

INTERNAL AUDIT REPORT

2014-06

Levy Upon Connection Assessment

Anchorage Water and Wastewater Utility

September 4, 2014

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Mayor Dan Sullivan

September 4, 2014

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2014-06, Levy Upon Connection Assessment, Anchorage Water and Wastewater Utility**. A brief summary of the report is presented below.

In accordance with the 2013 Audit Plan, we have completed an audit of the levy upon connection assessment. The objective of this audit was to determine if Anchorage Water and Wastewater Utility had proper procedures and controls to ensure that levy upon connection assessments for new water and sewer services to properties were properly prepared.

Based on our review, the processing of levy upon connection assessments could be improved. Specifically, levy upon connection rolls were not always processed in a timely manner. In addition, a comprehensive policy and procedure for levy upon connection assessments had not been developed. Finally, Anchorage Water and Wastewater Utility staff did not properly record liens with the State of Alaska Department of Natural Resources Recorder's Office.

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



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Levy Upon Connection Assessment
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Introduction. A levy upon connection (LUC) assessment is an assessment that is levied upon properties connecting to a sanitary sewer improvement or water improvement. According to Anchorage Water and Wastewater Utility (AWWU) staff, there are three types of actions that initiate a LUC assessment: an actual connection of a property to sewer or water, a re-platting action that changes the area benefited from the sewer or water improvement, and a prepayment received for a future connection. Prior to a LUC assessment, AWWU staff record an estimated assessment roll upon the property to be assessed in the future at the State of Alaska Department of Natural Resources Recorder's Office (Recorder's Office). However, the estimate assessment roll is not a lien. A LUC roll is prepared by AWWU's Engineering Division and submitted to the Municipal Assembly for approval. An approved LUC roll is recorded in the Recorder's Office as a lien upon the assessed property. Prior to the November 2012 AWWU Tariff changes, LUC assessment were payable in equal annual payments, with terms ranging from 1 to 20 years, depending on the principal amount of the assessment. In November 2012, the AWWU Tariff changed and permitted 25 year terms for the principal amount of \$15,000 or more but less than \$25,000 and 30 year terms for the principal amount of more than \$25,000. From 2011 to 2013, AWWU processed two water LUC rolls and two sewer LUC rolls.

Objective and Scope. The objective of this audit was to determine if AWWU had proper procedures and controls to ensure that LUC assessments for new water and sewer services to properties were properly prepared. Specifically, we selected samples from water and sewer connection permits issued during the last three years and reviewed them to determine if the properties were properly identified for LUC assessment. We also reviewed the LUC rolls processed and approved during the last three

years to determine if all properties on the LUC rolls were assessed in a timely manner, using correct assessment rates. Finally, we determined if a required lien was recorded for the all assessed properties and if the lien was recorded in a timely manner.

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 April through June 2014. The audit was requested by the Administration.

Overall Evaluation. The processing of LUC assessments could be improved. Specifically, LUC rolls were not always processed in a timely manner. In addition, a comprehensive policy and procedure for LUC assessments had not been developed. Finally, AWWU staff did not properly record liens with the Recorder's Office.

FINDINGS AND RECOMMENDATIONS

1. **Assessments Not Always Processed Timely.**

a. **Finding.** LUC rolls were not always processed in a timely manner. Specifically, we found the following:

- *Properties Not Timely Assessed* – Some properties had not been timely assessed. From 2011 to 2013, AWWU assessed 41 properties in two sewer LUC rolls and 36 properties in two water LUC rolls. However, since the spring of 2014, when our audit started, AWWU identified and assessed 43 properties for the 2014 sewer LUC rolls and 34 properties for the 2014 water LUC rolls. According to AWWU staff, there are other properties that could be

added to the 2014 LUC rolls upon receiving final project cost calculations. However, our review revealed that the final project cost calculations were received from the State of Alaska around January 21, 2011. AWWU staff had not analyzed the final cost calculations to calculate the assessment rate.

- LUC Roll Not Timely Provided to the Assembly* – LUC rolls were not always processed in a timely manner. Specifically, after reviewing each water and sewer LUC roll approved by the Assembly in 2011 and 2013, our review revealed it took as long as 3,595 days from the time a property became subject to a levy to have the LUC roll approved by the Assembly. For example, in 2003 a wastewater connection was verified and a customer account was established for billing purposes. However, the assessment roll for the property was not approved until June 4, 2013. In another case, it took 3,114 days to add a property to a LUC roll for Assembly approval. In this case, a prepayment of \$14,493 was submitted to AWWU on November 24, 2004 for a water assessment and a wastewater assessment. According to AWWU staff, the final certified project cost was received from the State of Alaska in 2009. The property was not added to the water and sewer LUC rolls until June 4, 2013 for a total of \$12,907. AWWU did not refund the \$1,502 overpayment until January 15, 2014, deducted a collection fee from the refund, and did not pay any interest. The following summarizes our findings.

Time Between Initiating an Assessment and Assembly Approval

<u>LUC</u>	<u>Year</u>	<u>Number of Properties on the LUC Roll</u>	<u>Assessment Type</u>	<u>Average Days</u>	<u>Longest Days</u>
11-S-1	2011	18	Wastewater	371	473
11-W-1	2011	18	Water	531	1,813
13-S-1	2013	23	Wastewater	936	3,595
13-W-1	2013	18	Water	814	3,114

- *No Database* – There was no database to track the properties needing to be assessed. According to AWWU staff, some properties fell through the cracks and did not get assessed. They further stated that it was possible for a property to be lost for a long time and maybe forever. For example, during this audit, while exploring a 2014 assessment, AWWU staff identified another property that was not assessed since 2012. AWWU staff stated it will be added to one of the 2014 LUC rolls.

b. **Recommendation.** The AWWU General Manager should ensure that all properties subject to levy be assessed in a timely manner.

c. **Management Comments.** Management stated, “AWWU management concurs with the subject audit finding *Assessment Not Always Processed Timely* and accompanying recommendation *to levy assessments timely*. AWWU intends to implement this recommendation appropriately in consideration of planned business objectives and related economic impacts. Successful implementation requires the establishment of a standard for timeliness, the creation of tools to eliminate manual processes, and the development of staff training and coordination.

“**Establishment of a Standard for Timeliness** - To define what *processed timely* means, AWWU will review current business processes, practices, and governing regulation related to the levying of assessments. Our goal is to seek efficiency and expedite the process wherever possible. AWWU intends to complete this review and recommend service level targets, culminating in creation of a policy document in the first quarter of 2014, as suggested by the auditor's second Finding and Recommendation, Item 2 below.

“**Note** - At this time, subject to modification via the analysis, AWWU believes an appropriate time frame for the levying of assessments is within 365 days of a property becoming subject to assessment.

“**Creation of Tools to Eliminate Manual Processes** - The levying of assessments relies on inter-divisional staff coordination and a number of manual processes which could be automated to improve service/functionality. AWWU intends to automate these processes as existing information technology is upgraded. Information systems related to these processes include the Assessment Management System (AMS), the Special Assessments Receivable System (SAR), the Customer Information System (CIS) and the Hansen Permit System. AWWU is currently developing an Information Technology (IT) Master Plan. The IT master plan will appropriately budget and schedule software upgrades in consideration of various Utility business needs, goals, and objectives. The IT master plan is scheduled for completion by January of 2015.

“**Development of a Staff Training and Coordination Program**- Staff members from several different divisions of the Utility have duties that impact the timely levying of assessments. For some, these duties encompass a large portion of their core work. For others, these duties are relatively minor in consideration of their day-to-day work functions. Small delays in implementing these duties can lead to large delays in the overall timeliness of the process.

“Each staff member involved in the process must clearly understand their role in the overall business objective. Formalizing a training program and coordination process will help employees understand their role, prioritize

work, and eliminate associated time delays. AWWU intends to institute formal training and coordination for this business function as part of development of the policy document per Item 2 below.”

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

2. **No Comprehensive Policy and Procedure.**

- a. **Finding.** A comprehensive policy and procedure for LUC assessments had not been developed. Although AWWU documented the overall LUC process and the calculation of the LUC assessment, it had no policy and procedure addressing the timely processing of assessment rolls, which includes the manual transfer of information between systems, and the tracking of properties to ensure they were assessed. In addition, the AWWU Tariffs do not require the timely processing of assessment rolls.
- b. **Recommendation.** The AWWU General Manager should ensure a policy and procedure is developed to ensure the proper processing of LUC assessment rolls.
- c. **Management Comments.** Management stated, “AWWU management concurs with the subject audit finding *No Comprehensive Policy and Procedure for LUC Assessments* and accompanying recommendation to *develop policies and procedures*. AWWU intends to implement this recommendation within a 6-month time period, culminating in a policy and procedure document and initiation of training and recordkeeping to gauge our success in meeting the targeted timeliness goals.

“Analysis of Existing Business Processes, Practices and Governing Regulation - Inconsistencies exist between current business processes, practices, and governing regulation that contribute to delays in levying assessments. Identifying and correcting these issues requires a documented analysis. The analysis will also aid in the development of associated training programs and metrics. This is the first task that must be complete to develop comprehensive policies and procedures. AWWU intends to complete this task within 4 months (January 2015).

“Development of Standardized Policies and Practices - This task will be accomplished through the publication of a AWWU Policy and Procedure (AWWUP) document. AWWU will also update and improve current staff desk-top manuals. The AWWU Engineering Division will lead this task with an associated time of completion of 6-months. Successful implementation will require coordination with the AWWU Finance, Customer Service, and IT Divisions. Improvements identified as part of this process related to the upgrade of IT software or regulation changes will require more time to implement, and will be addressed in the ongoing IT Master Plan effort described above.

“Development of a Staff Training Program - Please refer to item 1 above. AWWU intends to implement a similar process to Development of Standardized Policies and Practices to complete this task.

“Development of Metrics - AWWU intends to develop simple metrics as part of completion of the policies and practices document to ensure service levels are being met. These metrics will be reported from AWWU staff to management annually. Examples of these metrics may include, but are not limited to, the

number of properties connected subject to assessments, the number of properties levied and average time from application to connect to levying of assessment.”

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

3. **Liens Not Properly Recorded.**

- a. **Finding.** AWWU staff did not properly record liens with the Recorder’s Office. Instead of recording approved assessments as liens, AWWU staff recorded the assessments as “miscellaneous” documents with the State of Alaska Recorder’s Office. Both, AMC 19.80 *Levy of sewer assessments upon connection* and AMC 19.90 *Levy of water assessments upon connection*, state that “Assessment confirmed and levied under this chapter are liens upon the property assessed and are prior and paramount to all liens except municipal tax liens”.
- b. **Recommendation.** The AWWU General Manager should ensure that the Assembly Resolution is properly recorded as a lien.
- c. **Management Comments.** Management stated, “AWWU management concurs with the subject audit findings *Liens Not Properly Recorded* and accompanying recommendation to *Properly Record LUC Assembly Resolutions as Liens*. AWWU has implemented this recommendation through the modification of standardized forms required to record associated documents and staff training. On-going success and ensured continued compliance requires the implementation of staff training and development of standardized policies and procedures as discussed above.”

- 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 July 18, 2014.

Audit Staff:
Scott Lee