

**SEMINOLE COUNTY
PUBLIC WORKS DEPARTMENT
WATER AND SEWER DIVISION
REVENUE AUDIT**

February 17, 1997



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Clerk of the Circuit Court
Clerk of the County Court
Clerk to the Board of County Commissioners

February 17, 1997

The Board of County Commissioners
Seminole County, Florida

Dear Commissioners:

I am very pleased to present you with the attached report of an internal revenue cycle audit of the Water and Sewer Division of Seminole County's Public Works Department.

The audit was conducted between March 4, 1996, and August 14, 1996; the draft report was completed and issued on October 15, 1996; and Management's responses to the draft report's findings and recommendations were received on December 17, 1996. The audit was conducted in accordance with generally accepted government auditing standards.

I would like to thank the personnel of the Water and Sewer Division for their cooperation and assistance throughout the course of this audit. Their assistance is deeply appreciated.

With warmest regards, I am

Most cordially,

Maryanne Morse
Clerk of the Court
Seminole County

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SEMINOLE COUNTY PUBLIC WORKS DEPARTMENT

WATER AND SEWER REVENUE AUDIT

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed a revenue cycle audit of the Water and Sewer Division of Seminole County's Public Works Department.

PURPOSE

The purpose of the internal audit was to determine if the procedures and internal controls exercised over revenue-related billing, accounts receivable, and cash management activities are appropriate and provide satisfactory levels of financial and administrative control and accountability and ensure compliance with applicable state statutes and local ordinances.

BACKGROUND

The Water and Sewer Division of the Public Works Department provides residential and commercial water and wastewater utility services to approximately 25,000 customers within unincorporated Seminole County. These services are provided through County-owned and operated water and sewer facilities and wholesale agreements with other utilities. The Water and Sewer Division was established through the creation of the Water and Sewer Enterprise Fund by the Board of County Commissioners in 1975. Through its fees and charges, the division is completely self-supporting. The Billing Section of the Water and Sewer Division is responsible for the Enterprise Fund's revenue-related functions and activities. They include:

- Meter reading control and input;
- Customer billing and accounts receivable;
- Payment processing and cash management;
- Service cut off and collection of past due account balances;
- Customer service including new accounts, investigation of complaints and unusual usage, and issuance of work orders; and
- Maintenance of administrative, operational, and regulatory documents and records.

SCOPE

The scope of our internal audit coverage included:

- Reviews of the applicable Florida Statutes and enabling County ordinances and resolutions for key criteria for compliance testing and evaluation;
- Discussions with key personnel regarding utility billing, collection, and related customer services operations and responsibilities;
- Examinations, analytical reviews, and detailed testing of revenue related procedures, internal controls, and operating records including accounts receivable reconciliations;
- Testing and verification of the new water and sewer rates and fees implemented on April 1, 1996, per County Resolution No. 96-R-21; and
- Other such auditing as considered necessary under the circumstances.

The audit fieldwork was begun March 4, 1996, and completed August 14, 1996. The audit was conducted by Paul Wise.

Management's responses to the audit findings and recommendations were provided by Water and Sewer Finance Manager Bob Briggs, Customer Service Supervisor Dan Cotterman, and Information Services Application Project leader Greg Howell.

OVERALL EVALUATION

It is our opinion, based on the overall results of the audit, that the Water and Sewer Division's billing, payment processing, cash management, and other revenue related procedures and internal controls are sufficient; they are working as designed to provide satisfactory levels of financial and administrative control and accountability, and to assure compliance with applicable state and local legislation.

Some internal control weaknesses were identified during the course of the audit fieldwork however, and are reported herein. The following details our audit findings and recommendations for corrective action:

FINDING NO. 1

Finding

Credit and debit adjustments to Accounts Receivable balances are not reviewed and approved by the Customer Service Supervisor.

Our review and testing of credit and debit memo adjustments to accounts receivable balances determined that they are not reviewed and approved by the Customer Service supervisor. He only reviews the Monthly Adjustment Recap report, and there was no documentary evidence (i.e., date and initials) that the review was performed.

Recommendation

It is a much more effective control technique to review credit and debit memos, and their corresponding explanations and/or supporting documents, prior to inputting them, rather than to scan all the monthly credit and debit adjustments listed on the Monthly Adjustment Recap printout after the fact. Therefore, we recommend that this internal control method be implemented.

Management Response

We are in total agreement and this action was put into effect as of July 1, 1996. All Debit and Credit Memos are reviewed by the customer service supervisor prior to that record being established.

FINDING NO. 2

Finding

Voided cash register receipts were not adequately verified and controlled.

Our review of cashiering and cash management procedures determined that voided cash register receipts were not examined for validity and approved by the customer service supervisor. This control weakness was corrected during the field audit work after it was discussed with the customer service supervisor. All voided cash register receipts are now reviewed and initialed immediately by the customer service supervisor and are then matched and verified with the computer generated report produced at the end of the day.

FINDING NO. 3

Finding

The validation procedures for granting customers exemption from the Public Service Utility Tax are not sufficient.

Our review of customer accounts granted exemption from Seminole County's Public Service Utility Tax determined that:

- The validation procedures for tax exempt status do not require documentary proof that the customer meets the requirements and is eligible for the tax exemption; and
- Adequate supporting documentation is not maintained on file for each exempt account.

Recommendation

We recommend that appropriate tax exemption documentation be obtained from the customer and reviewed for propriety and eligibility prior to the account being

granted tax-exempt status. This information should be maintained on file for all exempt accounts, whether active or inactive. Periodically, tax exempt accounts should be reviewed and, if necessary, updated to reflect their current status.

Management Response

The Utility Tax exemptions represent:

- Wholesale Accounts
- Schools
- Board of County Commissioners
- Churches
- Vacant Lot "P" Code Accounts

Unlike the State Sales Tax exemptions, no representative number is assigned by the county. We are currently in the process of identifying these accounts specifically so that we can get a letter of exemption to have on file. This will require a computer programming change, which is nearly ready. The "P, F, and U" accounts are handled by Ann Anderson and are converted to a tax or tax exempt status when an account moves from the "P" code to either an "F" or "U" account. It is at this point we need to activate any new tax-exempt letters for those accounts that qualify.

FINDING NO. 4

The account balances recorded in the Trial Balance do not accurately reflect the actual amount owed by the customer.

Customer account balances in the monthly Trial Balance do not accurately indicate the total amount owed to the County's Water and Sewer Utility. The balances listed equal the total net amount due of the Public Service Utility (P.S.U.) tax. Consequently, individual account balances are understated.

Recommendation

The account balances in the Trial Balance should indicate the total amount actually due from the customer, inclusive of taxes. If the computerized Utility Billing system becomes inoperative, for example, due to a breakdown in the County's computer system or telecommunication link, the Trial Balance cannot be used as a reference to manually transact billing and payment processing activities, since the balances listed do not include the amount of P.S.U. tax owed, and tax amount cannot be determined without referring to the customer's account record in the Utility Billing system. We recommend that programming be initiated to include the P.S.U. tax amount in the customer balances in the monthly Trial Balance.

Management Response

Information Services and Water and Sewer have been working closely for the past six months developing a priority listing of changes needed for the Water and Sewer system. The Account Balance report was one of the top priorities on the list and has been completed effective with the October 1996, Trial Balance.

FINDING NO. 5

Finding

Adequate documentation and audit trails do not exist for those customer accounts transferred to collection status.

Operational records and audit trails for past due accounts moved to “collections” status and accounts subsequently written off are not adequate. When an account balance becomes delinquent by more than ninety (90) days, the account is automatically transferred by the Utility Billing system to the County’s collection agency. Those accounts that are moved to collections each month are listed on a month-end report, “Utility Billing – Collection Agency List” (UB832L), which is retained and used by the customer service supervisor for the monthly reconciliation of the Trial Balance to the General Ledger. The computerized Utility Billing system’s account information records are updated to show that the accounts have been placed in “collection” status and the balances due. However, the following month-end Trial Balance, and all subsequent ones, will show a zero (0) balance for each of these accounts, with no indication that they have been moved to collection status.

No monthly report listing all the customer accounts in collections, and their current balance, is generated. The only way to find receivable information (the only available audit trail) for those accounts moved to collections is by accessing them through the account information screen of the Utility Billing system. And even this audit trail may eventually be lost because the system deletes the account file record entirely if the account is written off. Consequently, a customer whose account was previously charged-off as uncollectible could open a new account without it being detected that they owe the County money for prior service.

Recommendation

To provide accurate financial and operational records and audit trails for customer accounts placed into collection, we recommend that:

- The Utility Billing system’s Trial Balance application program, UB801L1, be reprogrammed to indicate, in the “STATUS” column of the Trial Balance, that an account has been moved to collections; and
- A hard-copy report of all customer accounts in collections and their current status be generated each month with the Trial Balance.

Management Response

The collection report does not reflect customers being sent to collections. This has been added to the Water and Sewer priority listing maintained by the customer service supervisor. The programming change has been completed and implemented effective with the December 1996, report.

FINDING NO. 6

Finding

No formal procedures existed, nor were regularly scheduled meetings held, to assign priority to, and review the status of, Information Services requests and projects.

During discussions with the customer service supervisor, it was determined that no formal procedures existed, nor were regularly scheduled meetings held, to assign priority to, and review the status of, Information Services requests and projects. Consequently, opportunities for cost reductions and improved operational efficiencies are overlooked or delayed. For example, a proposed project, dating back to the fall of 1995, that potentially could reduce the cost of mailing monthly bills has been delayed for more than a year.

It was recommended to the customer service supervisor that all Information Services requests and projects be documented and prioritized on a control list, and that he meet monthly with the programmer/analyst to review their progress and status. The customer service supervisor developed a Programming Assistance Priority Listing (which defines the cost benefit and sets priority and value levels for each request) and is now meeting with the programmer/analyst monthly. The Programming Assistance Priority Listing is used as the basis for prioritizing and controlling Information Services requests and projects by both groups.

Recommendation

Although we believe the corrective action taken by the customer service supervisor, as described above, has significantly improved the control and accountability over Information Services related requests and projects, we are disappointed that high priority projects identified by the customer service supervisor, like the one mentioned in our example, are not being completed in a timely manner. We recommend that the Public Works Department management meet with Information Services management and determine how critical projects can be completed faster.

Management Response

As stated earlier, Information Services and Water and Sewer have been working closely together. A staff member from Information Services schedules an

average of three meetings a month to go to the department and work on existing changes requested. The priority list is reviewed and changes needed are made. Water and Sewer has stated that there has been progress and would like this arrangement to continue. As long as the resources exist, there are no plans to discontinue this service.

OTHER ISSUES

The following cost reduction and efficiency related recommendations were developed during the course of our audit fieldwork:

Lockbox Payment Processing

We recommend, to reduce operating costs and improve payment processing efficiency, that a cost/benefit study be made by the Water and Sewer billing division to determine the feasibility of eliminating the SunTrust Bank lockbox and handling all payment processing "in-house". It appears, based on a limited analysis during the audit field work, that even though an additional employee would be needed to process the increased payment volume internally, this expense would be more than offset by the elimination of the annual cost of the lockbox service. Preliminary projections indicate that, by processing all payment in-house, approximately \$10,00 to \$15,000 could be saved annually.

Since the Customer Service Office already has the necessary payment processing procedures and internal controls in place, the additional volume should have no adverse effect on the current level of internal control and potential financial risk, and might provide enhanced internal control. It also appears that additional efficiencies would be derived from the change, such as the elimination of the daily trip to the bank to pick-up the lockbox documentation and unprocessed payments; processing credit/debit memos for lockbox errors would no longer be necessary; and, the preparation of the daily cash and revenue reports would be easier.

Because of the potential to significantly reduce the Water and Sewer division's operating costs directly and County Finance's banking related costs indirectly, an internal audit will provide division management with any assistance needed regarding the development of cost and manpower criteria and calculations for this analytical study, and an independent, objective review of the study's results after it is completed.

Customer Service Office Relocation

Due to the projected Greenway expansion, the Water and Sewer Billing Division's Customer Service Office, currently located at the Environmental Services Building in south Sanford, will have to be relocated within the next year. We suggest, to provide easier customer access to the office and minimize the need for satellite offices and/or remote payment sites in the future, that the Public Works Department management consider relocating the office in a more

centralized location to the major service areas of the County's water and sewer system.

Management Response

- A "lockbox" analysis is currently being conducted to verify if a more intense study is necessary.
- The relocation issue has been requested by the customer service supervisor through the Enterprise fund manager and the deputy director.

T. Paul Wise, Jr., CIA, CISA
Internal Auditor

Maryanne Morse
Clerk of the Circuit Court
County Auditor

Dated

MEMORANDUM

TO: Maryanne Morse, Clerk of the Court

FROM: Paul Wise, Internal Auditor

DATE: May 23, 1996

RE: Status Update – Water & Sewer Revenue Audit

Regarding the status of the Water and Sewer Revenue Audit, I am now performing detailed compliance testing of the billing and collection processes. I have selected a representative sample of fifty customer accounts for examination and verification of the accuracy and reliability of the amount billed to the customer and the subsequent receipt of payment and recording in the County records. New water and sewer rates went into effect April 1st, so I will have to do some additional work to ensure that the new rates and fees were input correctly and are calculating customer bills accurately. (I have identified a possible recording discrepancy regarding the Aged Trial Balances. However, I'm going to have to finish my test work and look at the month-end adjustments before I know exactly what is happening and the impact).

No discrepancies were found in my review and testing of the "cut-off" activities (i.e., shut-off of services for non-payment and subsequent reconnections) of the Water & Sewer Department's customer service group. It appears, based on the audit work completed so far, that their cash management procedures and controls are adequate and working as designed. However, I have identified one reportable control weakness relative to "void receipts" (which has already been corrected) and one potential control discrepancy relative to "debit/credit memos" not being properly reviewed and approved.

Also there seems to be some problem regarding the accuracy and timeliness of the flow of information needed to properly set-up a new customer account for new construction to the customer service group. I have not done any work in the area that is responsible for forwarding this information to the customer service group as yet.

I'm making good progress on the audit fieldwork, but there is a lot of ground to cover and some different ways of doing things that I'm not quite familiar with. Maryanne, if you have any questions, please do not hesitate to ask me.

Memorandum

DATE: December 12, 1996
TO: Paul Wise, Internal Auditor
FROM: Bob Briggs, Finance Manager
RE: Water and Sewer Revenue Audit Response

Our responses to findings of the above referenced are attached. Separate memoranda from the Information Services and Customer Billing divisions address each of the audit's comments. I would like to note what a pleasure it was working with you during the course of the audit. Your professionalism and auditing expertise made the project go smoothly with minimum effect on our workflow.

We look forward to receiving the final version of the audit report with our comments and responses in the near future. If I or any of my staff can be of further assistance, please do not hesitate to contact me.

RKBJr:brb

Attachments

cc: Larry Sellers, Public Works Director
Pam Hastings, Administrative Manager
Greg Howell, Information Services
Dan Cotterman, Customer Service Supervisor
Chris Grasso, Telecommunications Manager

MEMORANDUM

To: Bob Briggs, Enterprise Fund Manager
From: Dan Cotterman, Customer Service Supervisor
Date: November 4, 1996
Subject: Reply to Water and Sewer Revenue Audit

Reply to the findings memo dated October 15, 1996 on the audit of the Water and Sewer Division conducted by Paul Wise, Internal Auditor.

Finding No. 1:

We are in total agreement and this action was put into effect as of July 1, 1996. All Debit and Credit Memos are reviewed by the Customer Service Supervisor prior to that record being established.

Finding No. 2:

All cash register receipts that are voided are now initialed immediately by the Customer Service Supervisor, which is then coordinated with the computer generated report produced at the end of the day. This action was initiated upon the auditor's mention of the potential problem.

Finding No. 3

The Utility Tax exemptions represent: Wholesale accounts, Schools, BCC, Churches, Vacant Lot "P" code accounts. Unlike the State Sales Tax exemptions, no representative number is assigned by the county. We are currently in the process of identifying these accounts specifically so that we can get a letter of exemption to have on file. This will require a computer programming change, which is nearly ready.

The "P, F, U" accounts are handled by Ann Anderson and are converted to a tax or tax exempt status when an account moves from the "P" code to either an "F or U" account. It is at this point we need to activate any new tax-exempt letters for those accounts that qualify.

Findings No.'s 4-6:

These will be responded to by Information Services.

Other Issues:

- 1) A lockbox analysis is currently being conducted to verify if a more intense study is necessary.
- 2) Relocation issue has been requested by the Customer Service Supervisor through the Enterprise Fund Manager and the Deputy Director.

TO: Bob Briggs
FR: Greg Howell
RE: Findings of Water and Sewer Audit

Finding No. 4 – Account Balance

Information Services and Water and Sewer have been working closely for the past six months developing a priority listing of changes needed for the Water and Sewer system. The Account Balance report is one of the top priorities on the list and is being corrected.

Finding No. 5 – Collection Report

The Collection report does not reflect customers being sent to collections. This has been added to the Water and Sewer priority listing being maintained by Mr. Cotterman.

Finding No. 6 – Formal Procedures

As stated earlier, Information Services and Water and Sewer have been working closely together. A staff member from Information Services schedules an average of three meetings a month to go to the department and work on existing changes requested. The Priority list is reviewed and changes needed are made. Water and Sewer has stated that there has been progress and would like this arrangement to continue. As long as the resources exist, there are no plans to discontinue this service.