

INTERNAL AUDIT REPORT

2021-10

Levy Upon Connection Assessment

Anchorage Water and Wastewater Utility

December 27, 2021

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MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

December 27, 2021

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2021-10, Levy Upon Connection Assessment, Anchorage Water and Wastewater Utility**. A summary of the report is presented below.

In accordance with the 2021 Audit Plan, we have completed an audit of the levy upon connection assessment process. The objective of this audit was to determine whether 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. Specifically, we tested randomly selected samples from water and wastewater connect permits issued from 2018 through 2020 and reviewed them to determine if the properties were properly identified for levy upon connection assessment. We also reviewed all ten levy upon connection rolls processed and approved during the last four years to determine if all properties were assessed in a timely manner, used correct assessment area amounts, and assessment calculations were correct. These ten levy upon connection rolls contained 129 properties that were assessed. In addition, we determined if a required lien was recorded for all the assessed properties and recorded in a timely manner. Finally, we reviewed if assessments had been properly levied in accordance with the Anchorage Water and Wastewater Utility tariff.

Based on our review, we found that although Anchorage Water and Wastewater Utility has made some improvements in processing levy upon connection assessments since our prior audit, further improvements are needed. Specifically, properties subject to levy upon connection assessments were not always processed in a timely manner. Furthermore, properties with water and wastewater connect permits were not always identified for levy upon connection assessments. Moreover, our review identified 6 of 129 (5%) properties that were not correctly assessed. In addition, Anchorage Water and Wastewater Utility levied additional trunk assessments for some properties that had been previously assessed and levied. Finally, Anchorage Water and Wastewater Utility staff did not always verify that approved levy upon connection roll assessments were recorded as liens with the State of Alaska Department of Natural Resources Recorder's Office.

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

Michael Chadwick, CIA, CICA
Director, Internal Audit



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Internal Audit Report 2021-10
Levy Upon Connection Assessment
Anchorage Water and Wastewater Utility

Introduction. A levy upon connection (LUC) assessment is an assessment that is levied upon properties connecting to a water improvement or sanitary sewer improvement. According to the Anchorage Water and Wastewater Utility (AWWU) tariffs, there are three types of events that initiate a LUC assessment: the parcel owner has constructed a permitted service connection and the project rate has been finalized, re-platting a previously levied parcel to include an unlevied benefitted area, and a prepayment of the assessment received for the parcel. Prior to a LUC assessment, AWWU staff record an estimated assessment 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 estimated assessment is not a lien. A final LUC roll is prepared by AWWU's Engineering Division and submitted to the Anchorage Assembly (Assembly) for approval. An approved LUC roll is then recorded at the Recorder's Office as a lien on the assessed property. AWWU tariff allows for the payment of the lien as a lump sum or in equal annual installments, with terms ranging from 1 to 30 years, depending on the principal amount of the assessment. From 2018 to 2021, AWWU processed five water LUC rolls and five sewer LUC rolls.

See the flowchart in Attachment A for the LUC assessment process with report findings marked where they occurred in the LUC assessment process.

Objective and Scope. The objective of this audit was to determine whether AWWU had proper procedures and controls to ensure that LUC assessments for new water and sewer services to properties were properly prepared. Specifically, we tested randomly selected samples from water and wastewater connect permits issued from 2018 through 2020 and reviewed them to determine if the properties were properly identified for LUC assessment. We also reviewed all ten LUC rolls processed and approved during the last four years to determine if all properties were assessed in a

timely manner, used correct assessment area amounts, and assessment calculations were correct. These ten LUC rolls contained 129 properties that were assessed. In addition, we determined if a required lien was recorded for all the assessed properties and recorded in a timely manner. Finally, we reviewed if assessments had been properly levied in accordance with the AWWU tariff.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was requested by the Administration.

Overall Evaluation. Although AWWU has made some improvements in processing LUC assessments since our prior audit, further improvements are needed. Specifically, properties subject to LUC assessments were not always processed in a timely manner. Furthermore, properties with water and wastewater connect permits were not always identified for LUC assessments. Moreover, our review identified 6 of 129 (5%) properties that were not correctly assessed. In addition, AWWU levied additional trunk assessments for some properties that had been previously assessed and levied. Finally, AWWU staff did not always verify that approved LUC roll assessments were recorded as liens with the Recorder's Office.

FINDINGS AND RECOMMENDATIONS

1. Assessments Not Always Processed Timely.

- a. Finding.** Properties subject to LUC assessments were not always processed in a timely manner. Specifically, after reviewing each water and sewer LUC roll approved by the Assembly from 2018 through 2021, our review revealed that 24 of 129 (19%) properties were not approved within one year from the time a property became subject to a levy, an improvement from 78 percent identified in our previous audit report.

According to AWWU Operating Procedure 30-30: *Levy Upon Connection Assessments*, “It is the Utility’s intent to levy property or area subject to estimated assessments within one year of the acquisition of service.” For example, on August 11, 2011, a wastewater connection was verified, but the LUC roll including the property was not approved by the Assembly until March 20, 2018, a difference of 2,413 days. According to AWWU staff, this property had been overlooked until a permit search re-discovered the connection. In another case, on October 18, 2013, a water connection permit was verified, but the LUC roll including the property was not approved by the Assembly until March 20, 2018, a difference of 1,614 days. According to AWWU staff, the property had been connected in 2013 but had been overlooked and was not identified to be assessed until the property was re-platted into three properties in 2017. In both examples, the property had been marked in error as “Have Been Levied”, which is discussed in Finding 2.

A similar finding was noted in Internal Audit Report 2014-06. In response to that reported finding, AWWU completed an analysis of their LUC process and found that increased levy times were “. . . primarily attributed to disruptions in workflow.” To address these disruptions, AWWU recommended increased training, coordination, and the automation of existing processes.

- b. **Recommendation.** Given the improvement in processing timeliness since the previous audit report, the AWWU General Manager should continue exploring further ways to improve the LUC process through automation and training.
- c. **Management Comments.** Management stated, “AWWU concurs with the finding that assessments are not always processed in a timely manner. AWWU continues to advance training, coordination, and investigation of automation methods. Currently, AWWU is working on updating work practices and has contracted with a consultant who is reviewing existing workflows, updating documentation, and preparing training

materials. Working on these initiatives is on-going, leading towards completing these initiatives by third quarter, 2022.”

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

2. **Connect Permits Not Always Identified for Assessment.**

- a. **Finding.** Properties with water and wastewater connect permits were not always identified for LUC assessments. Specifically, some properties were not levied because their water and wastewater connect permits had been automatically marked as “Have Been Levied” due to an error in AWWU’s permit software. Although AWWU corrected the software problem, they had not yet performed a reconciliation of connect permits to identify additional properties that had not been levied due to this error.
- b. **Recommendation.** The AWWU General Manager should ensure that AWWU staff perform a reconciliation of all water and wastewater connect permits marked as “Have Been Levied” to identify additional properties needing a LUC assessment. In addition, the AWWU General Manager may want to consider obtaining legal advice regarding any statute of limitation issues.
- c. **Management Comments.** Management stated, “AWWU concurs with the finding and will perform a reconciliation to identify assessable properties which may have been overlooked and not levied because of the previously automated practice. In the event such a property is discovered and possibly subject to a statute of limitations, AWWU may opt to seek legal advice as deemed necessary. This reconciliation work is scheduled to be completed by third quarter, 2022.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendations.

3. **Properties Not Always Assessed Correctly.**

- a. **Finding.** Our review identified 6 of 129 (5%) properties that were not correctly assessed. In all six cases, AWWU under collected what should have been assessed. For example, a property on a 2020 water LUC roll was assessed \$26,904.81 but should have been assessed \$35,157.38 because AWWU staff had not included over 13,000 square feet of right-of-way area in the assessment calculation. In another case, a property on a 2019 sewer LUC roll was assessed \$9,959.70 but should have been assessed \$14,139.84. According to AWWU staff, this property was assessed with a 25 percent discount for parcels over four acres written into a previous Anchorage Wastewater Utility Tariff (Wastewater Tariff). However, in 2017 this discount was removed from the Wastewater Tariff, one year before the property was connected in 2018. AWWU did have a desk manual to help process LUC assessments; however, the desk manual was unclear on what needed to be reviewed.
- b. **Recommendation.** The AWWU General Manager should ensure that AWWU staff verifies that properties are assessed with the correct amount before LUC rolls are submitted to the Assembly for approval. To help with this effort, the AWWU General Manager should consider developing a checklist for processing LUC assessments to add clarity regarding what needs to be reviewed.
- c. **Management Comments.** Management stated, “AWWU concurs with the finding that properties are not always assessed the correct amount. In addressing this, developing a checklist for assigning assessments is in process. This will include comparing old and new tariff, as applicable, and a process for confirming each required action item was performed. Completing the checklist is scheduled to be completed by second quarter, 2022.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

4. **Additional Trunk Assessments Applied to Previously Assessed Parcels.**

- a. **Finding.** Anchorage Water and Wastewater Utility levied additional trunk assessments for some properties that had previously been assessed and levied. Prior to a change in the Wastewater Tariff in 1989, trunk assessments were assessed and levied for parcels 150 feet in any direction from a sewer line. In 1989 the Wastewater Tariff was modified to allow AWWU to assess and levy trunk assessments for the entire property. However, for properties assessed and levied prior to 1989 AWWU had levied additional trunk assessments for the remainder of some properties' full parcel. For example, in 2019 one property was identified for the LUC assessment process through a repair permit for a sewer line and added to LUC roll 2019-S-2. However, this property had been previously assessed prior to 1989. The property owner protested to the Assembly about receiving an additional LUC assessment. As a result, AWWU staff decided that repair permits should no longer activate the LUC process and the property was deleted from the LUC roll. However, this change was not reflected in AWWU's operating procedures, and a reconciliation of similar repair permits that had initiated an additional LUC assessment was never completed.

When asked if the current Wastewater Tariff allowed for the levy of additional trunk assessments on previously assessed properties prior to 1989, AWWU Engineering Division staff said it was allowed based on a decision by the Regulatory Commission of Alaska (RCA) following the 1989 Wastewater Tariff revision. However, AWWU Engineering Division staff was unable to provide us the decision, and AWWU Regulatory Affairs said they were unaware of any specific decision by the RCA regarding additional trunk assessments on previously assessed properties. Moreover, AWWU staff did not notify the owners of these properties by recording a notice of right to lien for the remaining area for parcels that had been previously assessed 150 feet in any direction from a sewer line. We too were unable to locate a decision by the RCA regarding additional trunk assessments on previously assessed properties.

However, we did find a 1989 RCA order regarding a similar issue with lateral assessments that stated:

“It appears that AWWU may intend to levy assessments for properties which are receiving service and which previously have already been assessed for receiving such service if obsolete facilities are replaced or improved service is made available.

“Generally, it is most unusual for utilities to demand repeat assessments. Once an assessment is made and service is provided to a property, it then becomes an obligation of the utility to maintain adequate, efficient and safe service and facilities in accordance with AS 42.05.291. Consequently, any upgrading of facilities or replacement of obsolete facilities should be made by the utility without assessment contributions from individual property owners.”

According to AWWU staff, further assessments on previously assessed property can be initiated by additional events which “...include, but are not limited to, change in use of the parcel which requires a change in the type or size of service connection, construction of a new or additional service connection, and new construction of a trunk or lateral benefitting the parcel.” However, AWWU staff could not provide any supporting documentation for their interpretation of the Wastewater Tariff. In addition, none of these additional events were included in any AWWU policy and procedure.

- b. **Recommendation.** The AWWU General Manager should consider requesting a legal review of the Wastewater Tariff regarding the levying of additional trunk assessments. Specifically, a legal review could help determine if and what are the “triggering events” for additional assessments on previously assessed properties prior to 1989. In

addition, a legal review could help determine if AWWU has an obligation to tell property owners about any potential liability and if a statute of limitations applies.

- c. **Management Comments.** Management stated, “AWWU concurs with the finding in identifying parcels subject to the additional trunk assessments beyond the 150-foot and triggering events on properties previously assessed prior to 1989. Additionally, AWWU will determine whether there is an obligation to notify property owners about any potential liability and whether statute of limitations apply systematically or to individual parcels. AWWU may opt to seek legal advice as deemed necessary during this effort which is scheduled to be completed by fourth quarter, 2022.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the auditing finding and recommendation.

5. **Recorded LUC Rolls Not Always Verified.**

- a. **Finding.** AWWU staff did not always verify that approved LUC roll assessments were recorded as liens with the Recorder’s Office. Specifically, assessments found on two approved LUC rolls were recorded as “Miscellaneous” documents with the Recorder’s Office despite their cover pages being labeled as “Lien”. Both, Anchorage Municipal Code (AMC) 19.80, *Levy of Sewer Assessments Upon Connection*, and AMC 19.90, *Levy of Water Assessments Upon Connection*, state that “Assessments confirmed and levied under this chapter are liens upon the property assessed and are prior and paramount to all liens except municipal tax liens...” A similar finding was noted in Internal Audit Report 2014-06.
- b. **Recommendation.** The AWWU General Manager should ensure that AWWU staff verifies all approved LUC roll assessments are properly recorded as liens at the Recorder’s Office.

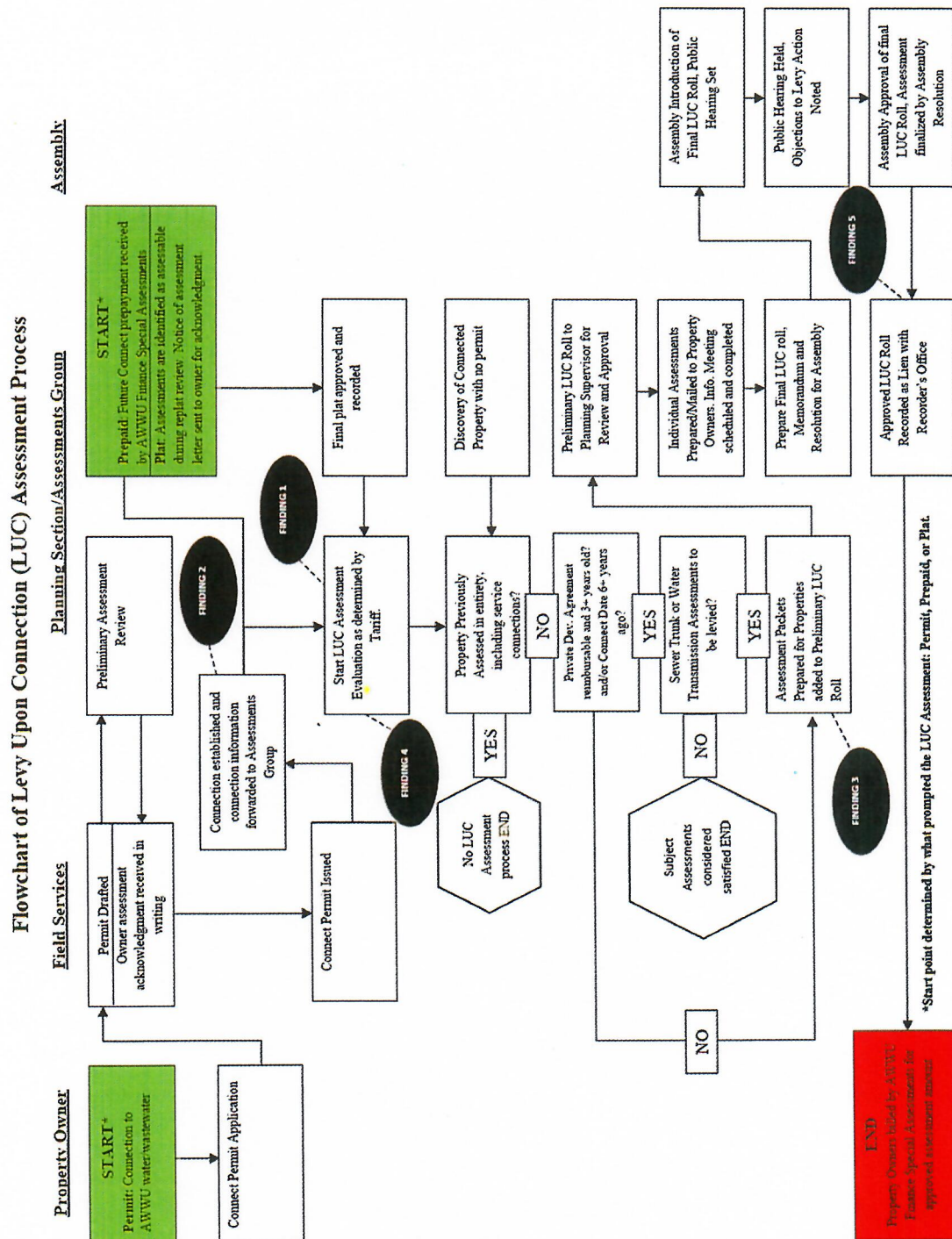
- c. **Management Comments.** Management stated, “AWWU concurs with the finding that two approved LUC rolls were mis-categorized and not properly recorded as liens. Beginning immediately, AWWU will review recorded LUC roll documents upon return from the Alaska Department of Natural Resources District Recorder’s Office and take prompt action to re-record the documents in the appropriate category should an error be discovered.”

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

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on October 27, 2021.

Audit Staff:
Dalton Benson

Attachment A



Source: Prepared by the Office of Internal Audit.