and consistently executed. Currently, there are some improvements needed in this area:

- SPU is currently coding accounts for customers who have paid with an NSF check with a “Must pay Cash or Credit” status but these customers are allowed to continue using the Transfer Stations. We noted during audit test work that by the time SPU receives notice from Treasury of an NSF check returned from the bank, customers have often already written several NSF checks. We recommended that NSF accounts be coded/blocked with a “Cannot Dump” status, since these customers have already demonstrated they are higher risk and may be more likely to skip out. SPU Accounts Receivable has already implemented this change.
- Compliance with policies for account blocking needs to be improved. In performing audit test work with delinquent accounts, we noted two accounts (or 13 % of the sample) that were over two months delinquent and were not coded properly. These two accounts were Code 2, which indicates that while they were a month delinquent, the customers were still allowed to charge transactions. They should have been designated Code 3, the code for accounts over two months delinquent and authorized for “Cash Only” at the Transfer Stations.

ACTIONS PLANNED OR TAKEN

SPU Accounts Receivable will work with the billing system company to automate the process of blocking a customer from using the transfer station facilities once an account is identified as an NSF account.

Customer Account Delinquency Rates - Conclusion 6: The percentage of billed Transfer Station customers who are delinquent is fairly high. High risk

Issue, Impact, and Recommendation

Transfer Station account delinquency rates should be as low as possible to maximize cash flow for SPU and minimize bad debt expenses. Currently, the percentage of delinquent Transfer Station accounts is fairly high, and this specifically applies to the 'N' or NSF accounts and the 'T' or temporary accounts for customers who skipped out. As of third quarter 2006, about 10% of the total TSBS accounts were 3 months or more delinquent or over 120 days old, and owed a total of about \$31,000. It is important to note that almost 100% of the regular monthly accounts were more current than the 120-day mark. About 72% (or \$21,801) of the 'N' accounts were delinquent by more than 120 days, and 75% (or \$7,878) of the 'T' accounts. These delinquency percentages indicate the lack of ultimate payment performance for the NSF and skip-out customers and emphasize the importance of establishing procedures to help prevent or minimize the number of these transactions that occur.

ACTIONS PLANNED OR TAKEN

SPU Accounting and SPU Solid Waste Operations plan to establish new policies and procedures to disallow skip-out and NSF check customers from using the Transfer Station facilities until amounts owed are paid. The estimated target date for implementation is summer of 2008.

Penalty Charge Policies for Delinquent Accounts - Conclusion 7: Controls could be improved to provide more incentive for Transfer Station billed customers to make timely payments. Medium risk

Background

The TSBS system automatically applies interest at the rate of 1% per month on the outstanding balance for Transfer Station accounts that are delinquent by 30 days or more. One percent is the interest rate allowed by Washington state law (RCW 19.52). State law also allows municipal utilities to charge a penalty fee on delinquent solid waste charges (RCW 36.94.150), but SPU currently does not do this.

Issue, Impact, and Recommendation

Policies and procedures relating to interest and penalties charged to delinquent Transfer Station accounts should provide sufficient incentive to encourage customers to make timely payments. We believe this area could be strengthened:

- The biggest incentive for regular monthly customers to make timely payments is to avoid an account block so they can continue to use the Transfer Stations and charge their transactions. These customers are regular users of the Transfer Stations, and most are dumping waste generated by their occupations, which are often in the areas of construction or yard-care. However, transfer station customers who are infrequent customers and/or from out-of-town, may be less motivated by continued access to the Transfer Stations to pay their debts in a timely manner. We recommend SPU consider adopting a late fee for delinquent accounts in addition to the interest charge, as is allowed by State law, to help cover the administrative expenses incurred for handling these accounts.
- Although permissible under State law, delinquent Transfer Station accounts do not continue to accrue interest once they have been forwarded to collections and the City/SPU does not assess a collection fee on such accounts. To assess interest for accounts in collections would require system changes because updated account balances would need to be regularly passed to the collection agency's customer accounting system. This will be discussed in further detail in report section V of the report on collections and write-offs. The City/SPU could assess a collection fee without significant system changes. We recommend that SPU consider these two options.

ACTIONS PLANNED OR TAKEN

SPU Accounting and DEA Treasury will consider the two options recommended above – 1) to apply interest for accounts in collection, 2) to assess a collection fee to these accounts, and plan to arrive at a decision in the spring of 2008.

V. COLLECTIONS AND WRITE-OFFS - *Controls need significant improvements -*

Background: When a Transfer Station account is about 90-days delinquent, SPU Accounts Receivable forwards it to DEA Treasury's Collections unit, which sends it to the collection agency, NCO. (Note: only accounts with a balance of \$50 or more are sent to the collection agency, and accounts with a balance of \$5,000 or more are sent to the City Attorney's Office to pursue collections on.) The City uses NCO for all of their outside collections efforts, except for Seattle Municipal Court accounts, which are handled by a different collection agency. The customer account record at SPU is updated to reflect the account is in collections, and it is coded to disallow further Transfer Station transactions and updated to stop accruing interest. The Collections unit enters accounts into a City-wide Collections database (CDS), sends a "demand letter" to the customer notifying them their account will be sent to collections if they do not pay within 30 days, and then sends the accounts via a file-transfer process (ftp) to NCO.

NCO adds a commission fee to the balance of the account and begins collection efforts, utilizing mailed notices and phone calls. If the customer makes payment, NCO wire transfers these funds to Treasury less the commission fee amount and sends a report identifying the accounts with payments. Treasury posts the payments to the correct GL/Summit accounts, and notifies the departments of the payments received. SPU Accounts Receivable updates the customer accounts in TSBS to reflect the payments. As of April 2007, SPU had about \$64,000 in collections for Transfer Station accounts.

If a transfer station customer in collections makes a payment to SPU or the City, this is called a “direct payment” in the collections industry and NCO needs to be notified about these because NCO is entitled to the commission fees on these payments. SPU Accounts Receivable notifies Treasury of any direct payments they receive, and Treasury is aware of any received through their Cashier’s unit. Treasury sends a report to NCO and an invoice to SPU for the amount of NCO’s commission fees. Timely and accurate reporting of direct payments to the collection agency is important to ensure the agency’s system accurately reflects the customer’s balance.

There are two types of dishonored items received as payments at the Transfer Stations. The most common are NSF checks. These are returned by the bank to Treasury, who returns them to SPU and makes the entry to the GL/Summit to create an NSF receivable. SPU Accounts Receivable sets up an ‘N’ account for the customer for the balance plus a \$25 NSF fee, if one doesn’t already exist, and bills them monthly. We estimate NSF checks taken at the Transfer Stations may represent about \$30,000 annually. Transfer Stations may also receive credit card chargebacks, though this is very rare. All credit card transactions are authorized before they are accepted for payment at the Transfer Stations, but charges can be disputed by customers later. For example, the customer may say that they didn’t make the charge, and then the bank charges the City back for these. The bank notifies Treasury about all City chargebacks, and Treasury notifies the departments, and then the departments handle it.

Amounts due for Transfer Station billed accounts remain in the TSBS Receivable account, both in TSBS at the detail-level and in Summit at the summary-level, until they are collected or written off. Currently, it is SPU Accounts Receivable’s practice to write off account balances that are delinquent by one year or more. At this time, accounts are written off from TSBS, balance amounts are written off from Summit, and NCO is asked to write off the account on their system, as well. Before this write-off occurs, SPU Accounts Receivable prepares a list of accounts they feel are ready to be written off and sends this list to NCO to see if they agree these accounts are most likely uncollectible. This account write-off process generally is conducted annually.

Audit work we performed: We reviewed the functions and processes involved with collections, handling of dishonored items, and account write-offs to determine whether internal controls were adequate. Specifically, we evaluated whether controls would ensure delinquent Transfer Station accounts are sent to collections timely, properly tracked, worked, and followed up on to ensure maximum recovery of monies owed. In addition, we determined whether controls ensured customer payments to the collection agency were remitted accurately and timely to SPU and whether collection policies and procedures helped ensure maximum recovery of revenues. And, we evaluated whether controls would ensure direct payments were properly reported to the collection agency, dishonored items were handled properly, and bad debts were written off appropriately. This included performing audit work with a sample of delinquent accounts and tracing them through the entire collections process and verifying each step in the process was performed accurately, timely, and in compliance with credit laws and regulations. We interviewed City personnel, reviewed systems data on TSBS and CDS, and observed business processes. We also visited NCO at the branch office in Las Vegas that handles the City accounts to interview personnel and observe collections operations. We performed a detailed review of the handling of a sample of direct payments and NSF checks, and reviewed the account write-offs for 2005 and 2006.

Conclusion: Overall, we found controls over the collections functions need significant improvements. There are weaknesses in submitting accounts for collections in a timely manner, monitoring and tracking accounts in collections, and maximizing the collections rate. We found controls and policies related to the remission of customer payments from the collection agency to the City, and policies and procedures related to the collection agency commission fees for collection services need improvements. Controls appear to be adequate for handling direct payments, dishonored items, and account write-offs.

It should be noted that many of the issues we observed with SPU Transfer Station collections processes appear to be City-wide collections issues, not just those relating to SPU. As a result, our office is currently working on a City-wide review of collections procedures, coordinated with Treasury and the City Attorney's Office, and we will issue a memorandum on the results of this project soon.

The details of this section's issues are covered below.

Timeliness of Turn-In to Collection Agency - Conclusion 8: Delinquent Transfer Station accounts are not sent to collections in a timely manner. *High risk*

Background

As outlined above, there are presently several steps that occur before a delinquent Transfer Station account is sent to the collection agency. These are as follows:

- SPU Accounts Receivable – forwards account to Treasury and updates customer record in TSBS,
- Treasury – enters account into CDS, sends Demand Letter to customer and waits 1-month for payment, then send the account to NCO via ftp.

Issue, Impact, and Recommendation

According to NCO, the most important factor to increase collections success rates is “recency of the debt” or timeliness of getting the customer account to the collection agency. Consequently, delinquent Transfer Station accounts should be sent to NCO as soon as possible, in accordance with SPU policy, to maximize revenue recoveries. Currently, procedures are not adequate to ensure delinquent accounts are sent to collections in a timely manner, and this is negatively impacting the collections rate and revenue recoveries:

- SPU Accounts Receivable is not consistently forwarding delinquent accounts to Treasury in a timely manner. Our audit test work indicated that 4 of 45 accounts sampled (or 10%) were not forwarded to Treasury for collections in a timely manner.
- Currently, it is Treasury's policy to send a “demand letter” to the customer, which is a required notification to the customer that their account will be sent to a collection agency if left unpaid. Treasury holds the account for just over one month before forwarding to NCO. Since Transfer Station accounts are already at least 90-days delinquent by the time

SPU Accounts Receivable forwards them to Treasury, this delays getting the accounts to NCO. Current policies and practices result in NCO receiving Transfer Station accounts that are 5 months or more delinquent. We recommend SPU consider sending the demand notification along with the 60-day delinquent statement, or even the 30-day delinquent statement, so Treasury can forward accounts to NCO as soon as they receive them.

- Our audit test work indicated Treasury does not consistently forward Transfer Station accounts to NCO in a timely manner. In the sample we selected, 5 out of 14 (or 36%) of the accounts did not have a demand letter sent timely by Treasury, and consequently, the accounts were not forwarded to NCO after the one-month holding period as per Treasury's current policy. It appears that SPU Accounting sent a large number of accounts to Treasury for collections towards the end of the year as part of an annual accounts receivable "clean-up" process and this may have contributed to the delays, nevertheless, we recommend that Treasury forward accounts to NCO as quickly as possible.

ACTIONS PLANNED OR TAKEN

SPU Accounts Receivable will provide clear instruction and training to accounting staff in the handling of delinquent accounts and work with DEA Treasury to expedite the collection effort.

Monitoring Accounts in Collections - Conclusion 9: SPU is not adequately tracking and monitoring the performance and status of Transfer Station accounts in collections. *High risk*

Background

Transfer Station accounts in collections are noted in TSBS and they are entered in Treasury's CDS database, along with all other City accounts sent to NCO for collections.

Issue, Impact, and Recommendation

SPU should track and monitor the status and collections performance of the Transfer Station accounts sent to collections. Currently, this is not happening.

- At the time of our audit, SPU Accounts Receivable indicated they did not receive any reports from either NCO or Treasury on the status and collections performance of the SPU solid waste accounts and they were not performing any type of monitoring of account status or collections rates for their accounts in collections. Accounts Receivable commented that sending accounts to collections was like sending them "into a black hole." However, we learned that NCO does produce reporting on the City's accounts in collections, broken down by City Department and the various account or client codes, in the form of a CD. This NCO reporting shows account "age," status, and the collection rate for the client code and NCO sends it to Treasury monthly. Treasury provides an excerpt from this reporting to the Departments upon request. SPU Accounts Receivable should request and review the NCO account status reporting quarterly or semi-annually. In addition, Treasury has committed to sending out the NCO report excerpts to each Department with accounts in collections on a semi-annual basis.

- SPU Accounts Receivable has not reconciled the Transfer Station accounts TSBS shows are in collections to what Treasury shows in CDS to what NCO shows in their system. This type of reconciliation should be performed at least annually, as it is important for SPU to periodically verify the validity of their debt that is in collections. It is possible for a variety of account changes to occur on either SPU's end or NCO's, including balance changes, debt cancellations, and account updates. Periodic reconciliations are important to ensure NCO is working on collecting a valid debt and account balance and SPU has accurate account information on their end. It may be difficult for SPU to reconcile to NCO's system because neither TSBS nor CDS show the collections fee/commission, which NCO adds to the customer balance. NCO's Account Inventory report may require a change to break out the commission fee from the customer's principal balance.

ACTIONS PLANNED OR TAKEN

SPU Accounts Receivable has been working with Treasury on this issue. Starting in 2008, Treasury will provide SPU collections reports from Treasury's and NCO's systems. SPU Accounts Receivable will reconcile these two reports with SPU's collection records every six months (or more frequently if needed).

Collections Rate Performance - Conclusion 10: Procedures are not adequate to maximize the collections rate and revenue recoveries for Transfer Station accounts. *High risk*

Background

While collections rates vary substantially based on the nature and type of the debt, NCO stated the industry standard for "regular third party debt" generally averages between 7% and 13%.

Issue, Impact, and Recommendation

NCO's collections rate for SPU's Transfer Station accounts should meet or exceed the industry standard for collections of 7%-13%. Currently, this is not happening:

- NCO's collection percentage rate for SPU Transfer Station accounts was tracking at about 3% as of the end of 2006. According to NCO, this rate is "not very good" for the collections industry, in general, or compared to NCO's collection rates for their other utility clients. NCO has several other utility clients but SPU is the only government-owned utility; the others are for-profit utilities. We were unable to find any statistics for the utility industry to benchmark with SPU's collection rate. It should be noted that SPU currently does not collect the same level of information about their customers that for-profit utilities do, including driver's license and social security numbers, and this additional information is very helpful to collectors for identification purposes and for tracing individuals.
- Currently, it will be difficult to impossible to measure NCO's collections performance with the SPU Transfer Station accounts until SPU accounts are consistently turned over to NCO in a timely manner. Once this issue has been addressed, we recommend that SPU and Treasury measure NCO's collections rate performance against the industry standard.

ACTIONS PLANNED OR TAKEN

Since early 2007, SPU Accounts Receivable has been reviewing the Transfer Stations Billing Aging report monthly and turning over accounts older than 90 days to Treasury for collections

every month. SPU Accounts Receivable will work with Treasury to ensure these accounts are passed on to NCO timely and start measuring NCO's collection rate performance in the spring of 2008.

Collection Agency Remission of Customer Payments - Conclusion 11: Policies and procedures governing the remission of customer payments made to the collection agency need improvements. *High risk*

Background

SPU directs Transfer Station customers with accounts in collections to send their payments to NCO. When NCO receives customer payments on SPU and other City accounts, they update the customer record on their system to reflect the payments, wire transfer the funds monthly to the City's Treasury unit less the amount of their commission fees, and send a report identifying the accounts with payments to the Collections unit in Treasury. Treasury posts the payments to the correct GL/Summit accounts and notifies SPU Accounts Receivable of the Transfer Station payments received. Accounts Receivable updates the customer accounts in TSBS to reflect the payments.

Issue, Impact, and Recommendation

Transfer Station customer payments made to NCO should be remitted to SPU accurately and timely to ensure customer accounts are as up-to-date as possible and to maximize the City's cash flow. While we did not note any problems with the accuracy of customer payments remitted, there are issues with timeliness:

- The City's contract with NCO specifies that customer payments are not to be reported and remitted to the City for 30 days, to allow for time to determine whether check payments will clear; NCO is following this procedure. NCO indicated this is "extremely unusual" and most clients have all payments remitted immediately and any NSF payments are debited against the account upon notification from the bank. In contrast, the collection agency for the Seattle Municipal Court holds check payments for 14 days before remitting them to the Court. The current situation causes unnecessary delays in keeping SPU customer account records up-to-date and it negatively impacts SPU's (and the City's) cash flow. We recommend that the collection contract terms and operating procedures be aligned with standard business practices.
- During audit fieldwork, we noted that NCO sometimes holds checks longer than 30 days. We saw an example of a payment received by NCO that wasn't remitted to the City until over two months later.
- NCO wire transfers all customer payments they have collected to the City only once a month, and the terms of the City's contract with NCO do not address payment remission frequency. This is not a reasonable or standard collections industry practice and it negatively impacts SPU's and the City's cash flow. In contrast, the collection agency for the Seattle Municipal Court remits payments daily. While customer collection payments for a 1-month period do not represent a substantial amount of money for SPU, they do for

all the City's accounts in collections, which exceeded \$25,000 monthly during 2006. We recommend that the City's collection contract with NCO be revised to address payment remission frequency and specify that NCO remit payments at least weekly. The current contract doesn't expire for another two years, so Treasury will have to weigh the cost and benefits of pursuing a contract amendment before that time.

ACTIONS PLANNED OR TAKEN

At the time the contract was created with NCO, the City wanted guaranteed funds from the collection agency. During contract negotiations, the agency required the ability to hold the funds for 30 days in order to guarantee the funding. When Treasury re-bids or renegotiates the collections contract on behalf of the City, it intends to alter this requirement.

Collection Agency Commission Fees - Conclusion 12: Policies and procedures governing collection agency commission fees need some improvement. *High risk*

Background

When NCO receives a new collections account from the SPU Transfer Stations or any other City account, their contract permits them to add a collection fee to the customer's balance of 21% for debts up to \$100 and 17% for debts over \$100. Then, when the customer makes a payment, NCO will remit the amount of the payment less the collection fee to the City, thereby ensuring that NCO receives their payment for services, even if the customer payment was not enough to cover both the principal amount owed to the City and the commission fee owed to NCO. NCO sends a monthly statement to Treasury that shows the gross amount of customer payments by account, the commission amount deducted, and the net amount remitted to the City. If collection customers make payments to SPU or the City instead of to NCO, this is known as a direct payment, Treasury notifies NCO about direct payments, and NCO invoices Treasury for the amount of the commission fees. Treasury sends these commission fee invoices to the departments that "own" the accounts and the departments are responsible for paying these invoices.

Issue, Impact, and Recommendation

Fees for collection services should be reasonable and in line with standard industry practices, charged accurately to customer accounts, and properly reviewed and approved. Currently, there are some issues with the policies and procedures relating to collection fees and commission charges for the City's accounts:

- The City's method of handling the commission charges for NCO's services is unusual and is negatively impacting the City's revenue recoveries. NCO adds the collection fee to the customer's balance when they receive the account. NCO deducts their commission fee amount from what the customer pays, so if the customer doesn't pay the entire balance, the City does not receive the full value of the debt principal owed. It is fairly common for customers to underpay by the amount of the collection agency commission, since this amount is a separate charge noted on the customer's statement sent from the collection agency, and many people do not want to pay it. And, since NCO has already collected their fee on these accounts and the NCO collectors are paid on a commission-

basis, they may not be motivated to pursue collections efforts on the remaining collection fee balances for these customers. The City's current procedure also causes problems when customers make direct payment to the City, because the amount of the collection fee is not visible to City department personnel accepting these payments since it's applied by NCO and the City's systems are not updated to reflect the fee still owed to NCO.

According to NCO, a more standard method for handling collection fees and agency commission is for the client (the City) to add a collections fee to the customer's balance before submitting the account to the agency, and for the agency to add on their own commission and retain this amount from the customer payments. Treasury indicated the collection fee could possibly be applied in CDS before submitting the accounts to NCO, but noted that the department's or source systems wouldn't reflect it so there would still be a problem in the case of direct payments. Treasury also noted that the City has historically taken a "softer" approach towards collections than would be normal for a for-profit enterprise and has opted not to add a collection fee on top of the collection agency commission fee. We recommend that Treasury re-evaluate the current collection/commission fee structure and policies, consider how they compare to other municipalities, and possibly discuss this area with NCO, as well, to determine if it would be beneficial for the City to make any changes.

- Treasury provides NCO's invoices for commission fees for customer payments collected to SPU whenever payments are made for Transfer Station accounts in collections. However, SPU is not performing any type of reconciliation or verification of the accuracy of NCO's commission fees charged and deducted from the customer payment amounts remitted. This should always be done to ensure NCO is charging SPU accurately for their fees.

ACTIONS PLANNED OR TAKEN

At this time, the City does not record the agency collection fee in each of the subsidiary billing systems. The agency fee is not actually a City receivable and Treasury has not elected to record the third party fee. The City does want to collect the entire amount due to the City, but on occasion a direct payment is made that does not include the agency fee. The City is then obligated to remit to the collection agency their commission, and the agency will continue to attempt to collect this amount from the customer. DEA Treasury could conduct discussions with Departments to see if recording the agency fee would assist in full collection with direct pays.

SPU Accounts Receivable will work with Treasury to ensure the Payment and Commission Fee reports are sent to them timely, and they will verify the accuracy of commission charges on payments collected by NCO.

VI. SOLID WASTE FUND ACCOUNTING – REVENUES AND RECEIVABLES -

Controls are adequate overall –

Background: Transfer Station transaction revenues and receivables are accounted for within SPU's Solid Waste Fund. Transfer Station division revenues and expenses are tracked and accounted for separately from Residential and Commercial Solid Waste revenues and expenses. There is a SPU Principal Fund Accountant who has ultimate responsibility for all entries made to the Solid Waste Fund. SPU fund balances are monitored by SPU and Department of Finance management, and each fund is audited as part of the annual external financial audit performed by Moss Adams.

Billed Transactions

For customers who are billed, transactions post to their customer account in TSBS when the Scale Boss system performs the nightly download to TSBS. (TSBS serves as the sub-ledger system for billed Transfer Station receivables.) At month-end, SPU Accounts Receivable books the total of the billed monthly transactions as a credit to Revenue and a debit to TSBS Receivable. (Revenues are actually posted to separate accounts set up for each waste commodity type – i.e., garbage, yard waste, metal, etc.) SPU Accounts Receivable also reconciles the receivable account at month-end. Customer payments received for the billed transactions are posted by Treasury as a debit to Cash and a credit to the TSBS Receivable account when the payments are entered in CRS and deposited. There is a separate NSF Receivable account utilized to record the monies due for the 'N' accounts. Interest revenues are posted to a separate account for interest paid on delinquent accounts, but the interest receivable amounts are included in the balance of the TSBS Receivable. As of November 2006, the balance in the TSBS Receivable account was about \$387,000 and the NSF Receivable was about \$29,000. For the 2006 year, billed Transfer Station revenues were about \$2.6 million.

“Cash” Transactions

Unlike transactions billed to a customer account, all transactions paid for at the Transfer Station scale houses are considered “cash” transactions for fund accounting purposes, although these transactions may actually be paid with cash, checks, or credit cards. Treasury receives daily notifications from the bank of all processed deposits for the City, and they post Transfer Station deposits as a debit to Cash and a credit to the TSBS Receivable account. (It should be noted that these deposits used to be posted to Transfer Station Revenue, but SPU Accounting recently changed this procedure to reflect that it can take a few days for Transfer Station deposits to arrive at and be processed by the bank.) At month-end, SPU Accounts Receivable credits Revenue for all of the “cash” transactions recorded for the month and debits the TSBS Receivable account. So, because there are more “cash” transactions than billed transactions, this results in a credit balance in the Transfer Station Receivable account during the month until this month-end entry is made. As of December 2006, the revenues from “cash” transactions for the year represented about \$7.9 million.

Audit work we performed: We reviewed the functions involving Solid Waste Fund accounting for revenues and receivables to determine whether internal controls are adequate. Specifically, we evaluated whether controls would ensure the accounting for Transfer Station revenues and receivables is accurate, and properly reviewed and monitored. This included performing audit work to verify account reconciliations were performed accurately and timely, reconciliations

were approved by management, significant variances were properly researched and resolved, account balances were properly monitored by management, and losses from bad debt were reserved for in a reasonable manner. We interviewed staff on these functions, reviewed account balances and reconciliations, and reviewed the calculations for bad debt reserves for 2005 and 2006.

Conclusion: Overall, we found controls are adequate over these functions. We noted one opportunity for improvement relating to the method of reserving for bad debt losses. Details are covered below.

Reserving for Bad Debts - Conclusion 13: The current method for estimating Transfer Station bad debt expense may not ensure sufficiently accurate reserves. *Medium risk*

Background

In accordance with proper accounting practices, SPU books a reserve for expected losses from bad debts for Transfer Station transactions to an Allowance for Bad Debt account. Bad debts arising from Transfer Station transactions include NSF checks, credit card charge-backs, skip-outs, and monthly accounts that are not paid. Currently, it is reserved at the rate of 10% of the customer account balances in TSBS that are over 90-days delinquent, and this has been the policy since 2000 based on a directive from SPU Finance management.

Issue, Impact, and Recommendation

Reserves for bad debt expense should be properly accounted for and the methodology used to forecast bad debt losses should be logical to achieve a reserve that is as accurate as possible. The current method for reserving for Transfer Station bad debt expense may not always result in the most accurate reserve. Our audit test work with delinquent accounts, discussed in detail in sections IV and section V indicates that Transfer Station accounts over 90-days delinquent do not have a high probability of being collected. Consequently, the current practice of reserving 10% of this balance does not appear to be reasonable and may result in an allowance that is significantly less than actual bad debt losses. In 2005 the reserve for Transfer Station bad debt was about \$10,000 and actual bad debt write-offs were about \$84,000. However, in 2006 the reserve for bad debt was about \$5,000 and actual bad debt write-offs were about \$9,000, so the reserve was much more accurate in 2006. We recommend SPU Accounting consider establishing a reserve based on a percentage of the total TSBS Receivable balance, using historical bad debt losses for the last several years, or utilizing some other method that will be more likely to result in a reasonably accurate reserve.

ACTIONS PLANNED OR TAKEN

SPU Accounting is currently reevaluating the calculation method used for the TSBS allowance for doubtful accounts. SPU Accounting will review several years of bad debt information to determine the adequacy of the reserves and will make changes to the calculation as needed. This effort should be completed and resolved by the spring of 2008.

VII. INFORMATION TECHNOLOGY - *Controls need some improvement* -

Background: The Transfer Stations currently use an automated system called RicSoft, which was developed and is supported by Norwesco. RicSoft includes the Scale Boss module, which handles the Transfer Station scale house transactions and financial functions, and the TSBS module, which was developed for SPU to handle the customer accounts that are billed. It should be noted that Norwesco recently sold RicSoft to PC Scale, and PC Scale has indicated they will support the system only for an additional two years. Consequently, SPU will have to replace their Transfer Station system relatively soon. SPU is also currently developing a Solid Waste Integrated Database (SWIDI), to serve as a repository of solid waste data related to SPU's primary solid waste services lines - Residential, Commercial, and Transfer Stations. The SPU IT Server group supports the Transfer Stations and SPU Accounting with matters relating to RicSoft, unless vendor intervention is needed. The SPU Data Analysis unit is responsible for storing and analyzing solid waste data for a variety of purposes, and they will be principally in charge of the new SWIDI database.

Transfer Station management authorizes personnel for access rights to Scale Boss and SPU Accounts Receivable authorizes access rights for TSBS. There is a server at each Transfer Station and a server at SPU "headquarters" downtown. Every night, Scale Boss downloads the daily Transfer Station transactions and data to TSBS. In turn, there is a daily upload from TSBS to Scale Boss to pass account coding/blocks for delinquent accounts, and any comments or alerts for Transfer Station personnel to be aware of. The server running TSBS, along with all SPU servers located downtown at SPU headquarters, are backed up nightly. Back-ups are stored for 45 days, and the monthly back-up files are stored off-site at a records retention facility for three years. The procedure used to be to send back-up files to the records retention facility weekly but now a hard-drive system with a "redundant replication box" is utilized at SPU's Cedar Falls watershed location near North Bend and back-up files are sent monthly to the offsite records location.

Audit work we performed: We reviewed the information technology functions involved in processing Transfer Station transactions. Specifically, we evaluated whether controls would ensure information systems used for customer account functions were secure, accurate, effective, and properly controlled. This included performing audit work to verify that access rights were properly assigned to in a secure manner using the principle of "least privileges," adequate audit trails were in place, monitoring of exception-type system activity occurred, adequate procedures were in place to ensure complete system backups occurred daily, and proper change control procedures were followed for any systems changes. We interviewed staff on these functions, reviewed system operations and system monitoring tools, and reviewed system access lists.

Conclusion: Overall, there are some control improvements needed, related to TSBS access rights to TSBS and network monitoring. The details on these issues are covered below.

System Access Rights - Conclusion 14: System access rights to the Transfer Station TSBS system need to be updated. *Medium risk*

Background

The SPU Information Technology (IT) Server group sets up the access rights to the TSBS system, which are generally approved by the Supervisor of SPU Accounts Receivable. SPU Accounts Receivable is the “business owner” of the TSBS system, but SPU IT indicated that there is no formal Security Administrator for TSBS.

Issue, Impact, and Recommendation

System access rights should be properly assigned to TSBS users in a secure manner, using the principle of “least privileges,” and access rights should be properly maintained. While it appears that TSBS access rights are properly assigned, they are not consistently maintained as staff come and go and job duties are reassigned. In addition, it is not clear who the Security Administrator is for TSBS. We noted during audit fieldwork that some people with access to TSBS were no longer with SPU Accounting or even with SPU. There doesn’t appear to be a good process in place to notify SPU IT when access rights should be removed or changed. There is a compensating control in place if staff transfer out of SPU or leave the City, in that access to TSBS cannot be obtained without first accessing the SPU network, which is password-protected, but this compensating control doesn’t address the issue of staff who transfer within SPU but no longer require TSBS access. Ideally, SPU IT should receive a notice from the SPU help desk or SPU Human Resources to alert them to the need to change or terminate access rights.

ACTIONS PLANNED OR TAKEN

The Supervisor of SPU Accounts Receivable has been assigned to be the Security Administrator for TSBS. The Accounts Receivable Supervisor will notify SPU IT when access rights are added or should be removed or changed. The Supervisor will also review a list of employees with access to TSBS quarterly.

Network Monitoring - Conclusion 15: Controls related to monitoring exception-type activity on the Transfer Station TSBS system could use some improvement. *Medium risk*

Background

Audit logging and network monitoring for the TSBS system are handled by the SPU IT Server group. The Transfer Station point of sale (POS) system, ScaleBoss, is Windows-based and SPU IT utilizes a monitoring application called Snare that shows who is accessing files. Snare collects “events” and forwards them to CS-Mars, which is SPU’s server monitoring system. The events recorded by Snare for ScaleBoss are Log On, Log Off, Shut Down, Restart, and Access Files. These logs produced by Snare and CS-Mars are monitored by the SPU IT Server group. Access to IC Verify, which handles the Transfer Station credit card transaction authorization process, is also logged and monitored by the SPU IT Server group.

Issue, Impact, and Recommendation

City computer systems that handle “restricted” or “confidential” data should securely log all significant security-relevant events, and logs should be regularly monitored for exception-type

activity (i.e., unusual, suspicious, or prohibited events). Exception type activity includes password guessing attempts, attempts to use privileges that have not been authorized, modifications to system or application software, and changes to user groups or accounts. Currently, while controls appear to be adequate for providing system audit trails for TSBS and IC Verify (i.e., audit logging), they could be improved to ensure adequate review of potential exception activity (i.e., network monitoring).

While potential system security events are recorded and documented for IC Verify and TSBS, they are not necessarily reviewed due to SPU IT resource issues. It would be ideal to program CS MARS to send an alert to the SPU IT Server staff in the event of unusual activity or access.

ACTIONS PLANNED OR TAKEN

SPU IT will work on having a report sent from CS MARS to alert to the SPU IT Server staff in the event of unusual activity or access in the first quarter of 2008. These reports would show logins to the Scale House servers that would be deemed non-standard as well as access to the ICVerify files by anyone deemed non-standard.

VIII. SCALE HOUSE TRANSACTIONS AND CASH PROCEDURES - *Controls need significant improvements*

Background: The North and South Transfer Stations are open to the public seven days a week during daytime hours. There is a scale house at each Transfer Station where vehicles weigh in, weigh out, and pay for their transactions. Except for an hour or so in the morning and late in the afternoon, there are two Scale House Attendants on duty to handle the Transfer Station transactions – one attendant works the inbound scale window and one works the outbound scale window. Passenger cars with small loads of waste pay a flat rate at the inbound window, and trucks and vehicles with larger loads of waste pay at the outbound window, based on the tonnage of their calculated actual load. All transactions are entered into the Scale Boss system.

Each scale house has two safes. There is a safe that is used only for cash register change funds, and there is a safe for the deposit bags. Each attendant accesses the change fund safe every morning to set up their register. At the end of the day, attendants reconcile their cash and checks to Scale Boss, and the closing attendant prepares the deposit and the daily paperwork. Deposit bags are put into the safe and picked up by Brinks armored car service daily and taken to the bank. The North Transfer Station sends their transaction and reconciliation paperwork to the South Station, and South puts everything into a consolidated package and routes it to SPU Accounts Receivable. Accounts Receivable reconciles the bank deposits to deposit slips, the deposits to the transaction totals recorded in the TSBS system, and records any “over and short” or variances by the Scale House Attendant.

Audit work we performed: We reviewed the functions involved with Transfer Station scale house transactions and cash procedures to determine whether internal controls were adequate. Specifically, we evaluated whether controls would ensure transactions and cash procedures are handled accurately, properly, and securely. This included performing audit work to review procedures and controls over transactions paid with all accepted tender types, the scale house

opening process, the scale house closing and daily reconciliation process, deposit procedures, safe and cash handling procedures, and theft controls. We interviewed staff from the North Transfer Station and the South Station, observed transactions and scale house operations during two on-site visits to the North Station, and observed the closing process at North. We performed a detailed review of a sample of daily Transfer Station paperwork packages and “over and short” reporting.

Conclusion: We found that controls over scale house functions need significant improvements. Controls over transactions are not adequate to prevent and/or detect potential employee theft. These transaction control weaknesses are even more significant in light of the fact that some Transfer Station employees currently own or have recently owned hauling company businesses. Policies and procedures need improvements to ensure losses from NSF checks accepted at the Transfer Stations are minimized. Scale house closing and reconciliation procedures could be improved. Policies and procedures related to restocking the safes and the video camera system set-up used to monitor scale house operations are not adequate to ensure proper security. And, there are changes needed for the procedures for handling recycling waste sales funds. Details on these issues are discussed below.

Transaction Controls - Conclusion 16: Transfer Station transaction controls are not adequate to prevent and/or detect potential employee theft. High risk

Background

Passenger cars pay a flat rate at the inbound scale, based on the type of waste they have. Trucks and vehicles with larger waste loads are weighed at the inbound scale and their gross weight (or weight of the truck plus the load) is recorded in Scale Boss and the driver is issued a scannable card. Drivers turn in the cards at the outbound scale and the vehicles are weighed again empty. The system calculates the net weight of the load and calculates the total charge based on the tonnage and waste commodity type. Customers pay at the outbound scale or they’re billed if they have a monthly account.

Issue, Impact, and Recommendation

Control procedures should be adequate to ensure potential employee theft is prevented and/or detected. Currently, Transfer Station controls are not adequate. We noted three methods by which employee theft could be committed with low to no probability of detection – sales under-rings, exception and override transactions, and transaction voids. All three are classic methods by which to commit employee theft in a retail environment and there are established retail industry-accepted control procedures that can be put in place to address each method.

- Sales Under-Rings A common method of employee theft within a retail environment is to under-ring sales. If a sale is not rung in to the POS system, then the cashier can retain the funds and still balance to the system. Currently, Scale Attendants could under-ring (i.e., not ring in) a transaction at the inbound window for a passenger car, and keep the money, as long as the customer didn’t ask for a receipt. This could only be done without detection for passenger cars paying at the inbound scale. If funds were retained from an outbound transaction payment, the attendant wouldn’t balance to the system.

There are several ways this control weakness could be addressed. The Transfer Stations could check every vehicle for a receipt when they leave, like some large retailers do, and the Transfer Stations could even be reconfigured so that all exiting vehicles passed through the outbound scale house window and receipts were verified. At the Snohomish County transfer station, vehicles exit through a gate with a stop light as they approach the outbound scale house window. This would prevent the possibility of undetected sales under-rings, as well as basically eliminate the chance of skip-outs. This type of procedural change might require additional staffing to execute and/or increase vehicle exit wait times. The direct and operational costs of the additional level of control need to be weighed against the potential benefits. Or, the “greeter”/traffic director at the Station tipping house could verify passenger cars have receipts when they ask them what waste commodity type they have and direct them to the correct dumping area, and this practice could serve as a compensating control if it was carried out consistently. Another recommendation we have is for the Transfer Stations to place signs at the inbound scale window telling customers they should always receive a receipt for their transaction.

- Exception Transactions at the Outbound Scales All Scale House Attendants have the ability to make “override” entries in Scale Boss to change what the system shows for the net weight of the load, and thereby change the charge for the transaction. Attendants can also change the waste commodity type at the outbound scale, and this change would affect the transaction charge, as well. And, Attendants can override a blocked account. These override capabilities are needed to correct errors, but proper controls must be in place to prevent or detect potential employee theft. Currently, these controls do not exist. Overrides and exception transactions are another example of a very common method to commit employee theft in a retail environment.

There is no reporting of override or exception transactions from Scale Boss that identifies changes made to outbound weights, commodity types, and/or overrides of blocked accounts. This reporting needs to be established and regularly reviewed by Transfer Station management to spot potential fraud and other issues. Reporting needs to be at the cashier-level and at the summary level so trends can be tracked and the number of exception transactions can be compared for each attendant. This reporting would need to be reviewed by Transfer Station management, because they would be in the best position to know what level and types of exception transactions might be reasonable for each attendant, depending on their work responsibilities and schedule. Exception transaction reporting is a standard control in a retail environment, and large retailers have pre-programmed exception parameter levels for higher-risk transactions. If the parameters are exceeded, a report or notification will automatically kick out for management to review. The risk with the current situation is that Scale Attendants could alter/lower the outbound weight for friends, family, or anyone they chose, with very little chance of detection. Or, attendants could accept a payment/kickback from a regular customer in exchange for routinely lowering the outbound weight, etc. We did not analyze Scale Boss transaction data for these type of employee frauds, and without the recommended control procedures in place, it would be very difficult to impossible to detect any if they existed. We recommend the Transfer Stations implement some form of exception transaction reporting, review it regularly, and inform employees that it exists.

- Transactions Voids Theft could also currently be committed at the Transfer Stations by voiding a transaction. Voided transactions are transactions that have been fully entered into the POS system, and then are later backed out. So, the funds from the transaction could be retained by the attendant and he/she would still balance to the system at the end of the day. While attendants need the ability to void transactions to correct errors, proper controls must be in place to prevent or detect potential theft. Voiding transactions is another classic and common method employees use to commit theft in a retail environment. There should be regular management review of void transactions, and this is usually facilitated by a report at the Attendant or cashier-level. Currently, Scale House Attendants are required to turn in a copy of their void transactions along with the daily scale house paperwork package, but SPU Accounting does not perform any type of review of these. Transfer Station management would be in the best position to know how many voids might be reasonable for each Attendant, depending on their work responsibilities and schedule. We recommend Transfer Stations implement some form of regular review of voided transactions.

These Transfer Station transaction control weaknesses should be considered in light of the fact that SPU management indicated that two or three Transfer Station employees currently own or have recently owned hauling company businesses. This information provides at least the appearance of a conflict of interest. It would be possible for those employees to benefit from the use of transaction overrides and transaction voids, or even to utilize the Transfer Stations without their transactions even being recorded in the system, as long as the Scale Attendants working that day were acquiescent with this.

ACTIONS PLANNED OR TAKEN

1. SPU Solid Waste Operations and Transfer Stations management will work with the scale system computer company to evaluate reporting options in order to implement management review of exception transactions and transaction voids.
2. SPU Solid Waste Operations and Transfer Stations management are researching options and pricing for installing a traffic light and gate for the inbound and outbound lanes at the Transfer Stations. This would reduce the opportunity for customers to skip paying and for scale attendants to use "customer skipped" as a reason to void transactions.
3. Transfer Stations management are installing signs at the inbound windows letting customers know they should always receive a receipt for their transaction. A policy will be developed and implemented that requires scale attendants to provide receipts to customers.
4. SPU Solid Waste Operations and Transfer Stations management will investigate ways to track the number of vehicles that cross the scales at the Transfer Stations each day so that this number can be reconciled against the number of transactions made by the scale attendants.
5. SPU Solid Waste Operations and Transfer Stations management also plan to have each scale attendant complete and sign an "affidavit" attesting to whether or not they own or have an ownership interest in a hauling (or similar) business.

Check Acceptance and NSF Check Procedures - Conclusion 17: Policies and procedures need improvements to ensure losses from NSF checks accepted at the Transfer Stations are minimized. *High risk*

Background

Customers may pay for Transfer Station transactions with checks at the inbound scale for passenger cars or the outbound scale for trucks. It is Transfer Station procedure to record the vehicle license number for every customer in Scale Boss. Checks are “franked” or stamped in the register and the vehicle license is printed on the back of the check, along with the transaction number and other information. Currently, Scale Attendants generally do not request any form of identification, such as a driver’s license, to verify that the customer’s name and address is the same as that on the check. The Transfer Stations do not currently utilize any form of software, like TeleCheck, that verifies the check writer does not have a history of writing bad checks, and we were told this is currently a City-wide policy decision not to utilize this type of software.

If a customer pays with an NSF check, it’s returned by the bank to Treasury and charged back to SPU. Treasury forwards it to SPU Accounts Receivable, which sets up an ‘N’ or NSF account for the name on the check if there is a good address, or if not, for the registered owner of the vehicle, which is available on the State DOL database. Accounts Receivable adds a \$25 NSF fee to the customer’s balance, and bills them monthly, like they do for a regular monthly account. NSF customers are billed monthly until they are 90 days delinquent, and then Accounts Receivable forwards the account to Treasury to be sent to the collection agency.

Issue, Impact, and Recommendation

Policies and procedures relating to the acceptance and handling of checks for Transfer Station transactions should be adequate to ensure losses from NSF checks are minimized. Currently, this is not the case.

- There are quite a few NSF checks accepted at the Transfer Stations, and this number could be reduced by strengthening check acceptance procedures. We estimate the Transfer Station losses due to NSF checks were over \$30,000 in 2006. Within our audit sample of 27 NSF checks accepted, there was one stolen check written by someone other than the name on the account, and two checks written against a bank account that didn’t exist. Also, apparently it is not uncommon for construction companies working in the City to write a check against a closed account so they can dump their construction debris with no charge. NSF losses could be reduced by strengthening procedures over check acceptance. We recommend Transfer Stations implement a policy to request and review picture ID when customers pay by check to at least verify that the person writing the check is the same as the name on the check. Or, SPU could consider whether to stop accepting checks as a payment method at the Transfer Stations and require all payments be made with cash, credit, or on account.
- Scale Attendants do not always record vehicle license numbers. Our sample of 27 NSF checks accepted indicated the license number was either not recorded at all or not recorded accurately for three transactions, or an 11% control compliance failure rate. The vehicle license helps SPU Accounts Receivable locate someone to bill when there isn’t a good address on the returned check.

- SPU Accounts Receivable is currently coding or flagging NSF accounts with a “Must Pay Cash or Credit” status, but these customers are allowed to continue dumping. We recommend coding/blocking NSF accounts with a “Cannot Dump” status, since they have already identified themselves as a higher risk customer by paying with a bad check, and they may be more likely to skip-out without paying in the future. It should also be noted that customers have often written multiple NSF checks at the Transfer Stations by the time the checks make it to SPU Accounts Receivable to have the account updated in TSBS. Accounts Receivable thought it might be a good idea to code accounts as “Must Pay Cash or Credit” for a first-time/one-time NSF, but to code accounts as “Cannot Dump” for multiple or repeat NSF’s.
- Customers who write NSF checks at the Transfer Stations generally do not pay later. All of the 27 NSF accounts we sampled were delinquent and eventually forwarded to Treasury for collections. One customer in the sample later paid the collection agency. Given the poor payment performance of the NSF customers, we recommend these accounts be forwarded to the collection agency as quickly as possible, instead of billing these customers monthly for 90 days.

ACTIONS PLANNED OR TAKEN

1. Transfer Stations management will meet with appropriate SPU staff to determine whether or not checks should continue to be accepted as a method of payment at the Transfer Stations.
2. Transfer Stations management will implement procedures to record vehicle license numbers for all transactions, including flat-rate charges

Scale House Closing and Reconciliation Procedures - Conclusion 18: The Scale House closing and daily reconciliation procedures could be improved. *High risk*

Background

When Scale Attendants complete their shifts, they reconcile their register and prepare a deposit bag. First, an Initial Report is run in Scale Boss, and this shows the total amount of cash the attendants should have, the number of checks and the total dollar value of those checks, and the volume of waste dumped by commodity type. The attendant counts the cash in their drawer, recording the number of each denomination and coin type they have, adds it up, and balances to the Initial Report cash total. (If they are “over or short,” this is recorded on the Daily Count Sheet as described below.) Then, the attendant counts the number of checks they have accepted and matches this to the number on the Initial Report, and then reconciles the dollar amount of each check to a list they run of all checks they received.

Once the attendant has reconciled to the system, they prepare a Daily Count Sheet, which lists their cash by denomination, the number and value of the checks, their deposit amount, and any overages or shortages. The Initial Report is attached to a copy of the Daily Count Sheet. The attendant prepares a deposit slip, listing the currency by denomination, the number of checks, their name and code, and the deposit bag number. One copy of the deposit slip goes in the

deposit bag with the money and two copies go in the “daily paperwork” folder. Then, the attendant runs a Final Report from the system, which is the same as the Initial Report except it also shows the total deposit amount. The attendant logs out of the system and the Final Report is attached to a copy of the Daily Count Sheet, and this along with any void transaction slips are put into the daily paperwork folder. The attendant prepares the deposit bag and notes their ID number on the bag, the date, whether the bag is from the North or South Transfer Station, and the amount of the total deposit. The attendant enters the bag number and dollar amount in the Brinks Log and they enter the dollar amount of the deposit bag into the Sign-In/Sign-Out Log, which is a log showing who worked in the Scale House each day. Attendants drop their deposit bags into the “deposit safe” and only Brinks personnel can remove the bags from this safe.

The last Attendant on-duty prints the credit card transactions from the system, hits “Yes” to process them, which records these transactions into TSBS/Scale Boss. (Note: the credit card transactions have already been sent to the bank via the main server when the cards were scanned and authorized.) The credit card transaction print-out is included in the daily paperwork folder. Then, once finished with reconciling their register to the system, the last attendant on shift runs a Final Report out of the system, checks the figures and hits enter to “generate the deposit,” which records the total deposit for the day to TSBS/Scale Boss. The last attendant on-duty also checks the safes to ensure that everyone has logged out with their PIN number. Then, the closing attendant runs a Daily Volumes Report and tapes it into the Sign-In Log, and log out of the system.

SPU Accounts Receivable and Transfer Station management both review the Transfer Stations over and short reports on a regular basis, and these reports show the amount of variance from the system balance (over or short) by day by Scale Attendant. Accounts Receivable researches any significant over and short amounts and coordinates with Transfer Station management on these variances.

Issue, Impact, and Recommendation

Scale house closing and balancing procedures should ensure that funds are accurately accounted for, any potential errors are recorded, and funds are deposited timely and accurately. While there are many excellent control procedures in place for the scale house daily closing and reconciliation functions, controls could be improved.

- Cash Counts Scale Attendants balance to the system cash count on the Initial Report, versus performing a “blind count,” or a count of the register’s contents with no indication of what the system says the cash total should be. This situation presents the risk that if the register is over at the end of the day, the Attendant could pocket the extra cash without detection. And, SPU Accounting management is concerned that some Scale Attendants may not be counting their register funds properly and that there may be a mind-set among the Attendants that they need to balance because they consistently balance to the penny. From a controls perspective, it is best to perform a blind count versus a count against a system-provided total. Performing blind counts daily may not be operationally feasible at the Transfer Stations because it would require the Crew Chief to be present in the Scale House during the count to run the Initial and Final reports out of the system. We recommend that SPU consider having blind counts performed periodically on a random basis.

ACTIONS PLANNED OR TAKEN

Transfer Stations management will work with the scale computer system company on implementing an initial blind count procedure before the final report can be run.

Scale House Safe Procedures - Conclusion 19: Transfer Station employees are still picking up the money to restock the safes instead of having it delivered by armored car service.

High risk

Background

Each Transfer Station scale house has two safes. There is a safe that is used only for register change funds, and one for the deposit bags. Every morning, each Scale Attendant accesses the change fund safe using a PIN number, and then enters the number of each currency denomination and coin they need (e.g., two \$50 bills, ten \$20 bills, ten quarters, etc.) into the safe and the safe gives out the money. Later in their shift, when they have sufficient cash in the register drawer, the Attendant “repays” the safe, so they can reconcile the cash in their register at the end of their shift. Attendants must enter their PIN number into the change fund safe when either withdrawing cash or paying it back so that all cash in and out of the safe can be tracked by Attendant. A Transfer Station employee drives to the bank twice a week and picks up the cash to refill the change fund safes and delivers it to each Station. Change fund safes are refilled to the \$2,500 level.

Issue, Impact, and Recommendation

Transfer Station safe funds should be handled in a safe and secure manner. The current change fund restocking procedures are not safe or secure, because an employee picks up the money and delivers it. The employee may be carrying up to \$4,000 to \$5,000 in cash. This situation is not safe for the employee involved, nor is it efficient since it requires driving to the bank and both Transfer Stations. This issue was previously reported by the Office of City Auditor in a memorandum (Improving Cash Operations at the SPU Scalehouses) dated August 25, 2006, but it has not yet been addressed. As stated in that memorandum, the City has a contract with Brinks for armored car services and Brinks picks up the Transfer Station deposit bags daily. The contract terms indicate Brinks should also deliver money for restocking change fund safes. We recommend SPU coordinate with Treasury to utilize Brinks for safe re-stocking and to end the practice of using an employee to pick up and deliver the funds.

ACTIONS PLANNED OR TAKEN

1. The current safes at both stations need to be replaced. Transfer Stations management are researching new safe options.
2. Transfer Stations management is exploring new change delivery options and will implement a new procedure once it is decided upon.

Scale House Camera System - Conclusion 20: There are issues with the video camera system set-up utilized to monitor Transfer Station scale house operations. *High risk*

Background

The Transfer Stations have a video camera system in place to monitor operations. Cameras are used to monitor the tipping houses to view the flow of vehicle traffic and see if there are bottlenecks anywhere, and they're also used to view incoming vehicles at the scale houses. Customer vehicle photos are to be used for the purpose of recording a potential theft or incident, or to obtain a vehicle license number in the event the customer pays with an NSF check or skips out. There are also cameras in the scale house that are supposed to be used to view POS or cash register operations.

Issue, Impact, and Recommendation

The Transfer Station camera system setup should be adequate to properly monitor scale house operations for the purposes of employee and customer safety, security, and theft identification. The current camera system is not adequate for these purposes.

- A video camera photographs each customer vehicle at the inbound scale at the Transfer Stations. If a customer pays with a bad check or if they skip out without paying, this photo could be used to identify the vehicle license number, in the event the Scale Attendant failed to record it. Then, SPU Accounting can bill the registered owner of the vehicle for the transaction. In addition, these photos would be important for recording a potential customer theft or incident at the scale houses. Currently, the picture quality provided by these cameras is so poor it is not possible to identify the vehicle license number, nor is it possible to identify the driver's appearance, if this was needed. The Transfer Stations had submitted a request for a new camera system in past years, but this purchase was not approved at that time. A possible solution to the problem could be to switch one of the cameras aimed at the "pit area" (i.e., tipping house) to viewing vehicles at the inbound scale, because these cameras can zoom in and out and should produce a more legible photo. Photos of the pit are used only to monitor traffic flow and may not require a high degree of legible detail, whereas the photos used to monitor scale house operations do require this detail.
- Standard retail industry internal controls include using cameras of POS register operations to prevent and/or detect potential employee theft and to increase security. Retailers view photos on a periodic or random basis, or only when there are concerns about a potential incident. There are cameras in the Transfer Station scale houses that were put in place for this purpose. However, they have been turned towards the wall so they can not view POS register transactions. We recommend these cameras be repositioned to view scale house register operations, cameras are secured so they can't be moved, and scale house employees are notified that register transactions are videotaped.

Transfer Station management indicated the camera system will be upgraded and this project and associated expenditure have been approved.

ACTIONS PLANNED OR TAKEN

1. The cameras in the South Transfer Station scale house have been replaced.

2. A security project involving the replacement of the cameras in the North Transfer Station scale house is funded and scheduled for 2008.
3. SPU Solid Waste Operations and Transfer Stations management will investigate along with other parts of SPU the feasibility of retaining scale house video for longer than the current two week period (i.e. video is currently deleted after two weeks).
4. SPU Solid Waste Operations and Transfer Stations management will review and revise policies to ensure that camera/video technology is used appropriately in order to maintain employee safety and employee/property protection, and for effective loss prevention.

Transfer Station Sale of Recycling Waste - Conclusion 21: Procedures are not adequate to provide the proper separation of duties for the receipt of funds for the Transfer Stations' sale of recycling waste. High risk

Background

The Transfer Stations sell the recycling waste they collect to either Allied Waste/Rabanco's recycling plant in Seattle, or to Seattle Iron & Metal, depending on the waste commodity type. Selling prices are set by waste commodity type within the Residential Solid Waste Collection contract terms. SPU truck drivers deliver the recycling waste when the collection bins are full, which equates to about one to two loads daily each of cardboard and mixed waste to the Rabanco plant, about one load per week of glass, and a load of metal periodically to Seattle Iron & Metal. Rabanco and Seattle Iron & Metal send a check and invoice with detailed backup for the prior month's deliveries to a staff person at the South Transfer Station. This staff person matches each truckload listed in the invoice backup to the weight tickets the SPU drivers turned in. A copy of the invoices and backup is sent to the SPU Solid Waste Fund Accountant and the checks are sent to SPU Finance Administration to be deposited. In 2006, the total proceeds booked to Revenues for the Transfer Stations' sales of recycling waste were about \$245,000.

Issue, Impact, and Recommendation

There should be proper internal control procedures in place for handling funds from the sale of Transfer Station recycling waste. Currently, segregation of duties is not adequate in relation to these funds. The South Transfer Station staff person receives the checks directly and reconciles them to the invoice and backup documentation. The same person should not receive funds and perform the recordkeeping for them, because it presents the exposure that a potential employee theft could likely go undetected. We recommend that the Transfer Stations continue to perform the detailed review and reconciliation of the invoice to the backup because this is a good control practice, but that the checks for the sale of recycling waste be sent to either the Transfer Stations Manager or to SPU Finance Administration, which receives many checks for a variety of purposes and has a controlled process set up for handling them.

ACTIONS PLANNED OR TAKEN

1. Currently, checks for recycling waste proceeds are sent to SPU Finance Administration, where they are processed and deposited.

2. Transfer Stations management will review and amend procedures to ensure the same person who receives the checks does not also perform the recordkeeping.

APPENDIX 1

Transfer Station Revenues Data

Year	Transfer Station Fee Revenues
2002	\$10,350,210
2003	\$10,790,598
2004	\$10,924,087
2005	\$11,002,395
2006	\$11,267,517

Transfer Station fee Revenues data supplied by SPU Accounting.

APPENDIX 2

SPU Revenue Cycle Audit – Transfer Stations – Risk Matrix

Risk Level Definitions: Red = High risk – Internal controls should be strengthened as soon as possible; Yellow = Medium risk – It would be ideal to strengthen internal controls; Green = Low risk – Internal controls appear to be adequate.

Scope Area & Issues	Risk Level
Rates and Service Usage	Yellow
<ul style="list-style-type: none"> • Certification of SPU Scales 	Red
Billing and Account Adjustments	Yellow
<ul style="list-style-type: none"> • “Skip-Out” Handling 	Red
<ul style="list-style-type: none"> • Customer Account Adjustments 	Yellow
Payment Processing	Green
<ul style="list-style-type: none"> • Deposits of Customer Payments for Billed Accounts 	Yellow
Accounts Receivable Management	Yellow
<ul style="list-style-type: none"> • Coding/Blocking Customer Accounts 	Red
<ul style="list-style-type: none"> • Customer Account Delinquency Rates 	Red
<ul style="list-style-type: none"> • Penalty Charge Policies for Delinquent Accounts 	Yellow
Collections and Write-Offs	Red
<ul style="list-style-type: none"> • Timeliness of Turn-In to Collection Agency 	Red
<ul style="list-style-type: none"> • Monitoring Accounts in Collections 	Red
<ul style="list-style-type: none"> • Collections Rate Performance 	Red
<ul style="list-style-type: none"> • Collection Agency Remission of Customer Payments 	Red
<ul style="list-style-type: none"> • Collection Agency Commission Fees 	Red
Fund Accounting –Revenues and Receivables	Green
<ul style="list-style-type: none"> • Reserving for Bad Debts 	Yellow
Information Technology	Yellow
<ul style="list-style-type: none"> • System Access Rights 	Yellow
<ul style="list-style-type: none"> • Network Monitoring 	Yellow

Scale House Transactions and Cash Procedures	Red
• “Cash” Transaction Controls	Red
• Check Acceptance and NSF Check Procedures	Red
• Scale House Closing & Reconciliation Procedures	Red
• Scale House Safe Procedures	Red
• Scale House Camera System	Red
• Transfer Station Sale of Recycling Waste	Red