

INTERNAL AUDIT REPORT

2012-11

Customer Service Division
Refund Controls

Anchorage Water and Wastewater Utility

December 28, 2012

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Mayor Dan Sullivan

December 28, 2012

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2012-11, Customer Service Division Refund Controls, Anchorage Water and Wastewater Utility** for your review. A brief summary of the report is presented below.

In accordance with the 2012 Audit Plan, we have completed an audit of Customer Service Division Refund Controls. The objective of this audit was to determine whether Anchorage Water and Wastewater Utility had proper internal controls in place over refunds. Specifically, we selected and reviewed refund checks issued and deposits released and applied to customers' accounts to determine if the refunds were justified, the refund amounts were correct, and the refunds were issued in a timely manner in compliance with Tariffs No.122 and 126. In addition, we also determined if unclaimed deposits were properly processed and sent to the State of Alaska in compliance with Tariffs No.122 and 126. Finally, we reviewed Anchorage Water and Wastewater Utility's controls over check stock and signature stamps.

Internal controls over refunds were generally adequate. However, we found that hydrant meter deposits were not issued in a timely manner and Anchorage Water and Wastewater Utility Policy and Procedure 31-4, *Customer Information System Refunds*, does not agree with Tariffs No. 122 and 126 regarding refunds. In addition, interest amounts accrued on customers' deposits were not always paid correctly.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.

Peter Raiskums, CIA, CFE, CGFM
Director, Internal Audit

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Customer Service Division Refund Controls
Anchorage Water and Wastewater Utility

Introduction. Anchorage Water and Wastewater Utility's (AWWU) Customer Service Division is responsible for processing and issuing refunds to customers. These refunds originate from customer deposits and interest incurred on the deposits, overpayments, and account credits incurred from rate adjustments. In most cases, if the customer account is inactive, AWWU issues a refund check. If the customer account is active, AWWU applies the refund to the current charges as a credit. Applying the refund to the customer's account as a credit eliminates the cost of printing and mailing the refund check. Customers can view the refund on their monthly statement. Tariff No. 122 (Tariff), 5.2, *Deposit Refund*, and 15.5 B, *Conditions of Temporary Construction Service From Fire Hydrants* govern refunds for water. Similarly, Tariff No. 126 (Tariff), 5.2, *Deposit Refund*, governs the deposit refunds for wastewater.

Objective and Scope. The objective of this audit was to determine whether AWWU had proper internal controls in place over refunds. Specifically, we selected and reviewed refund checks issued and deposits released and applied to customers' accounts to determine if the refunds were justified, the refund amounts were correct, and the refunds were issued in a timely manner in compliance with the Tariff. In addition, we also determined if unclaimed deposits were properly processed and sent to the State of Alaska in compliance with the Tariff. Finally, we reviewed AWWU's controls over check stock and signature stamps.

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 August through October 2012. The audit was requested by the Administration.

Overall Evaluation. Internal controls over refunds were generally adequate. However, we found that hydrant meter deposits were not issued in a timely manner and AWWU Policy and Procedure (P&P) 31-4, *Customer Information System Refunds*, does not agree with the Tariff regarding refunds. In addition, interest amounts that accrued on customers' deposits were not always paid correctly.

FINDINGS AND RECOMMENDATIONS

1. **Hydrant Meter Deposit Refunds Not Issued Timely.**

a. **Finding.** Hydrant meter deposits were not issued in a timely manner. Specifically, we found that 7 of 7 (100%) hydrant meter deposit refunds reviewed were issued late. For example, one meter was returned to AWWU on October 14, 2010. However, the deposit refund was not issued until March 9, 2011, almost five months later because of delays in processing the meter by Field Services staff. Tariff 15.5.B.6 states that "Hydrant meter deposits are refundable within twenty-five (25) days after return of the meter to AWU [Anchorage Water Utility]."

b. **Recommendation.** The Customer Service Division Manager should ensure that hydrant meter deposits are refunded timely as required by the Tariff.

c. **Management Comments.** Management stated, "AWWU Management Concur.

"Hydrant meter deposit refunds are established to secure the physical return of the meter in proper working order, at the end of seasonal use. The accounts are typically seasonal summer accounts. The meter is issued in the spring and returned to the Utility in the fall. AWWU has one meter inspector position, whose primary job is to test the proper functioning of all meters. We acknowledge that the testing and return of hydrant meters has been delayed. To correct this issue, the Customer Service

Division Director has worked with the staff to make changes to the work flow to assure the timely return of hydrant meter deposits.

“When meters are returned they are now tagged with a date and the meter inspector will inspect those meters within five business days of return. If it is determined that there is no damage to the meter itself, that information is scanned and sent to the hydrant meter billing group to process the deposit refund on the account. The amount of the deposit will then be returned to the customer in the way of a refund check within the twenty five (25) days per tariff.

“If the meter has sustained damage, the field service meter inspector will use the current meter parts price list and determine the cost to repair and/or replace the meter. That cost is then scanned and sent to the hydrant meter billing group to charge as an offset to the deposit. If any remaining deposit is left, that amount will be returned to the customer within the allotted twenty-five (25) days. Additionally, we will begin to cross train a meter reader to assure that we have adequate staff skilled to test and repair hydrant meters as they are returned from the customer.

“These changes have been put in place effective immediately.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Refund Policy Not in Agreement with Tariff.**

- a. **Finding.** Anchorage Water and Wastewater Utility P&P 31-4 does not agree with the Tariff regarding refunds. Policy and Procedure 31-4 states that deposits of \$10 or less will be written off and not refunded. However, the Tariff requires all deposits to be refunded regardless of amount.

b. **Recommendation.** The Customer Service Division Manager should revise P&P 31-4 regarding refunds to comply with the Tariff.

c. **Management Comments.** Management stated, "AWWU Management Concur.

"The AWWU P&P 31-4 does not match tariff. The tariff does not stipulate a threshold or small dollar amount under which refunds should not be issued, although the AWWU P&P does. AWWU recognizes the cost to prepare, issue, and mail refund checks to customers. AWWU has been following the P&P to avoid issuing refund checks that cost more than the refund amount to prepare. AWWU is preparing a tariff change that will stipulate that balances of ten dollars or less will not be refunded, to match the P&P in place today. This tariff language change will assure that both the tariff and P&P match and are followed as recommended in finding number three."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Interest Not Always Calculated Correctly.**

a. **Finding.** AWWU did not always pay correct interest amounts accrued on customers' deposits. For example, according to a report provided by AWWU Information Technology staff, some accounts were overpaid as much as \$90.13 and other accounts were underpaid as much as \$42.20. Tariff 5.2.B states that "In accordance with AS 42.05.365(a), the Utility shall pay interest on all deposits in excess of \$100 for contracted recurring monthly service. Interest shall be paid at the legal rate of interest at the time the deposit is made; or if the deposit is placed in an interest bearing account, the Utility shall pay the interest rate of the interest bearing account." According to AWWU staff, interest was miscalculated due to a recent programming error in the Customer Information System (CIS).

b. **Recommendation.** The Customer Service Division Manager should ensure that interest is calculated correctly.

c. **Management Comments.** Management stated, "AWWU Management Concur.

"AWWU should accrue and pay interest on all deposit amounts over one hundred dollars in accordance with AWWU Tariff 5.2 B and AS 42.05.365(a). In the spring of this year during a routine review of deposit liability, AWWU staff discovered that interest had not been calculating correctly since a recent CIS upgrade. When it was discovered, steps were immediately taken to identify the variance on each account and make the required adjustment to the accounts in CIS to correct the interest accrual for the accounts. These adjustments should be made before the year end."

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 November 13, 2012.

Audit Staff:
Scott Lee