

# Office of City Auditor

## Memorandum



Date: April 29, 2014

To: City Councilmember Sally Bagshaw, Chair of the Seattle Public Utilities and Neighborhoods Committee  
City Councilmember Kshama Sawant, Chair of the Energy Committee  
Jorge Carrasco, Superintendent, Seattle City Light  
Ray Hoffman, Director, Seattle Public Utilities

From: David Jones, City Auditor

Subject: Assessment of Consolidated Customer Service System (CCSS) transaction controls policies and procedures, and associated results from our CCSS data mining project

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From December 2010 to December 2011 our office assisted the Risk and Quality Assurance Division of Seattle Public Utilities (SPU) with an investigation of transactions made in the utility customer billing system, known as the Consolidated Customer Service System (CCSS), which did not comply with City policies. SPU's investigations have resulted in disciplinary action, including dismissals of several employees for policy violations, and ongoing SPU efforts to improve internal controls over CCSS.

Due to the issues we became aware of while assisting SPU with their CCSS transactions investigation, we decided to: 1) assess the internal controls over utility account adjustments to determine whether they could be improved, and 2) conduct data mining, using audit software, on all employees with CCSS transaction update-level access to SPU and Seattle City Light (SCL) utility accounts to identify potential employee abuse of their authority. This memorandum documents the work we performed.

### **Summary of Results**

At the completion of our field work in 2012, we had identified seven internal control issues that required improvements; however, we delayed issuing a report on these issues due to other City Council requested utility audit work. Since 2012, SPU and SCL have improved their CCSS transactions controls so that two of the seven internal control issues we previously identified have now been fully resolved. For the remaining five issues listed below as "Current Issues", while SPU and SCL have taken steps to address them, there is still more work that needs to be done.

## CCSS Transaction Controls Assessment

### Current Issues

1. Customer Adjustment Controls Need Further Strengthening
2. Controls Over Late Fees and Interest Charge Rebates Require Strengthening
3. Payment Plan Controls Require Improvement
4. Utility Employees Entered Transactions on Their Own and Family Members' Accounts and/or Handled Utility Account Transactions for Other Utility Employees
5. Eligibility for the Reduced Rate Program was Incorrectly Calculated

### Resolved Issues

6. Some Employees Had Inappropriate CCSS System Access Rights
7. There was a Lack of User ID History for Utility Account Fee Reversals

### **Interim Reporting to SPU and SCL Management**

Most of our work was completed by March 2012. We held separate meetings with SPU and SCL management officials in January 2012 and March 2012, respectively, to discuss our observations, conclusions, and recommendations.

We completed our data mining work in March 2012 and reported to SPU and SCL management officials in two phases. Our Phase 1 reporting in May 2012 consisted of results that identified potential instances of employees making transactions to their own utility accounts and/or accounts belonging to their relatives, dependents, or beneficiaries, as identified through the employee's record in the City's Human Resources Information System (HRIS). When it appeared that employees may have made transactions to their own accounts or accounts belonging to relatives or other people identified in the employee's HRIS file, we gave this data to the employee's managing department (SPU, SCL, or the Human Services Department) to investigate. We also provided this information to the City's Office of Ethics and Elections so they could investigate further if they chose to.

Our Phase 2 reporting in December 2012 consisted of statistical results of certain potentially problematic types of transactions, such as credit adjustments and payment plan arrangements. We looked at transaction volumes by User ID and highlighted volumes either significantly higher or lower than the average for most employees who entered those transaction types. We provided this information to SPU and SCL so they could evaluate the reasonableness of transaction volumes based on the employees' job functions. We met with SPU and SCL management in December 2012 to discuss the data with them. We asked them to report back to us about how they reviewed this data, as well as their general conclusions.

Attachment 1 to this memo provides information about our internal controls assessment of CCSS transactions, a description of our scope and methodology, and a detailed description of our observations on the seven internal control issues we identified in the course of our work.

We appreciate the cooperation and assistance of SPU and SCL staff during our work on this project.

## CCSS Transaction Controls Assessment

cc:

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## Attachment 1

### Introduction

In this attachment we provide 1) background information about our internal controls assessment of CCSS transactions, 2) a description of our objectives, scope and methodology, and 3) a detailed description of our observations and conclusions on seven internal control issues we identified during our work. It is important to note that two of the seven internal control issues we are reporting on have been fully resolved while five require further attention.

### Background

Seattle Public Utilities (SPU) and Seattle City Light (SCL) residential and commercial utility accounts are tracked and billed in the Consolidated Customer Service System (CCSS) system.<sup>1</sup> Customer utility charges, account adjustments, and refunds are posted to each customer's account in CCSS. CCSS includes approximately 2 million customer accounts, and about \$1.2 billion in charges for utility services is billed annually to these accounts. CCSS serves as the subsidiary ledger for SPU and SCL customer revenues and receivables. Summarized totals from CCSS post to the appropriate utility fund in the City's general ledger system (i.e., Summit).

There are over 400 City employees who can enter transactions or review customer utility accounts in CCSS. The groups that post the most transactions in CCSS are the SPU call center, SPU and SCL account services and utility services functions, SPU and SCL credit and collections, SCL service centers, and Department of Neighborhood (DON) service centers.

### Project Objective, Scope and Methodology

The primary objectives of our assessment were to determine 1) if the internal controls in place for CCSS from 2011 to early 2012 were adequate to prevent and/or detect inappropriate utility account transactions that could have a negative financial impact on SPU and SCL, and 2) whether current internal controls are adequate.

We reviewed the policies, procedures, and other internal controls over certain types of transactions on SPU and SCL customer utility accounts during 2011 and early 2012. We also conducted data mining work on transactions made to customer accounts from 2009 through 2011. We focused our assessment on transactions that could provide a financial benefit for the customer such as credit adjustments or payment plans.

Specifically, we assessed the internal controls associated with:

- Adjustments, particularly credit adjustments
- Payment plans for delinquent accounts
- The reduced rates program and other utility assistance programs

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<sup>1</sup> Commercial solid waste charges are billed separately by the solid waste vendors and SPU bills two wholesale water customers through Summit Accounts Receivable. Drainage fees are billed for SPU by King County and are included on property tax statements.

## CCSS Transaction Controls Assessment

- CCSS system access rights

The information for our controls assessment was gathered from interviews with personnel from SPU, SCL, and the Human Services Department. We also reviewed our data mining results to identify controls that may need strengthening. We did not verify compliance with all controls or policies and procedures through our data mining queries, but we reviewed compliance with some controls.

For our data mining work, we used audit software to analyze CCSS data for the period from 2009 through August 13, 2011, and HRIS data as of January 2012. SCL's Information Technology (IT) Application Development Services unit provided us access to the CCSS data. SCL IT Application Development Services and SPU Risk and Quality Assurance staff assisted us with the navigation of CCSS database tables and interpretation of field codes.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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### Internal Controls Areas of Concern—Detailed Observations and Conclusions

#### *Current Issues*

#### **Issue 1: Customer Adjustment Controls Need Further Strengthening – *issue partially resolved***

##### **Conclusion**

Improved controls are required to help prevent and detect unauthorized credit adjustments to customer utility accounts.

##### **Background**

There are several groups within SPU and SCL that enter adjustments in CCSS to customer utility accounts as part of their routine job functions. The Combined Utility Call Center is one of these groups. They are authorized to make credit and debit adjustments to SPU and SCL utility accounts to correct errors, input service level changes, handle customer moves, etc. SCL account services staff and employees who handle SPU and SCL credit and collections functions involving delinquent accounts also regularly enter adjustments to SPU and SCL accounts. Employees from other work groups within SPU and SCL who have write-level access to CCSS can also make such adjustment transactions.

## CCSS Transaction Controls Assessment

A code is entered into CCSS that identifies the type of adjustment. For example, the ‘MISD’ code is used for a “miscellaneous decrease.”<sup>2</sup> In 2010 the utilities made 83,117 miscellaneous credit adjustments, while in 2011 the volume of this type of credit adjustment dropped to 47,150. Other types of credit adjustments include sewer leak rebate adjustments (SLRA), water leak rebate adjustments (WLRA), bad debt write-offs (BDWO), bankruptcy write-offs (GBBW), and many more.

### Internal Control Criteria

Internal controls should help ensure only appropriate credit adjustments are made to customer accounts and that any inappropriate adjustments are detected in a timely manner.

**Consequences of Control Weakness** There is a greater likelihood that inappropriate and/or unauthorized adjustments will not be prevented or detected when internal controls are inadequate. Improper account adjustments can have negative financial impacts on SPU, SCL, and utility rate payers.

### Issue Details

While the utilities have significantly improved controls over account adjustments in the last two years, we believe they require further strengthening. Our specific concerns with adjustment transactions are discussed below. It should be noted that the Washington State Auditor’s Office in their 2011 annual Accountability Audit of the City of Seattle reported that controls over utility account adjustments made by both SPU and SCL were inadequate, though the May 2013 Accountability Audit stated this finding had been resolved. The accounting firm Moss Adams<sup>3</sup> also reported on this issue in their 2011 annual internal control review of SPU, and the accounting firm Baker Tilly<sup>4</sup> reported similar findings in their 2011 annual audit of SCL. Both utilities developed action plans to address the findings reported by these auditors and implemented stronger controls over the review of credit adjustments.

### Issue - Improved Management Reports Needed – current controls issue

Improved reports are needed to facilitate a systematic management review of utility account adjustments. The use of what is known as “exception” reports is a standard management control for areas where there is a high risk of fraud or abuse, which would include utility account adjustments. Exception reports are generated whenever a certain threshold is exceeded (e.g., a dollar amount or number of transactions made during a certain period). Both SPU and SCL management now receive and review daily adjustment reports. The Supervisor of SCL Account Control, who is knowledgeable about SCL employees’ job duties, filters the daily adjustment report by user ID, so this control practice should help identify unusual adjustment activity made by SCL CCSS users. However, improved reporting is needed to help management easily and systematically identify inappropriate transactions and unusual transaction volumes and trends.

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<sup>2</sup> According to SCL management, the MISD transaction code is most often used to cancel rebills and rebate delinquency and late fees.

<sup>3</sup> Moss Adams is the external auditor for Seattle Public Utilities.

<sup>4</sup> Baker Tilly is the external auditor for Seattle City Light.

## CCSS Transaction Controls Assessment

Specifically:

- A CCSS user could enter financially beneficial transactions for friends, family members, or customers. A CCSS user could even enter these types of transactions for a commercial or residential customer in exchange for a kickback or something of value. These improper transactions/adjustments could be for small dollar amounts or larger amounts, and could be entered frequently. Management has no exception report that would help easily identify this type of employee abuse.
- There could be a pattern of inappropriate transactions/adjustments made to a customer account, including a business account or premise. As noted above, improper adjustments could be for smaller dollar amounts and could be entered frequently. Again, management has no exception reporting tools that would help easily spot this scenario.

SPU and SCL staff members make hundreds of adjustments daily, on average, as part of their normal work functions. Although management receives daily reports of all adjustments, it would be inefficient and impractical for them to review every credit adjustment. Currently, management only reviews the details behind larger dollar adjustments. Management needs tools that highlight potentially unusual or exception-type activity, so adjustment transactions can be monitored in an efficient manner.

Besides using exception reporting to help highlight potentially inappropriate adjustments, overall summarized reporting on adjustment transaction volume, sorted by adjustment type (e.g., MISD's, leak rebates, bad debt write-offs), could also be used by management to identify trends. These trends are not visible without this type of statistical reporting.

### Recommendation 1a

Regular reports on customer adjustments, both at the summary level and individual CCSS user ID level, and by customer account/premise code level, are needed to allow for adequate and systematic monitoring of adjustment activity.

- Exception reports should highlight employees in a specific job function who have transaction volumes significantly higher or lower compared to their peers, so management can quickly determine if these unusual volumes appear to be reasonable based on the employee's job responsibilities and schedule.
- Exception reports should also highlight customer accounts/premises experiencing an unusually high number of adjustments, because this could indicate a situation in which an employee makes transactions that benefit a customer in exchange for a kickback.

These types of reports should be implemented and reviewed regularly by the management of each utility group that enters a high volume of adjustments. We recommend that management perform monthly, quarterly, and annual reviews to obtain perspective on the types and volumes of transactions for these different periods of time. The management of the function is in the best position to know which transactions are appropriate or inappropriate, based on the employee's job function and workload for the time period in question. SCL's accounting firm, Baker Tilly,

## CCSS Transaction Controls Assessment

in their 2011 audit also noted that when a new billing system is implemented they recommend establishing automated monitoring processes to help identify account adjustments that represent the highest risk.

### Actions Taken or Planned to Respond to Recommendation 1a:

#### SCL

SCL management began monitoring MISD adjustments in 2012 to detect unusual adjustment transactions by user ID, and in 2014 will add an additional semi-annual monitoring control to detect unusual adjustment transactions at a utility account-level. The new control will start 6/30/14.

#### SPU

SPU's Customer Service Branch initiated a Continued Adjustments Review internal controls project (item number H16 from the Branch's 2010 work plan) in July 2013 to review over 80 types of adjustments for best business practices and fraud prevention. Project scope includes development of exception reports that highlight customer accounts and adjustment types experiencing an unusually high number of adjustments as well as implementation of manual controls that require Branch-wide supervisory review and approval for higher dollar adjustments. The reporting process is anticipated to include regular management reviews at intervals dependent upon type of adjustment. The project is targeted for completion by July 1, 2014.

#### Issue - Lack of Dollar Level Threshold – *current controls issue*

CCSS users with write-level access can make customer account adjustments for any dollar amount. There is no system control requiring supervisory approval for adjustments over a certain dollar amount. The SPU Customer Audit unit has a policy requiring supervisory approval for higher dollar adjustments, but other groups within SPU's Customer Service branch have no such policy.

At SCL, there are also no policies to limit the dollar amount of adjustments that staff-level employees can make; however, adjustments over \$250 are reviewed by SCL's Accounting Validation unit to ensure they are appropriate.

Employees could still circumvent dollar amount threshold policies because the CCSS system does not require a supervisor's approval to process an adjustment over the threshold. We believe the risk of inappropriate adjustments would be reduced if supervisory review and approval were required for higher dollar level adjustments and adjustments that deviate from standard SPU/SCL policies and procedures.

### Recommendation 1b

We recommend that the utilities establish dollar level limits for all adjustments entered by non-supervisors, if the CCSS system software can be modified to establish dollar amount limits by user ID. If CCSS can't do this, then manual controls could be established through policy.



## CCSS Transaction Controls Assessment

### Actions Taken or Planned to Respond to Recommendation 1b

#### SCL

SCL management mitigates the risk of inappropriate adjustments by the performance of the weekly monitoring control, which includes a detailed review of adjustments over \$250. This review of higher dollar adjustments serves as a compensating control; consequently, SCL management does not believe further change is warranted at this time.

#### SPU

See action plan under recommendation 1a on page 8.

#### Issue - Lack of Reason Code and Comments Documentation – resolved issue:

This issue has been resolved since we conducted our audit field work. Reason codes and comments help to explain why adjustments were made and serve as a control to help ensure adjustments were made in accordance with City policies. Our comprehensive CCSS data mining query for 2011 adjustments<sup>5</sup> showed that reason codes were not always entered, though they were most of the time - 96% of the time for transactions on SCL accounts and 94% for SPU account transactions.

SPU Customer Service's internal control effort had identified this same issue and SPU submitted a system change request on October 27, 2011 to SCL's Application Development Services<sup>6</sup> group to make reason codes a required field. SCL modified CCSS on March 23, 2012 so adjustment transactions can no longer be entered without entering a reason code. Most adjustments now have a specific reason code that indicates what the adjustment is for - for example, rebating extra garbage charges. The 'MISD' code is still used for miscellaneous adjustments, but it is not used often now that specific reason codes are required by the CCSS system.

#### **Data Mining Results**

We wanted to determine whether employees with CCSS write-level access rights entered potentially inappropriate credit adjustments for customers, so we conducted data mining on the volume of transactions entered at the user ID-level for 2010 and 2011. We reviewed the data to identify employees that had either a much higher or lower than average number of adjustment transactions per year, and we met with SPU and SCL to review and discuss this data. We provided this information to SPU and SCL to evaluate the reasonableness of adjustment transaction volumes in consideration of the employees' job functions.

#### SCL and SPU

SCL and SPU management analyzed and evaluated the data provided by the City Auditor and determined that the adjustments were well founded and appropriate.

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<sup>5</sup> Note that these data figures were projected for August 14, 2011 through December 31, 2011, based on actual data from January 1, 2011 through August 13, 2011, assuming that transaction volumes are consistent with the period for which we have actual data.

<sup>6</sup> The Application Development Services group administers and maintains the CCSS system.

## CCSS Transaction Controls Assessment

### Issue 2: Controls Over Late Fee and Interest Charge Rebates Require Strengthening

#### Conclusion

Controls over rebating customer late fees and interest charges need to be strengthened.

#### Background

When utility customers do not pay charges on time, the CCSS system automatically assesses a late fee (\$12 for SPU<sup>7</sup> and \$10 for SCL) if the delinquent balance is over \$75. This fee is applied each time a delinquent account is billed<sup>8</sup>. If the delinquent balance is over \$750 for SCL accounts or over \$1,000 for SPU accounts, interest charges are applied at the annual rate of 12%.<sup>9</sup> SPU and SCL customer service staff and employees who handle delinquent accounts can rebate late fees and interest charges as part of their job responsibilities.

#### Internal Control Criteria

SPU's and SCL's policies<sup>10</sup> on rebating late charges provide the following guidance:

##### *Late Payment*

- *A rebate of late payment charges may be granted to new customers or to customers who have not been charged late fees before.*
- *Late fees and delinquency penalties may be rebated if the customer agrees to immediately pay past due charges in full at a service center.*
- *Payment must be received before the fees are rebated.*

The policies allow for a one-time courtesy rebate or a rebate in exchange for payment in full of a delinquent balance. According to utility management, the intent of this latter point is to waive late fees only if the utility receives a payment significantly greater than the fees that will be forfeited.

#### Consequences of Control Weakness

Late fees and interest charges are assessed to provide customers a financial incentive to pay on time. Without these fees, more customers would presumably pay late. Consequently, late fees and interest charges should only be rebated in accordance with current policy. Any unnecessary rebating of late fees and interest charges would have a negative financial impact on utility rate payers.

#### Issue Details

Controls over rebating customer late fees and interest charges need to be strengthened. There are no limits on the total dollar amount of late fees and interest charges that employees can rebate within one transaction. While it is standard business practice to use forgiveness of late fees as a

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<sup>7</sup> The late fee for SPU was \$10 until January, 2013 when it was increased to \$12.

<sup>8</sup> Residential SPU and SCL utility accounts are billed every two months, and commercial accounts are billed monthly.

<sup>9</sup> Note, that the interest rate charged for delinquent wastewater charges is 8% per annum per SMC 21.28.260, but the interest rate is 12% per annum for delinquent water and solid waste charges per SMC 21.04.470 and 21.40.120, respectively.

<sup>10</sup> Billing: SPU Credit Policy, and Billing: SCL Credit Policy.

## CCSS Transaction Controls Assessment

negotiation tool to obtain payment of a larger delinquent amount, we were told by SPU Call Center management and staff that some Utility Account Representatives (UARs) may have been forgiving late fees routinely and not always in accordance with policy. We were also told by Call Center staff about instances of multiple late fee rebates that were made by staff-level employees without supervisory approval because it was not required and that these rebates were made with the objective of collecting on a much larger delinquent balance.

SCL managers of the Customer Account and Credit and Collections units stated they follow SCL's written policy of granting customers a one-time courtesy rebate of late fees, except when there are extenuating circumstances. These exceptional cases are approved by a supervisor and documented in notes within the system. The Supervisor of SCL Account Control, who is knowledgeable about SCL employees' job duties, filters the daily adjustment report by user ID, which should help identify unusual late fee rebate activity at the user ID level.

### Recommendation 2

The utilities should implement better monitoring procedures for late fee rebates to help ensure compliance with established policy. While we recognize the operational need for employees to exercise some judgment over rebating late fees and interest charges, we believe there is a need for a stricter adherence to policy.

It would also be useful for the utilities to implement exception reporting, as described under recommendation 1a, to facilitate systematic and efficient management monitoring of late fee rebates.

### Actions Taken or Planned to Respond to Recommendation 2

#### SCL

SCL management began monitoring late fee adjustments in 2012 to detect unusual adjustment transactions by user ID, and in 2014 will add an additional semi-annual monitoring control to detect unusual adjustment transactions at a utility account-level. The new control will start 6/30/14.

#### SPU

SPU's effort outlined in Issue 1 above addresses Late Fees and Interest charge rebates, as they are alternately referred to as Adjustments.

### **Data Mining Results**

We wanted to determine whether late fees and interest charges were always rebated to customers appropriately. We ran queries on all credit adjustments for \$10 in CCSS for the years 2009, 2010, and part of 2011, because \$10 was the most common adjustment amount for a late fee rebate at that time. We found there were 16,463 of these adjustments made in 2009 (for a dollar total of \$164,630 in rebates), 17,733 in 2010 and 10,504 in 2011. In December 2012 we met separately with SPU and SCL management and reviewed the results of these \$10 credit data queries. We asked SPU and SCL to analyze the transaction volume data for reasonableness, in consideration of the employees' job functions.

## CCSS Transaction Controls Assessment

### SCL and SPU

SCL and SPU management analyzed and evaluated the data provided by the City Auditor and determined that the adjustments were well founded and appropriate.

### Issue 3: Payment Plan Controls Require Improvement – *issue partially resolved*

#### **Conclusion**

Improved controls are required to help prevent and detect payment plans that are inappropriate and/or not in compliance with utility policy.

#### **Background**

Utility customers with delinquent debts may establish a payment plan to pay off their debts over a period of up to 60 days. Customers with payment plans must remain current with all new utility charges and also make their required plan payments. Establishing a payment plan halts utility service shut-off and credit actions on a delinquent account, including assessment of late fees and interest charges. If a customer has received an “urgent notice” or “final shut-off notice,” SPU and SCL policies require the customer to make an initial payment of either 50% or 75% (depending on the status of the customer’s delinquent account) of their outstanding balance to avoid service shut-off. Any remaining balance may then be set up on a payment plan. SPU and SCL policy does not allow a customer to establish a new payment plan if they have “broken” two previous payment arrangements (i.e., failed to make payments on time for two payment plans) within the calendar year. A customer may have only one active payment plan for any one of their utility accounts, though they can have an active payment plan for more than one utility account at the same time.

#### **Internal Control Criteria**

Because payment plans halt credit actions on delinquent customers and delay receipt of revenues, controls should be adequate to ensure they are handled in accordance with utility policies.

#### **Consequences of Control Weakness**

Using payment plans that do not comply with utility policies has a negative financial impact on utility ratepayers.

#### **Issue Details**

Current procedures require strengthening:

#### **Issue - Payment Plan Cancellations and Due Date Extensions – *resolved issue***

CCSS allows a user to cancel a current payment plan and immediately re-establish another plan, which results in the customer receiving a new 60-day due date to pay off an outstanding balance. At the time of our field work for this audit, SPU policy did not address parameters for setting up a new payment plan for customers with a current plan, also referred to as a “due date extension.” If payment plans are canceled and re-established multiple times, it allows customers to essentially remain on a permanent or “rolling” payment plan and circumvent utility policies. During our work with SPU’s Risk and Quality Assurance Division, we saw many instances of

## CCSS Transaction Controls Assessment

payment plans that were repeatedly canceled and re-established for the same customer. This practice created a loophole that allowed the customer to avoid meeting the requirements for a current payment plan to be paid off before getting a new one, and for having no more than two broken payment plans in a year's time.

Payment plans are numbered consecutively in a customer account so any employee viewing the account can easily see how many plans a customer has had. For every account they handle, customer service and credit and collections staff are trained to review the account's status and history. In light of this, it would be obvious to utility employees who review these accounts when a customer has multiple payment plan cancellations and extensions.

SPU has since revised their payment plan policy<sup>11</sup> and now requires the customer to make a payment of 25% of their outstanding balance in order to change the terms of an existing payment arrangement. This policy change should eliminate the opportunity for customers to receive multiple due date extensions without making any payments.

**Issue - Lack of Dollar Level Thresholds – *current controls issue*:** There is no dollar level threshold set for the maximum payment plan amount that can be handled by a staff-level employee, without supervisory approval.

### Recommendation 3a

We recommend that SCL and SPU establish a dollar amount limit for payment plans that can be handled by non-supervisors.

### Actions Taken or Planned to Respond to Recommendation 3a

#### SCL

SCL's Internal Audit did a walkthrough of SCL payment plan processes on January 7, 2014 and noted the following procedures in place:

- New policy guidelines updates 9/28/2011
- Daily monitoring of the credit delinquency cycle and shut off notices
- Periodic monitoring of the Top 100 Past Due Accounts
- Monthly trend analysis of the total number and dollar amount of active payment arrangements

Based on their evaluation of current policy and procedures, SCL management determined further changes are not warranted at this time due to operational feasibility and compensating controls with current payment plan monitoring.

#### SPU

Regarding dollar threshold approvals, SPU intends to establish a dollar amount limit that can be handled by non-supervisors. This threshold would be incorporated into internal operating

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<sup>11</sup> CS-310.1 Customer Billing, Payments, and Collections, effective May 1, 2013.

## CCSS Transaction Controls Assessment

procedures for Customer Billing Services, Customer Response, and Utility Service Teams Divisions. Implementation is targeted for April 1, 2014.

**Issue - Lack of Required Initial Payments – current controls issue:**

While SPU and SCL require initial payments of either 50% or 75% for payment plans, depending on the status of the customer's delinquent account, there are no automated controls built into CCSS to ensure these initial payments are made. Call Center management indicated Utility Account Representatives were not always requiring these initial payments to be made before establishing a payment plan. If a customer doesn't make the initial payment required by utility policy, employees should receive supervisory approval before they set up a payment plan. SPU management indicated this did not always happen in the past and/or supervisor approvals were not always documented. SCL credit and collections management stated they require customers to pay 50% at a minimum before they can receive a payment plan.

**Recommendation 3b**

We recommend that the utilities revise payment plan procedures to require the documented approval of a supervisor if a payment plan is established without payment of the required initial payment amount.

**Actions Taken or Planned to Respond to Recommendation 3b**

**SCL**

See response at recommendation 3a. Based on SCL Internal Audit's review and evaluation of current policy and procedures, SCL management determined further changes are not warranted at this time due to operational feasibility and compensating controls with current payment plan monitoring.

**SPU**

Management reports reviewing payment plan process compliance are being developed as part of the Continued Adjustments Review internal controls project (number H16) described in issue 1 above and are anticipated to be developed by July 1, 2014.

**Issue - Payment Plan Management Reports – current controls issue:**

Management reports on payment plans should be improved. Regular reports are needed to allow management to monitor all payment plan activity, the activity at the individual CCSS user ID level, and activity at the account level. SCL Credit and Collections receives and reviews a report on total payment plans and broken payment plans, but has requested additional reports to help them monitor payment plan trends and potentially non-compliant payment plans. This additional information would also help management make informed decisions regarding payment plan policies.

## CCSS Transaction Controls Assessment

### Recommendation 3c

The utilities should develop and implement management reports on payment plans that help them monitor trends and compliance with policies, similar to those recommended for adjustments in Recommendation 1a.

### Actions Taken or Planned to Respond to Recommendation 3c

#### SCL

SCL Management evaluated the administration and monitoring of granting and following up on broken payment arrangements and believes no further changes are necessary. SCL management will continue to evaluate on an ongoing basis and has included in the requirements for the new Customer Information System (CIS) automated monitoring business rules.

#### SPU

See response at recommendation 3b.

### **Data Mining Results**

We conducted data mining on the volume of payment plans entered at the user ID-level for 2010 and 2011. We reviewed the data to identify employees who had either a high or low volume of annual payment plan transactions, and we met separately with SPU and SCL management to review and discuss this data. We asked SPU and SCL to review this data for reasonableness in consideration of the employees' job functions.

#### SCL and SPU

SCL and SPU management analyzed and evaluated the data provided by the City Auditor and determined that the activity was appropriate and aligned with the employee's job duties.

### **Issue 4: Utility Employees Entered Transactions on Their Own and Family Members' Accounts and/or Handled Transactions for Other Utility Employees – *issue partially resolved***

#### **Conclusion**

Some utility employees entered transactions in CCSS on accounts belonging to themselves, their family members, and/or other utility employees.

#### **Background**

Some employees who have write-level access to CCSS are also SPU and SCL customers. These employees have the ability, though not the authority, to enter transactions on their own accounts, and the accounts of friends, relatives, co-workers and others.

We were told by the CCSS System Administrator there is no automated method within CCSS to prevent employees with CCSS write-level access rights from updating their own accounts or those of other employees.

## CCSS Transaction Controls Assessment

### Internal Control Criteria

City employees should not enter transactions into CCSS with a financial impact on their own utility accounts or those of family members, friends, relatives, co-workers, or others. Such transactions should be handled by a supervisor.

The City of Seattle Code of Ethics states that an employee may not:

*Use or attempt to use his or her official position for a purpose that is, or would to a reasonable person appear to be, primarily for the private benefit of the Covered Individual or any other person, rather than primarily for the benefit of the City.”<sup>12</sup>*

SPU published and communicated a policy<sup>13</sup> in March 2011 reinforcing the City’s Ethics Code and addressing expectations for employees making utility account transactions, as well as a procedure for how to handle transactions for accounts belonging to employees, friends, relatives, and co-workers in July 2012.<sup>14</sup>

### Consequences of Control Weakness

If employees enter transactions on their own accounts or those of friends or family members, there is the potential for them to enter transactions that are financially beneficial to themselves. If staff-level employees handle transactions for each other, there is an increased risk they will enter inappropriate transactions, and/or exchange favors with other employees by handling their transactions. Besides these risks, even if the transactions entered into the employees’ own accounts or the accounts of other employees were appropriate, this situation could create the appearance of inappropriate behavior and negatively impact public trust. Improper adjustments also have a negative financial impact on utility rate-payers.

### Issue Details

There have not been adequate internal controls in place to prevent and/or detect transactions entered in CCSS that are potentially inappropriate and benefit employees or their friends and family members. While SPU and SCL have taken several actions to improve controls, we believe further improvements are still needed as explained below in Recommendations 4a and 4b.

During SPU’s investigation of CCSS transactions, they identified several SPU employees who had entered transactions into their own accounts and/or the accounts of related persons that were financially beneficial to the customer. During our data mining of CCSS transaction data, we also identified a few SPU and SCL employees who had entered these types of transactions. We referred each potential issue we identified to SPU and SCL management for research and resolution. We notified the City’s Office of Ethics and Elections about each potential SCL employee issue and we relied on SPU to notify the Ethics Office about potential SPU employee issues. An interdisciplinary team led by SPU’s Risk and Quality Assurance Division investigated potential issues with SPU employees, while SCL Customer Care management

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<sup>12</sup> SMC 4.16.

<sup>13</sup> SPU CS-106 Customer Utility Account Transactions.

<sup>14</sup> SPU CS-106.1 – Utility Account Transaction Processing



## CCSS Transaction Controls Assessment

officials investigated potential SCL employee issues. Based on the results of their investigations, each utility took disciplinary actions, including dismissal.

### Data Mining

Our CCSS data mining work and the work with SPU reviewing CCSS transactions identified some SPU Customer Service employees who handled utility account transactions for co-workers and other employees. This included transactions that appeared to provide financial benefits to co-workers, such as setting up payment plans and rebating late fees.

Because we had concerns about whether employees may have entered financially beneficial transactions on their own accounts or those of related persons, we conducted data mining queries for the period 2009 through August 2011. We identified a few instances in which it appeared this may have occurred. We met separately with SPU and SCL management to refer these potential issues for complete investigation and resolution, and requested they update us on the results of the investigations.

It is important to note that our data mining project included all employees with CCSS access, including non-utility employees who work for the Department of Neighborhoods (DON) and the Human Services Department (HSD). We identified one potential issue involving an employee from the HSD Utility Assistance Program and we followed up on this with HSD management. That employee had retired and there was no loss of funds involved, so it was not pursued any further.

Both SPU and SCL have already revised and strengthened their procedures for reviewing transactions made to employee accounts. SCL has created reports of all adjustments made to employee accounts they are aware of, but this report is not comprehensive because it only includes self-identified employee accounts (i.e., the customer told the utility they were a City employee during some interaction with SCL). SCL Customer Care management reviews the details of these adjustments weekly.

### Recommendation 4a

We recommend that SPU and SCL develop formal procedures for regular management review of accounts belonging to employees with CCSS write-level access. As discussed above in recommendation 1a, enhanced management reports need to be established and implemented by the utilities for transaction types in which there is a high risk of abuse, especially for monitoring accounts belonging to employees. We recommend that SPU and SCL implement a systematic and efficient process for monitoring utility accounts for employee households. Any monitoring procedures and reports should also address accounts belonging to non-utility CCSS users (i.e., DON and HSD).

### Actions Taken or Planned to Respond to Recommendation 4a

#### SCL

SCL currently identifies accounts when the City of Seattle is listed as the employer on service connection applications and generates a weekly report to review adjustments to these accounts. No further action is planned.

## CCSS Transaction Controls Assessment

### SPU

SPU instituted a Policy in March of 2011 reinforcing the City's Ethics Code as it relates to Utility Account Transactions and prohibiting employees from working on their own, family members, or co-workers and friends' accounts. A procedure requiring that employees go to their supervisors, or division management, for any work on those accounts was established in 2012. Furthermore, in 2011 SPU's Risk and Quality Assurance division began to conduct ongoing review and analysis of User ID level reports and employee utility account transactions. As reports generated from item H16 of the Customer Service Branch's work plan are developed, this work will be reduced to spot audits and analysis.

### Recommendation 4b

We recommend that the utilities flag any accounts in the CCSS system for premises owned or inhabited by employees. This would help facilitate account monitoring.

### Actions Taken or Planned to Respond to Recommendation 4b

### SCL

See response to recommendation 4a. In addition, there is a desire for improved identification of City employee utility accounts within the utility customer accounting system. This objective will be incorporated into the CCSS system replacement project, which is planned for implementation in 2015.

### SPU

Flagging of employee personal utility accounts and those of family members and close personal friends is extremely resource intensive. We believe that the combined measures taken to date combined with those now being developed will sufficiently enable SPU to identify any new inappropriate utility transactions.

### Issue 5

**There Were/Are Issues With Determining Customer Eligibility for the Utility Reduced Rate Program Based on Program Income Criteria- *issue partially resolved***

**Conclusion:** Before January 2012, the City did not take adequate steps to ensure that only eligible customers participated in the utility reduced rate program based on program income criteria. In particular, current controls do not ensure that all household members' income is reported for purposes of determining eligibility for rate assistance.

**Background:** SPU and SCL customers who meet an established low income threshold<sup>15</sup> are eligible to receive rate discounts of 60% for SCL charges and 50% for SPU charges. Currently, there are 13,580 households set up on reduced rates that receive a total of about \$11 million in discounts annually.<sup>16</sup> The utility reduced rates program is administered by the Human Services

<sup>15</sup> Per SMC 21.76.030 Low Income Rate Credit Qualification, the income threshold is 70% of the Washington state median income for the number of individuals in the household.

<sup>16</sup> Statistics are from the Washington State Auditor's Office 2011 Accountability Audit Report for the City of Seattle – May 17, 2011.

## CCSS Transaction Controls Assessment

Department (HSD) Utility Assistance Program (UAP) group and the utilities pay a fee for HSD's services on the program based on a memorandum of agreement. Utility customers apply for the reduced rates program through HSD's UAP group. The program requires customers to include the income of all adult household members on the application form. UAP staff will not be aware if customers don't report the income of someone in the household, but they do review energy consumption for reasonableness based on reported household size. If an applicant says they have no income, UAP will ask for verification of this from the Washington State Department of Employment Security, which sends a letter back to the City on what they found in their records. City employees who are also SCL and/or SPU customers are eligible to participate in the reduced rates program if they meet the program guidelines.

**Internal Control Criteria:** Internal controls should be adequate to ensure that customers who benefit from the utility reduced rates program comply with program requirements and income eligibility criteria. It is especially important that City employees with write-level access to CCSS comply with these requirements.

**Consequences of Control Weakness:** Only customers who qualify for the reduced rate program should participate, because the amount discounted for these customers is absorbed by the utility ratepayers who are charged undiscounted rates.

**Issue Details:** Our detailed observations about issues related to determining eligibility for the utility reduced rate program are provided below.

**Issue - Lack of Compliance with Program Income Requirement - *resolved issue:***

Before January 2012, controls were not adequate to ensure that recipients of the utilities' reduced rates program complied with income guidelines. The Seattle Municipal Code requires that household income be no higher than 70% of the State median income for the number in the household. However, the UAP unit was applying a 20% deduction to the applicant's reported household gross income, as well as a deduction for medical insurance premiums, and then comparing this reduced income figure to the 70% of State median income criterion. According to HSD management, it had been the practice to make these deductions from the household income amount for many years and it was not known how or why the practice was initiated. The 20% income deduction was documented in a draft UAP Program Manual that was in effect during our fieldwork. SPU brought this situation to our attention, and then we met and discussed this practice with HSD management in October 2011. HSD revised their practices, policies, and procedures in January 2012 to properly conform to the City's code. We met with the UAP staff in February 2012 and explained why the prior income calculation method was not correct and why we had requested HSD to change the calculation methodology to be aligned with City code.

**Issue - Controls Over Household Income Screening for Rate Assistance – *current issue:***

Currently, a utility customer could apply for rate assistance without properly declaring the income of other adults in the household, as they are required to according to the program criteria. While some City employees could properly qualify for rate assistance, based on their income and number of dependents, a customer whose household includes a City employee could misrepresent their total household income in the same manner that any other customer could.

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The UAP unit does review utility usage for reasonableness, based on the number of household members declared on the application form. However, UAP has no conclusive way of knowing if the rate assistance applicants live at a household that includes undeclared wage earners. It would be difficult to implement a control to detect whether a customer was withholding information about other wage earners in the household. However, it would be relatively easy to determine if City employees lived at a household receiving rate assistance based on the utility account address in CCSS and the employee addresses in the HRIS system, and whether the household's stated income includes the income for the City employee.

### Recommendation 5

Controls should be improved to ensure City employee households only receive the benefits of the reduced rate program and other energy assistance programs if they properly qualify based on program criteria, including household income. This could be accomplished by running a query of addresses for customers on reduced rates matched to the City of Seattle employee database (HRIS). HSD could then determine whether the employee's income was properly included on the rate assistance application form used for determining program eligibility. This type of query could be run once or twice a year and serve as a detective control that would help identify any potential issues.

### Actions Taken or Planned to Respond to Recommendation 5

#### Coordinated Response from HSD, SPU, and SCL

The Seattle Human Services Department (HSD), Seattle Public Utility (SPU), and Seattle City Light (SCL) are in disagreement with and do not plan any further action regarding 'Recommendation 4'. Income verification is already part of a detailed and robust application and recertification process for all UAP participants. The added control or process to verify City of Seattle employees who participate in the Seattle Low-income Utility Assistance Program (UAP) a second time is not cost effective nor a valuable use of resources. HSD, SPU, and SCL also do not have access to the HRIS nor do these departments want the risk and responsibility of interfacing with the HRIS.

#### Office of City Auditor Response

The Office of City Auditor will consider whether our office will conduct a data query, as recommended above, to look for potential employee abuse of the utility discount program.

## *Resolved Issues*

### Issue 6: Some CCSS System Access Rights Were Inappropriate

#### **Conclusion**

At the time of our field work on this audit, there were over 400 City employees with write-level access to CCSS, including employees who did not need this level of access to conduct their jobs. The following example illustrates the risks of unnecessary system access rights:

## CCSS Transaction Controls Assessment

*Towards the end of 2010, SPU became aware of an employee in the Engineering unit who had entered false cash payments on his own utility accounts. These false payments were identified by SPU through the daily CCSS cash reconciliation process and the employee in question was dismissed. This individual required read-only access rights to CCSS for his current job duties and should not have had write-level access.*

### Background

Employees with write-level access to CCSS can post charges, payments, and adjustments to SPU and SCL customer utility accounts. Employees could abuse this right and enter improper adjustments or false payments. Employees could also enter transactions to financially benefit themselves, friends or family members, or any customer in exchange for some benefit or compensation. The primary groups that require write-level access to CCSS include staff working in the SPU Call Center, SPU Customer Accounting, SPU Utilities Services, SCL Customer Care, SCL Service Centers, the Department of Human Services Utility Assistance Program, and Department of Neighborhood Service Centers.

### Internal Control Criteria

Write-level access to CCSS should be limited to those employees who require it to perform their job functions because of the financial risk this poses to the City. Some employees need read-level system access so they can view a customer's account history but they do not need to enter transactions. Other employees need write-level access, but they only need it for certain business functions/transactions. Access rights should be limited to the minimum required for each employee's job functions, if the CCSS system can support this level of granularity. Employees could also be limited to transactions up to a certain dollar amount if CCSS would support this.

### Consequences of Control Weakness

Each employee who had write-level access rights to CCSS that were higher than required represented an unnecessary exposure to financial risk for the City.

### Actions Taken

Both SPU and SCL conducted a thorough review of CCSS access rights in 2011 and 2012 and established controls over levels of access and limited employee access rights to only those for their job functions. SPU conducted this review in response to their Customer Service Internal Controls plan. SPU implemented a new policy – CS-106.2 Utility Account Access – Consolidated Customer Service System (CCSS) – on November 15, 2012 which details SPU's internal controls over granting, changing, and reviewing employee system access rights. SPU and SCL have also implemented controls over employees who transfer to new job functions to ensure these employees have the level of CCSS access rights that are appropriate for their new job. Both utilities are now conducting a semi-annual review of CCSS system access rights.

## Issue 7: Lack of User ID History for Utility Account Fee Reversals

### Conclusion

Water meter disconnection charges and other charges could be reversed without an audit trail of who performed the fee reversals.

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### Background

When a SPU customer reaches a specified delinquency threshold (i.e., \$300 and at least 10 days delinquent) and after SPU has given them appropriate notice, their account is scheduled for water service shut-off. Customers are assessed a \$164 fee for service shut-off due to account delinquency.<sup>17</sup> The fee covers SPU's cost for a field visit to disconnect the customer's water meter. CCSS users with write-level access can reverse the water shut-off fee, using the transaction code 'WCSO', though this should not be done unless the fee was applied in error or other rare circumstances apply. CCSS users can also prevent water service shut-off by entering notes on the account. In 2010, there were 3,137 water meter disconnection fees reversed. SCL shuts off electric service when delinquent accounts total \$300 or higher, and charges the customer a shut-off fee of \$106. SCL Credit and Collections management stated that because shut-off fees are reversed with the MISD adjustment code, user ID's are recorded in CCSS for these adjustments.

### Internal Control Criteria

Management should be able to determine who entered any transaction in CCSS that has a financial impact on the utilities.

### Consequences of Control Weakness

There was a greater likelihood that inappropriate fee reversals would be entered if there was no record of who entered the transactions. This could have had a negative financial impact on SCL, SPU, and rate payers.

### Issue Details

CCSS records user ID data for most transaction types, but until March 2012, it did not record the user ID for reversals of water meter disconnection charges and some other fee reversals. Employees with CCSS access could have refunded these fees inappropriately for friends, family members, other employees, or themselves. If this occurred, there was no record of who entered the transactions.

### Actions Taken

Our office brought this issue to the attention of the SCL Application Development Services group, and they implemented a change to CCSS to record user ID's for all fee reversal transactions in March 2012.

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<sup>17</sup> SPU policy SPU-FIN 210.2 Director's Rule on Standard Charges, section 3.11.