

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 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.

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.

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.