

City of Adak

Assessment of Management Capacity Indicators

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Division of Community and Regional Affairs
Department of Commerce, Community, and Economic Development, State of Alaska
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Introduction

The City of Adak report was completed by Rural Utility Business Advisor program staff Glen Hamburg as a requirement for a proposed grant-funded sanitation project. The report was completed with the voluntary assistance of the utility staff and based on information provided to the RUBA program. Specific documents provided by the utility staff are in the Anchorage regional office for viewing if requested.

The goal of the RUBA Program is to help small communities implement utility management practices that will improve the utility's ability to provide safe drinking water to their communities on a sustainable basis. The RUBA assessment evaluates essential and sustainable indicators necessary for the managerial and financial health of the utility. These indicators are organized under the following sections:

- Utility Finance
- Accounting Systems
- Tax Problems
- Personnel System
- Organizational Management
- Operation of Utility

Essential Indicators identify policies and practices that are critical to the short-term operation of a utility. ***Sustainable Indicators*** identify policies and practices that make a utility cost-effective to operate and increase the likelihood of long-term financial success.

The ***Essential Recommendations*** at the end of this assessment are limited to those items needed to meet deficient essential indicators. Only the essential indicators are required to be met under the grant conditions. The ***Sustainable Recommendations*** are intended to improve cost effectiveness and sustainability of the utility.

The City of Adak operates and manages the following utility services:

- Water treatment and distribution (classified as 'Small Water System')
- Wastewater distribution (untreated)
- Solid waste pickup and disposal
- Burn pit and Class III landfill

Capacity Indicators

From July 14-17, 2014, RUBA staff Glen Hamburg met with Adak city staff and officials to complete a RUBA Assessment of Management. The city provided documentation supporting the conclusions in this report. Specific documents used in this report include:

- Adopted FY14 and FY15 budget ordinances
- Ordinance 14-2014-089 amending FY14 budget ordinance
- Resolution 14-2014-011 amending non-residential class utility rates
- December 2013 – June 2014 council meeting minutes and financial reports
- Customer aging summary as of July 14, 2014
- FY14 utility billings report
- Current chart of accounts
- Chapters 2.15, 2.25, and 4.11 of the Adak Code of Ordinances
- Six months of bank statements and reconciliation summaries
- ‘Banking Relationships’ diagram produced by the city
- March 17, 2014 Monitoring Summary from Alaska Department of Environmental Conservation (ADEC)
- Personnel Policy Manual
- Department of Labor and Workforce Development (DOLWD) workers’ compensation insurance coverage verification
- Public Works Department job announcement
- Employment application form
- New hire letter
- Leave request form
- Personnel action form
- Organizational chart (not adopted)
- Posted meeting notice
- IRS and DOLWD tax certifications
- ADEC operator certification regulated system record
- Residential utility service application
- Equipment rental agreement form

Utility Finance

Essential Indicators

| Yes | No | |
|-------------------------------------|--------------------------|--|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | All revenue and expenses for the utility are listed in the utility budget. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has adopted a balanced realistic budget. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Monthly financial reports are prepared and submitted to the policy making body. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility is current paying all water/wastewater electric bills. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has on hand a year's adequate fuel supply or it has a financial plan to purchase an adequate supply. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility is receiving revenues (user fees or other sources) sufficient to cover operating expenses. |

Sustainable Indicators

| | | |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility is receiving revenues (user fees or other sources) sufficient to cover operating expenses and Repair and Replacement (R&R) costs. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | YTD revenues are at a level equal to or above those budgeted. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | YTD expenditures are at a level equal to or below those budgeted. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | A monthly manager's report is prepared. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget amendments are completed and adopted as necessary. |

The City of Adak follows the State's fiscal year running from July 1 to June 30, and adopted its FY15 budget by non-code ordinance timely on June 25, 2014. The ordinance compares FY15 income and expenses alongside then-estimated year-end FY14 actual amounts. Water and wastewater income and expenses are budgeted for separately as an enterprise within the overall budget city budget.

The city plans to balance roughly \$121,000 in sanitation service-related expenses in FY15 with nearly \$130,000 in revenue from user fees alone; no subsidies from other sources are expected to be needed. The budget realistically accounts for expenses related to wages, payroll taxes, insurance, fuel and electricity, operator training and certification, testing, supplies, telephone and internet, chlorine gas, merchant service fees for the utility's credit card payment system, and repairs and maintenance. Income estimates are similarly realistic, with nearly all values at or below FY14 budgeted amounts.

The city council, which serves as the utility's governing body, receives financial reports at each of its monthly meetings which include a profit and loss report comparing budgeted and actual amounts and a statement of cash flows. According to May and June 2014 financial reports, year-to-date (YTD) revenues exceeded budgeted amounts and YTD expenditures were below budgeted amounts. Meeting minutes do not indicate that a manager's report addressing utility matters, either verbal or written, is consistently given to the council monthly.

RUBA staff verified that the city is current in paying its electric bills to TDX Adak Generating, the local electric utility. Fuel for the community is provided by Adak Petroleum, which maintains sizeable storage tanks on the island and receives regular bulk fuel shipments. The city has budgeted for, and has sufficient funds on-hand to purchase, fuel from Adak Petroleum whenever necessary.

Accounting Systems

Essential Indicators

| Yes | No | |
|-------------------------------------|-------------------------------------|---|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility has adopted a collection policy and actively follows it. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility bills customers on a regular basis. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | An accounts receivable system is in place which tracks customers and reports past due accounts and amounts. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | An accounts payable system is in place. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The payroll system correctly calculates payroll and keeps records. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | A cash receipt system is in place that records incoming money and what it was for. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has a cash disbursement system that records how money was spent. |

Sustainable Indicators

| | | |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | A chart of accounts is used that identifies categories in a reasonable, usable manner. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Monthly bank reconciliations have been completed for all utility accounts. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has a purchasing system that requires approval prior to purchase, and the approval process compares proposed purchases to budgeted amounts. |

The city's utility bill collections policy is outlined in Chapter 4.11 of the Adak's municipal code. In accordance with those policies, bills are sent to customers at the end of each month of service and due within 30 days. Utility bills include charges for water, wastewater, and garbage services at authorized rates. Services are itemized as required by the city's utility ordinances.

Customers can pay their bill with cash or check, or by credit card. With signed authorization from customers, the city will also process recurring charges for utility service by entering the customer's credit card information manually each month. Receipts for any payment are available and the previous month's payment is noted on monthly statements.

The city does not charge the penalty of 1.5 percent or \$20 (whichever is greater) on utility accounts as soon as they become delinquent, as mandated by Section 4.11.10(B) of the code; only the 10.5 percent per annum interest on those delinquent accounts is assessed in accordance with Section 4.11.10(C). The city also selectively refers delinquent accounts to a private collections agency, though these efforts are outside of the collections measures authorized by ordinance. Until the city fully enforces its adopted collections policy as it is currently written, or until it amends its policy to authorize and then fully enforces other actions, the relevant essential indicator in this section is marked 'No'.

A review of a customer aging summary and a billings report shows that approximately 81 percent of customers routinely pay their current bills on time and in full each month. However, roughly 35 percent of customers owe the city for utility bills that are more than six months old and, in total, the city is due more than \$35,000 in utility charges more than 30 days past due.

The city uses QuickBooks for its accounts receivable and accounts payable processes, and Intuit Full Service for payroll. The city has an organized chart of accounts with a logical five-digit numbering system.

Bookkeeping operations are divided between the city manager and the city clerk. The clerk largely handles customer payments (except for her own), while the manager tracks accounts payable and payroll. All employee purchases must be approved and made by the city manager after a standardized purchase request form is completed and submitted. Available budgeted

funds are considered before every purchase. Purchase orders are matched to checks and invoices and duly filed. All checks must carry two approved signatures.

Tax Problems

Essential Indicators

| Yes | No | NA | |
|-------------------------------------|--------------------------|-------------------------------------|--|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | | The utility has a system to accurately calculate, track, and report payroll tax liabilities. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | | The utility is current on filing federal and state tax reports. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | | The utility is current on making federal and state tax deposits. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> | If there are any past tax liabilities or tax liens filed, a payment agreement has been signed and repayments are current. |

The city uses Intuit Full Service for calculating and processing payroll tax liabilities. The IRS's Taxpayer Advocacy Service confirmed on June 15, 2014 that the city is in compliance with its federal tax filing and deposit requirements. The State's Department of Labor and Workforce Development (DOLWD) granted the city Employment Security Tax clearance on June 13, 2014. The city is not listed on the most recent Lien Watch report published by DCCED.

Personnel System

Essential Indicators

| Yes | No | |
|-------------------------------------|--------------------------|--|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has a posted workers compensation insurance policy in effect. |

Sustainable Indicators

| | | |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has adopted and uses a personnel policy, which has been reviewed by an attorney, AML, or DCCED for topics and language. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility has adequate written job descriptions for all positions. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility has adopted and follows a written personnel evaluation process that ties the job description to the evaluation. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has an adequate written hiring process. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility has personnel folders on every employee that contain at least: I-9, Job Application and Letter of Acceptance. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has a probationary period for new hires that includes orientation, job-training/oversight, and evaluations. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility provides training opportunities to staff as needed and available. |

The city carries an Alaska Municipal League Joint Insurance Association (AMLJIA) workers' compensation insurance policy valid until July 1, 2015. The policy covers incidences up to the statutory limit. Coverage is posted in accordance with State law at the city office, both city shops, and the airport.

Since 2011, the city's personnel policies have been included in a formal 'Personnel Policy Manual' that is separate from the municipal code and amendable by council resolution. The manual appropriately defines job classification types (regular full-time, regular part-time, temporary, and probationary) and provides for a detailed system of progressive discipline. Additionally, it addresses work hours and overtime, pay periods, deductions, leave accrual, holidays, insurance, travel and per diem, harassment, grievances, nepotism, drug usage, hiring, a six-month probationary period, and promotions.

While Section 5.01.50(5) of the manual requires that job descriptions be available for all positions, and Section 5.01.50(1) that the city manager conduct a performance evaluation for

each regular employee every 12 months, these policies are not fully enforced. Job announcements are posted for any vacancy, but they do not necessarily detail all of the position’s duties and responsibilities. The city manager is responsible for conducting evaluations of Public Works Department staff, including the operators, while the city/utility clerk’s evaluation is to be conducted by the city council. Personnel files are available for all positions and include necessary tax and immigration paperwork, as well as an employee’s original application, but they do not contain signed letters of acceptance.

The community is only accessible by a 1,200-mile flight twice each week from Anchorage, and local internet access is limited and expensive. These conditions generally constrain employees’ ability to attend trainings in-person or online. Nonetheless, the city has allocated \$5,000 in its FY15 budget for operator travel and training and the city always supports utility staff seeking training whenever it’s available and affordable.

Organizational Management

Essential Indicators

| Yes | No | |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The entity that owns the utility is known and the entity that will operate the utility is set. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The policy making body is active in policy making of the utility. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The policy making body enforces utility policy. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has an adequately trained manager. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has an adequately trained bookkeeper. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has an adequately trained operator(s). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has adopted the necessary ordinances (or rules and regulations) necessary to give it the authority to operate. |

Sustainable Indicators

| | | |
|-------------------------------------|-------------------------------------|--|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility has adopted an organizational chart that reflects the current structure. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The policy making body meets as required. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility complies with the Open Meeting Act for all meetings. |

The City of Adak owns the community’s utility’s systems and, in accordance with Title 2 of its municipal code, administers sanitation services. The city council is the governing body for the utility and meets the third Wednesday of every month, with notices posted at the two entrances of city office, a local store, the tribal office, and other community facilities in accordance with the Open Meetings Act (OMA). A review of six months of meeting minutes shows that the council has been actively engaged in utility-related business by adjusting monthly rates as necessary, approving a sanitation service business plan, reviewing utility easements, pursuing utility feasibility studies, adopting an annual budget on-time, and considering other matters as they’re presented. The essential indicator in this section related to the enforcement of utility policy is marked ‘No’ until the collections practices are in line with adopted policies, as addressed previously in this report.

The city manager serves as utility manager. He has worked for the city for approximately four years. The city clerk serves as utility clerk, and has been employed with the city for over two years. As described in the ‘Accounting Systems’ section of this report, bookkeeping process are split between the manager and the clerk. Both have degrees in business administration and are adequately trained.

The Alaska Department of Environmental Conservation (ADEC) recognizes one primary operator and one backup operator, but a third Public Works Department employee is also involved in certain utility operations. No operator with the city is certified; however, that the utility is not on the Significant Non-Complier (SNC) list, operates at the proposed level of service, and has not suffered service outages due to operator error, as detailed in the following section of this report, indicates that the three are adequately trained.

A staff organizational chart was included with a recent utility business plan, but showed the city clerk as appointed by the city manager, rather than by the city council as the city code requires. A corrected organizational chart provided to RUBA staff has not yet been formally adopted.

Operation of Utility

Essential Indicators

| Yes | No | |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility operator(s) are actively working towards necessary certification. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility has a preventative maintenance plan developed for the existing sanitation facilities. |

Sustainable Indicators

| | | |
|-------------------------------------|-------------------------------------|---|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The manager receives a monthly O&M report from the utility operator and routinely “spot checks” the facilities to see that the maintenance items are being completed. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility has a safety manual and holds safety meetings. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Utility facilities have not suffered any major problems/outages due to management issues that are still unresolved. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility is operating at the level of service that was proposed. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The operator provides status reports to the manager on a routine basis. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility has completed and distributed its <u>Consumer Confidence Report (CCR)</u> . |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | The utility meets all required regulations (is not on the <u>Significant Non-Compliance (SNC)</u> list). |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility maintains an inventory control list. |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | The utility maintains a critical spare parts list. |

It was noted in previous sections of the report that the community’s exceptionally remote location, the expense and infrequency of transportation, and the high cost of internet limit operators’ ability to obtain necessary training and certifications. However, the city has arranged to have the operators take proctored certification exams at the local school this fall, and the operators have been supplied educational materials from ADEC to study in the meantime.

The city manager reports to only visit utility sites for spot checks about once per year, which is not sufficient to ensure that maintenance items are being completed as appropriate, or that workplace conditions are clean, safe, and organized. The city manager and utility staff will sometimes participate in AMLJIA’s monthly safety teleconferences, but no routine safety meetings are held and documented. Nonetheless, the manager is in regular communication with the operators and safety and operational concerns are addressed as they arise.

The city reports that there have been no service outages in the last five years due to management problems, and the utility continues to operate at the level of service proposed. It is not listed on the most recent SNC list.

The city has not completed and distributed its 2013 Consumer Confidence Report (CCR) by the July 1, 2014 deadline. Adak’s sanitary survey, which must be completed every three years, is

also overdue, though the city reports it has been unable to have State officials travel out to the community to complete the survey, even at the city's offered expense.

Following municipal incorporation in 2001, the city inherited a sprawling, aged sanitation system built by the US Navy to service a population of about 6,000 people while the military base was in operation. The city doesn't know the full nature of that system; it doesn't know the condition of all the pipes, the location of all valves and appurtenances, and the severity of any leaks. The type and number of backup supplies that are kept on hand are based on the system as it is known to the city and its operators. The utility does not maintain inventory control or critical spare parts lists; parts are ordered as-needed. While the infrequency of air travel to the community could potentially delay the delivery of parts, contracted jet airline service increases the likelihood parts orders will arrive within a week.

Essential Recommendations

The City of Adak has not met all of the essential capacity indicators. In order to meet them, the utility must fully enforce an adopted utility bill collections policy.

Sustainable Recommendations

The city can work to improve Sustainable Indicators in the 'Personnel System', 'Organizational Management', and 'Operation of Utility' sections of this assessment.

It is recommended that:

- the city manager give verbal or written utility status reports to the council at its monthly meetings;
- job descriptions be written for every position;
- annual performance evaluations be conducted based on those job descriptions;
- employees be asked to sign letters of acceptance, with copies included in their personnel file;
- the revised organization chart be formally adopted by council resolution and posted at places of employment;
- the city manager visit utility facilities at least once per month;
- monthly safety meetings between utility staff be held and documented;
- the 2013 Consumer Confidence Report (CCR) be completed and distributed to customers as soon as possible, and certification sent to ADEC; and
- the utility develop and utilize inventory control and critical spare parts lists.

Conclusion and Next Step

By implementing these recommendations, the City of Adak will put itself into position to better ensure the financial viability of their sanitation services and avoid interruptions in those services to the geographically remote community.

City staff and officials were open and helpful with providing information to complete this assessment. They realize the importance of community health, financial stability, effective utility management practice, and sustainability.

RUBA staff is available to provide assistance for any capacity indicators that are not being met.