

**DEPARTMENT OF ENVIRONMENTAL SERVICES
WATER AND SEWER BILLING DIVISION**

FOLLOW UP OF PREVIOUS AUDIT FINDINGS

REPORT NO. - 053105

May 2005

Prepared by:
Internal Audit Division
Clerk of the Circuit Court

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**Seminole County
Department of Environmental Services
Water and Sewer Billing Division**

FOLLOW UP OF PREVIOUS AUDIT FINDINGS

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a follow up audit of the Water and Sewer Billing division of the Department of Environmental Services. The original audit was published on August 29, 2003.

PURPOSE

The purpose of this audit was to determine if the recommendations from the previous audit had been implemented. In addition, areas such as the handling of debit /credit memos, escrow accounts and the general operating procedures of the department were also reviewed for compliance with applicable policies and procedures.

BACKGROUND

The Water and Sewer Division of the Environmental Services Department provides residential and commercial water and wastewater utility services to approximately 40,500 customers within unincorporated Seminole County. These services are provided through county-owned and operated water and sewer facilities and wholesale agreements with other utilities. Water and Sewer billing functions include directing, coordinating and performing county billing, collection, and accounting for the Water and Sewer Fund.

SCOPE OF WORK

All procedures, policies and laws affecting the internal controls over the water and sewer billing were subject to review.

The audit included:

- Review of applicable policies, procedures, laws, and county ordinances;
- Review of residential and non-residential customer deposits and refunds;
- Test for appropriate processing in accordance with management's procedures;

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- Tests to verify that rates, fees, and charges were in compliance with the Board approved rate schedule;
- Review of reconciliation's for accounts receivable, customer deposits and the escrow account
- Interviews with county personnel; and,
- Any other procedures considered necessary under the circumstances.

The audit was performed by Susan Krause.

OVERALL EVALUATION

The original Water and Sewer Billing Division audit produced six findings. Management concurred with all findings and adopted the recommendations of three of the findings. Two of the findings were not implemented and one was partially implemented.

In our opinion, the administrative controls over the billing and collection process are adequate and operating in accordance with applicable laws and regulations. Rates, fees, and charges are in accordance with the approved rate schedule. There are, however, some opportunities to further strengthen the system of internal control. Those opportunities are presented in this report and management has begun to implement the recommendations.

FINDING NO. 1

The reconciliation process requires improvement.

Great strides have been made since the previous audit to establish reconciliation procedures; however we have identified areas needing improvement.

The audit report published by the Clerk of the Circuit Court identified that the utility billing accounts were not in balance with the general ledger. Since that time, Water and Sewer has initiated a process to balance with the general ledger on a monthly basis. Although they have made progress in this endeavor, there are some problems noted with the reconciliations.

For example, several items affecting the accounts receivable and customer deposit reconciliation are not being taken into account, such as the timing of customer refunds, write-offs and timing of the Board of County Commissioners utility payments. We also noted that the escrow account had not been reconciled in nine months. Upon review of this account we noted numerous errors such as deposits being omitted, deposits paid out that were still listed on the reconciliation and a substantial amount of deposits that should have been

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recorded in income as “connection fees”. This amount totaled \$617,953.34, and represented ninety-three percent of the account balance. The adjustment was brought to the attention of management and a journal entry was sent to County Finance for recording. We have worked with Utility Billing to establish procedures for reconciling these accounts in an accurate and timely manner.

Recommendation

Continue with the reconciling procedures as implemented during the audit.

Management Response

Recurring reconciliations of customer deposits and accounts receivables have been reassigned to enhance internal controls. Completing these reconciliations within fourteen (14) days of the prior month’s end is the assigned performance measurement goal.

The issue related to reconciling and connection fees in escrow requires revision and enhancement to existing written policies for the Accounting and One-Stop-Permitting teams within the division. Fortunately our existing written procedures err in favor of conservatively reporting the assets as restricted. Team leaders will be reviewing this account for monies eligible for transfer from restricted cash to unrestricted monthly in the near term and then on a quarterly basis by fiscal year end. Team deliverables will be due to the division manager within fourteen (14) days of the prior month’s end. All necessary adjusting entries will be forwarded to County Finance in a prompt manner.

FINDING NO. 2

Reconciliations of accounts receivable and the customer deposit account should be done by the Accounting Department, not by personnel in the Utility Billing Department.

Sound internal control dictates that someone who has no access to customer accounts should be preparing the reconciliation’s on a timely basis. Currently, Utility Billing prepares the reconciliations. In our opinion, reassigning these duties to the accounting department would insure the reconciliation is performed by an employee who can not adjust individual account balances.

Recommendation

Environmental accounting staff should perform reconciliations.

Management Response

Management agrees and has transitioned this task as recommended. See also management’s response under Finding Number 1 above.

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FINDING NO. 3

Two of fifteen commercial accounts had not posted mandatory deposits.

Fifteen commercial accounts were selected for review at random to determine if deposits were accurately calculated and collected. Two had not posted mandatory deposits.

Rate Resolution 2003-R-137 states "Commercial accounts deposit shall be based on two months estimated bill."

The two accounts without deposits were current. Although the deposits had not been collected, the county was not subject to any losses due to the nonpayment of these deposits. Requiring deposits on all commercial accounts ensures compliance with county policy.

Recommendation

To ensure deposits are collected as required, the supervisor of Customer Service should review the applications for compliance.

Management Response

Management understands this was the product of an individual no longer with the utility. Members of the Customer service and billing teams have been advised that deposit requirements are to be applied and enforced consistently using the ERC approach.

FINDING NO. 4

Debit and credit memo adjustments lack adequate controls.

Debit and credit memos are simple adjustments made to customer accounts balances. Adjustments are made for a variety of reasons; such as a pool-fill credit or an adjustment to correct a billing error. Adjustments are made by utility billing personnel or customer service representatives who prepare and input the adjustments into the billing system.

Internal audit performed test work to ascertain if adjustments were properly documented, properly approved and input correctly into the billing system. Review of one day's memos showed that one of fifteen was not entered into the billing system, even though it was marked as being entered.

Although we are not completely comfortable with the lack of segregation of duties, we recognize that it is not always practical to do so. To compensate, the division should implement alternate controls. For example, we noted that a detailed report exists in the billing system that would enable a supervisor to review all adjustments. This report can be run daily for review and reconciliation.

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Performing a supervisory review of all adjustments ensures adjustments are entered properly into the billing system.

Recommendation

Perform a supervisory review of debit and credit memos using the adjustment update listing (report UT61L) on a regular basis, and incorporate this review procedure into the policies and procedures manual.

Management Response

The reconciliation process of previous day's adjustments has been assigned to the accounting team for execution. Material variations are to be reported to the division manager.

FINDING NO. 5

Surprise "cash counts" are not performed.

There are five cash drawers; two maintain \$50 balances, and three \$25. Surprise cash counts are an integral part of any internal control over cash and should be performed on a random basis. This procedure needs to be documented as a control measure and to ensure all drawers are counted sporadically.

Recommendation

Perform cash counts on a random basis and document results. Develop a cash count form to be used for all surprise cash counts and incorporate this procedure into the departmental policy and procedures manual.

Management Response

This has been implemented. Results of the initial count were documented and forwarded to Internal Audit for their records. Counts will be conducted periodically with documentation provided to Internal Audit as these occur.

FINDING NO. 6

The division's updated business policies have not yet been published.

Environmental Services has not published a comprehensive manual that defines the county's policies and procedures for the Water and Sewer Billing Division. This was a finding in the previous audit as well.

Written policies, procedures, and instructions prevent misunderstandings, omissions, overlapping of important functions, and other situations that might result in weakened internal controls. They also can provide a standard for performance and are useful in training new employees.

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To illustrate the benefits of having written manuals, it was noted that when duties had to be reassigned in the previous year, errors were discovered in the way several accounts were being handled. Reconciliations were incorrect, deposits were refunded out of the wrong account, and other charges were not being properly recorded. Written procedures would prove beneficial during the reassignment of personnel.

Recommendation

We suggest that management review, update, and complete a policies and procedures manual for the Water and Sewer Billing Division.

Management Response

An updated manual of the division's procedures is available from the utility billing software provider by utilizing the help command. The operating procedures as these relate to forms and approvals have changed little since first completed in 1988.

Updates to existing procedures are necessary to reflect changes in computer applications and recognize more refined work teams within the division. Management anticipates completion of these updates by September 30, 2005.

FINDING NO. 7

Security procedures need improving.

The safe is opened in the morning and left unlocked all day. During operating hours the cash receipts for solid waste and utility billing are kept inside. Even though the safe is not accessible to the public, by virtue of it being unlocked it is accessible to Environmental personnel. Also, the transfer of daily receipts to the security company is performed in the lobby instead of behind the security door.

Recommendation

We suggest the safe be locked at all times ensuring the safety of the contents, and that the combination be given to only those employees requiring access. We also feel it would be prudent to conduct the transfer of funds behind the secure door.

Management Response

Management concurs with this recommendation and has implemented a locked safe policy during normal operating/business hours.

FINDING NO. 8

Applications for new service do not provide adequate information.

Due to past issues with the application of deposits, we feel it is important to have the account number, deposit amount, customer service representative and date on the application for clarification. Having this information provides an audit trail and accountability. There are also several variations of the applications for service for both residential and commercial which can be confusing.

Recommendation

We recommend that the above information be added to the bottom of the applications, and a standard form be agreed upon for both residential and commercial applications.

Management Response

Management concurs with this request and has revised the form accordingly.

FINDING NO.9

Accounts more than ninety days past due should be reviewed for possible write off.

At September 30, 2003 the external auditors adjusted \$151,780.60 of accounts past due out of accounts receivable. No corresponding entry was made on the Utility Billing system. This means the Utility Billing system is showing accounts that are probably uncollectible and will always be a reconciling item when balancing to the general ledger. When Utility Billing does write off accounts, journal entries are not provided to County Finance.

Recommendation

Bad debts greater than 90 days should be reviewed for collectibility on an annual basis. Accounts determined to be uncollectible should be written off and journal entries forwarded to County Finance for recording to the general ledger.

Management Response

The amount represents account balances written-off as uncollectible on the County's General Ledger maintained by County Finance over the past several years. The information is retained in the utility billing system to assist in collection as customers return to the service area with outstanding amounts still due the County. Management prefers retaining this data regardless of the slow collection rate. To accommodate the recommendation of the Internal Audit Division, the data will be stored in a hard copy format and balances deleted from the computer maintained billing system. Implementation should be accomplished within 30 to 45 days.

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FINDING NO. 10

The Utility Tax account should be reviewed and adjusted as necessary.

The Utility Tax account is used as a clearing account for taxes billed and taxes collected by the Water and Sewer Department. The balance should, at the most, be approximately one month's accrual. The balance at September 30, 2004 was (\$85,548.93). The average accrual is \$40,500.00 per month. This indicates an over accrual of the taxes in the first quarter of 2004. This information was given to management for review.

Recommendation

We recommend this account be reviewed and adjusted annually as needed.

Management Response

Management concurs that the general ledger balance should reflect only current portions due. Procedures within the billing office were revised to reflect accrual of utility taxes due at the close of each month to reflect actual receipts and the full effects of any account adjustments made during this period. Any discrepancies will be forwarded to County Finance for correction. Management's response further recommends that appropriate financial individuals with authority over General Fund accruals, specifically those of Utility Tax estimating and disposition, assume oversight responsibilities for moving accrued remittances (401 Fund Liability for utility taxes) to the appropriate County Funds in a recurring manner.

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