

# Municipality of Anchorage



P.O. Box 196650  
Anchorage, Alaska 99519-6650  
Telephone: (907) 343-4438  
Fax: (907) 343-4370  
<http://www.ci.anchorage.ak.us>

*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

September 25, 1997

## **Internal Audit Report 97-15** **Billing and Collection** **Anchorage Water and Wastewater Utility**

**Introduction.** Anchorage Water and Wastewater Utility (AWWU) Customer Service Division provides billing and collection services for 47,400 residential, commercial and military customers within the Anchorage area. Customer bills are produced monthly in four cycles by a customer service database system. Less than 1% of the monthly accounts receivable balance typically has to be written off as uncollectible.

**Scope.** The objective of this audit was to determine whether billing and collection procedures were adequate and in compliance with AWWU policy. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of May through July 1997.

**Overall Evaluation.** Billing and collection procedures were generally satisfactory. We did find that deposits were not always collected as required, late payment fees were not collected for accounts paid by credit cards, adjustments to customer accounts were not always approved by a supervisor and the collection agency contract did not specify the recovery of collection costs.

## FINDINGS AND RECOMMENDATIONS

### 1. Deposits Were Not Always Consistently Requested.

- a. **Finding.** Customer deposits were not collected on a consistent basis and in accordance with AWWU's written procedures. According to the written procedures, deposits should be collected from customers for a variety of reasons, including if the account has become delinquent two or more times in a six months period or if payment is made with a non-sufficient fund check. Our review of 37 delinquent accounts meeting the criteria for a deposit revealed that a deposit had not been requested for 18 (49%) of the accounts. The lack of consistency regarding deposit collection results in inconsistent treatment of customers and could result in lost revenue. A similar finding was included in Internal Audit Report 93-08, dated May 12, 1993.
- b. **Recommendation.** Customer deposits should be collected on a consistent basis and in accordance with written procedures.
- c. **Management Comments.** Management stated, "We concur with the audit finding that customer deposits were not collected on a consistent basis; however, the AWU tariff, as currently written, does not require the utility to collect a deposit. The Utility has found that in some circumstances requiring a deposit only prolongs, or intensifies a customer's financial condition, and is not a benefit to the Utility. The collection representative have been given the latitude to suspend the collection of a deposit in these special cases, using a set of guidelines written by staff, as long as it is annotated in the CIS system. (currently this is being done manually; however we have requested an enhancement to our Customer Information System so that these may be documented in a consistent and uniform manner.)"

- d. **Evaluation of Management Comments.** Management comments were generally responsive to the audit recommendation. AWWU procedures provide guidelines for the collection of customer deposits on a fair and consistent basis. Allowing collection representatives latitude to waive deposits is contrary to the written procedures and results in inconsistent treatment of customers.

2. **AWWU Did Not Always Assess a Penalty Charge for Overdue Accounts.**

- a. **Finding.** Customers making payments by a credit card were not assessed a late payment fee on past due balances. Per the AWWU tariff, a late payment fee should be assessed to all accounts with past due balances greater than \$2.50. The past due balances resulted from the credit card company declining charges for the utility bill, generally due to the credit limit being exceeded. One reason for this condition was that the credit card system used by AWWU was not programmed to assess a penalty for overdue balances.
- b. **Recommendation.** A late payment fee calculated monthly at 0.875% of the past due balance should be assessed to all accounts with past due balances greater than \$2.50.
- c. **Management Comments.** Management stated, "We concur with the findings. Effective August 15, 1997 AWWU's billing system was modified to assess a late fee to customers participating in the automatic credit card program if their charge is declined by the bank."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Adjustments to Customer Accounts Were Not Always Approved by a Supervisor.**

- a. **Finding.** Adjustments to customer accounts were not always approved by a supervisor. Our review of 25 credit adjustments revealed nine without any approval and seven that were approved only by a collection representative. The adjustments ranged from \$83 to \$2,835. The primary reason was there were no written policy and procedures requiring approval of adjustments to customer accounts. Lack of supervisory review and approval could lead to improper adjustments to customer accounts and loss of revenue to AWWU.
- b. **Recommendation.** Written procedures should be developed requiring supervisory review and approval of adjustments to customer accounts. Adjustments to customer accounts should be reviewed and authorized by a supervisor to ensure that all adjustments are valid.
- c. **Management Comments.** Management stated, "We concur with the audit findings. Written authorization limits have been developed and assigned to appropriate supervisory levels."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Contract for Collection Services Did Not Specify Proper Amount to be Collected.**

- a. **Finding.** The contract for collection services did not specify the proper amount to be collected from delinquent accounts. The current contract states that the collection agency will only collect the amount due and will not add any charges or interest. However, the AWWU wastewater tariff stated that if a delinquent account is referred

to a collection agency, the amount payable by the customer shall include the collection costs incurred. The water tariff did not reference the amount to be collected.

- b. **Recommendation.** AWWU should either request the Municipal Treasurer to revise the contract for collection agency service to include collection costs in accordance with the AWWU tariff or revise the tariff.
  
- c. **Management Comments.** Management stated, "We concur with the audit findings. AWWU will change the tariff verbiage from "shall" to "may" with the next comprehensive ASU tariff rewrite."
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on August 28, 1997.

Audit Staff:  
Alice Jensen