

# ASD INTERNAL AUDIT REPORT

2021-02

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Contract Change Orders

Purchasing and Warehouse Department

Anchorage School District

December 9, 2021

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**MUNICIPALITY OF ANCHORAGE**  
**MAYOR DAVE BRONSON**

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**INTERNAL AUDIT DEPARTMENT**

December 9, 2021

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2021-02; Contract Change Orders; Purchasing and Warehouse Department; Anchorage School District**. A summary of the report is presented below.

We have completed an audit of contract change orders at the Purchasing and Warehouse Department of the Anchorage School District. The objective of this audit was to determine whether change orders were appropriate, authorized, recorded, and reported according to policies and procedures. In addition, we determined if change orders had sufficient oversight and were not being abused by low bidders, increasing project costs. To achieve our objective, we interviewed staff, reviewed current policies and procedures, and reviewed 50 change orders and modifications dated January 2020 through August 2021, related to 20 judgmentally selected contracts.

Based on our review, we found that change orders we examined appeared to be appropriate, properly authorized, and properly recorded. However, Anchorage School District policies related to contract change orders/modifications/amendments need revision to strengthen reporting and exception requirements. Finally, it appeared that a contractor artificially reduced ("low-balled") the initial bid and later benefitted from a change order that modified the pricing structure.

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

Michael Chadwick, CIA, CICA  
Director, Internal Audit





**MUNICIPALITY OF ANCHORAGE**  
**MAYOR DAVE BRONSON**

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**INTERNAL AUDIT DEPARTMENT**

December 9, 2021

**ASD Internal Audit Report 2021-02**  
**Contract Change Orders**  
**Purchasing and Warehouse Department**  
**Anchorage School District**

**Introduction.** The Anchorage School District's (District) Purchasing and Warehouse Department (Purchasing) manages the awarding of contracts for goods and services to support District operations. Contracts are administered by the individual department or school that received the goods and services. However, construction contracts are mostly administered by the Capital Planning and Construction Department (CP&C). When contract terms, such as the timeline and/or scope require modification, a change order is issued. Change orders should be agreed upon by the District and contractor prior to goods or services being provided, and routed to the appropriate staff member for review and approval. According to the District's Administrative Regulation (AR) 3312, *Contracts*, approval requirements for contract change orders/modifications/amendments vary depending on the dollar amount. Specifically, the Superintendent and/or the Purchasing Senior Director can approve change orders/modifications/amendments up to \$100,000 and the Superintendent can approve change orders/modifications/amendments up to \$250,000. Change orders/modifications/amendments exceeding \$250,000 are recommended by the Superintendent to the Anchorage School Board (Board) for approval. Contract files, including the related change orders, are maintained by Purchasing staff. These files can be both hard-copy and electronic.

**Objective and Scope.** The objective of this audit was to determine whether change orders were appropriate, authorized, recorded, and reported according to policies and procedures. In addition, we determined if change orders had sufficient oversight and were not being abused by low bidders, increasing project costs. To achieve our objective, we interviewed staff, reviewed current policies and procedures, and reviewed 50 change orders and modifications dated January 2020 through August 2021, related to 20 judgmentally selected contracts.

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 Anchorage School Board Finance Committee.

**Overall Evaluation.** We found that change orders we examined appeared to be appropriate, properly authorized, and properly recorded. However, District policies related to contract change orders/modifications/amendments need revision to strengthen reporting and exception requirements. Finally, it appeared that a contractor artificially reduced (“low-balled”) the initial bid and later benefitted from a change order that modified the pricing structure.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Reporting and Approval Requirements Need Strengthening.**

- a. Finding.** Anchorage School District policies related to contract change orders/modifications/amendments need revision to strengthen reporting and exception requirements. Administrative Regulation 3312.1, *Procurement Organization and Operational Procedures*, requires the Superintendent, or designee, to annually report to the Board “. . . all change orders/modifications/amendments that cause a contract to exceed five hundred thousand dollars (\$500,000).” Therefore, if a \$550,000 contract has a change order/modification/amendment of any amount, it will not be reported to the Board since the change order/modification/amendment did not cause the contract to exceed \$500,000 – the contract itself already exceeded \$500,000. For example, on August 18, 2020, the Board approved a \$32.5 million contract. From February 10, 2021, to July 16, 2021, this contract had eight contract modifications, each consisting of several change orders, having a cumulative total of \$1,783,593. These eight contract modifications ranged between \$67,085 to \$249,842. Because each contract modification



was below the \$250,000 Board approval threshold, they were not sent to the Board for approval. In addition, according to AR 3312.1 they were not required to be included in the annual report to the Board since the original contract was over \$500,000. Therefore, according to the current policies, the Board never saw any of these change orders having a cumulative total of nearly \$1.8 million.

In comparison, Anchorage Municipal Code subsection 7.15.080A., *Contract amendments-Assembly approval*, requires all contract amendments or change orders that will cause the total value of the contract to exceed specified limits to be approved by the Assembly. For example, contracts with an original award value exceeding \$2,500,000 require the department and purchasing officer to agree on “. . . the maximum contract amendment or change order value that can be executed without assembly approval. This value shall be established and approved concurrently with the contract award under section 7.15.040.”

Finally, we found the Board granted an exception to a contract allowing the change order dollar threshold for Board approval to be \$950,000 instead of the \$250,000 as required by AR 3312. However, we were not able to find policy language allowing exceptions for changing approval limits.

- b. **Recommendation.** The Anchorage School District Superintendent should consider adding clarifying language to contracting policies related to the reporting of change orders/modifications/amendments and if exceptions to approval limits should be permitted.
- c. **Management Comments.** Management stated, “Concur. Upon research with staff, ASD found that prior to 2012, and per Board Policy at that time, CP&C was submitting monthly cumulative change order reports to the Board, which addressed change orders under \$250,000 and change orders as a percent of contract value. In 2012, ASD’s former Superintendent and Administration instructed CP&C to stop submitting these

reports. ASD recommends that an AR be adopted to restore the former cumulative change order and change orders as a percent of contract value reporting requirement to provide transparency of change orders under \$250,000 to the Board. ASD also recommends that language be added to the Board Policy specifying when exceptions are permitted.”

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

2. **Change Order Increased Cost of Initial Bid.**

- a. **Finding.** It appeared that a contractor artificially reduced (“low-balled”) the initial bid and later benefitted from a change order that modified the pricing structure. In 2020 a contractor won a bid to provide painting services. The bid form stated that the work would be billed at an hourly rate of \$17.99, with 9 percent added for material costs. However, the contractor invoiced the District a flat rate of \$7,521 for the job they performed. Specifically, in May 2020, \$4,821 was invoiced to paint the interior walls of a gym and \$2,700 was invoiced to paint nine gym doors. About a month later a change order was created and approved to increase the purchase order to pay the invoice. As a note, a contract was not signed by the District until December 2020.

If nine gym doors cost \$2,700 to paint, then labor to paint each gym door cost about \$260, after deducting estimated material costs. Using the contractor’s initial hourly rate of \$17.99, then each door took about 14 hours to paint – which seems excessive for one gym door painted by professional painters. Therefore, it appears that by charging a flat rate, instead of an hourly rate, the contractor benefitted by increasing the cost of the original bid via the change order.



- b. **Recommendation.** The Senior Director of Purchasing should remind contract administrators to review invoices for contract compliance before approving payment or approving contract change orders.
  
- c. **Management Comments.** Management stated, “Concur. ASD agrees with the recommendation that ASD’s Sr. Director of Purchasing-Warehouse should remind contract administrators to review invoices for contract compliance before approving payment or approving contract change orders

“ASD does often receive very low bids from painting contractors. Due to this ASD conducted a field vendor performance test to ensure the contractor was not only responsive (conformed to the requirements of the solicitation) but also was a ‘responsible’ bidder that had the capacity and resources to do the work under the term contract. ASD agrees that the invoice for \$2,700 to paint nine gym doors does not appear appropriate per the terms of the contract. ASD would also note that after the contractor completed the work described above, ASD terminated the contract with that painting contractor.”

- 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 October 28, November 17, and November 19, 2021.

Audit Staff:  
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