

November 10, 2004

**Internal Audit Report 2004-13**  
**Construction Contract Management**  
**Project Management and Engineering Department**

**Introduction.** The purpose of the Project Management Division, located in the Project Management and Engineering Department, is to manage the design and construction of capital projects that meet community needs with on-time and on-budget delivery. Project management includes needs analysis, concept scoping, project estimating, design development, right of way acquisition, permitting, public involvement, construction, and coordination with other agencies. They are focused on limiting final contract prices to 110 percent of the original contract amount for the original scope of work and to complete improvements within the initial time line established for a defined scope of work.

**Objective and Scope.** The objective of this audit was to determine whether construction contracts were properly administered to ensure that the specified work was performed within the approved price of the contract. Our review of construction contracts included a review of all nine construction projects, totaling nearly \$18.5 million, for 2003 and 2004 that were over \$500,000 and had at least one change order. From those nine projects, we identified 25 change orders which contained 213 individual change order items. We reviewed these individual change order items to ensure they were in compliance with Anchorage Municipal Code Title 7.15.070 Contract amendments–Permitted amendments.

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 October through November 2004. The audit was suggested by the Anchorage Transition Team's Subcommittee on Administration.

The Transition Team stated Internal Audit “ . . . has the opportunity to focus on audits of construction contracts, which may potentially pay for their department. The subcommittee’s experience with construction contract audits suggests that cost recovery can amount to three to five times the cost of audits.” At the request of the Transition Team, Internal Audit placed a construction contract audit on the audit plan for 2004.

**Overall Evaluation.** Our review of the construction contracts revealed they were properly administered and the work performed was within the approved price of the contracts. Our review identified only one instance where the Project Management Division inadvertently paid \$1,580.63 for the removal and disposal of a sign which had already been paid for. When we brought this to the attention of the project manager, he stated he would deduct the cost of the duplicate sign charge from the contractor’s next payment.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on November 3, 2004.

Audit Staff:  
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