Internal controls are a set of policies and procedures that ensure that utility operations run efficiently, effectively, and are in compliance with applicable laws and regulations. Effective internal controls provide reasonable assurance that the public assets are being protected and that the financial data provided to management is accurate.

Because local governments and the utilities they own and operate vary in size and complexity, there is no one-size-fits-all method of internal control. It is management’s responsibility to design effective internal controls to safeguard public assets. When designing internal controls, break the utility billing and collection system into segments and consider:

- Will I be able to identify a loss?
- Will I be able to identify who is responsible?

Segregation of duties and independent oversight are common strategies used in internal control. Segregation of duties occurs when discrete functions related to a single position, such as a utility clerk, are conducted by different staff members. This helps to catch mistakes and prevent inappropriate actions. However, utilities operated by smaller local governments seeking to implement internal controls face unique challenges because of staffing constraints. When separating functions is impracticable, staff in a supervisory positions should perform a detailed review. In addition, elected officials, such the mayor, councilmembers or commissioners, may take on a monitoring role.

**Segregation Duties**

- Billing responsibilities are segregated from those for collection and general ledger posting.
- Independent oversight, control, and accounting of cash handling responsibilities.
- Voids and refunds are approved and documented by someone other than the person who made them.

**Procedural Controls**

- Billing procedures include controls to ensure that usage records are accurately maintained and amounts due are billed.
- Reviews are completed periodically to ensure that amounts due are actually being collected.

**Verification**

- Supervisors (or, where staff is limited, elected officials) undertake a periodic review of accounts receivable balances.
- Staff tasked with reading meters are periodically rotated.

**Billing**

- Billing invoices are independently verified for accuracy.
- Procedures are put in place to prevent unauthorized interception or alteration of billing invoices.
- Billing disputes are handled by staff who are independent of receivables record keeping.

**Collecting**

- Restrictive endorsements are made on incoming checks.
- Accounts are routinely reviewed for delinquency and prompt action is taken to recover the charges on a timely basis.
- Senior staff not involved in collection functions formally approve write-offs or reductions of receivables.
- Penalties and interest are assessed where allowable by law on delinquent accounts or late payments.

**Additional Resources**

Washington State Auditor’s Office Internal Controls Checklist for Local Government

*DISCLAIMER: This document meant to provide summary information on agency best practices; it is not intended to be regarded as specific legal advice. Consult with your agency’s legal counsel about this topic as well.*