

October 22, 2008

**Internal Audit Report 2008 – 11**  
**Reimbursable Work Orders**  
**Anchorage Water and Wastewater Utility**

**Introduction.** The Anchorage Water and Wastewater Utility (AWWU) performs various services for the State of Alaska Department of Transportation and Public Facilities and for the Anchorage School District (ASD). Reimbursable work orders for the Department of Transportation and Public Facilities are established to accumulate costs which are then billed to the State of Alaska (State). Engineering and construction services for ASD are generally paid before work begins rather than on a reimbursable basis.

**Objective and Scope.** The objective of this audit was to determine whether AWWU was charging all reimbursable costs under agreements with the State and to determine whether AWWU complied with the contract requirements specified in the Memorandums of Understanding (MOUs) with ASD. Specifically, we reviewed the billing details and support documents for 50 judgmentally selected State reimbursable work orders and 4 ASD MOUs.

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 July 2008. The audit was requested by the AWWU Board, Audit Committee.

**Overall Evaluation.** Generally, reimbursable expenses were properly billed. However, we did note some areas that require improvement. Specifically, work was performed without the State's authorization for 17 of 50 work orders. In addition, Finance Division personnel did not always bill the correct party responsible for the reimbursable payment. Moreover, incorrect billing categories

and/or incorrect overhead rates were used to calculate project costs, and work orders were sometimes kept open even though the work was complete. Finally, documentation required by the MOUs with ASD was not always provided and accounting errors were not always corrected.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Work Performed Without the State's Authorization.**

a. **Finding.** Work was performed without the State's authorization for 17 of 50 work orders that we reviewed. As a result, the State refused to pay \$5,389.53 (8%) in charges for the 50 work orders reviewed. Since the State refused to pay the charges, the charges were transferred to different in-house capital projects or were deducted from administrative overhead.

b. **Recommendation.** Engineer Division staff should obtain a written authorization from the State prior to performing any work.

c. **Management Comments.** Management stated, "AWWU concurs with this finding.

The billings for sixteen (16) of the seventeen (17) projects referenced in this finding were billed from late 2002 until the middle of 2004. Adjustments to the expenses on these bills were caused by the lack of executed agreements with the SOA.

For one (1) of the seventeen (17) projects the SOA was erroneously billed in 2005 for damages to a main caused by a contractor. The error was discovered by the SOA and the damages were later billed to the contractor.

Subsequent to these findings, AWWU staff developed new methods for accounting for charges and new business processes for State of Alaska reimbursable projects. The new business processes include not authorizing reimbursable projects until such time as an agreement is signed and to freeze the project activity when the contract

has expired.”

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

2. **Project Costs Not Always Billed the Correct Payee.**

- a. **Finding.** Finance Division personnel did not always bill the correct party responsible for the reimbursable payment. Specifically, 6 of 33 closed work orders reviewed had \$1,684.63 in project costs rejected by the State because the State was not the responsible party. Although the costs were re-billed to the correct party for two of the six work orders, only \$889 was recovered. The remaining unpaid costs were transferred to other capital projects.

- b. **Recommendation.** Project costs should be billed only to the party responsible for payment.

- c. **Management Comments.** Management stated, “AWWU concurs with this finding.

Two projects referenced in this finding (2288, 2289) were already referenced in finding number one (1) and were adjusted by the State because an agreement for preliminary engineering charges was not executed when these two projects were billed in 2003.

Two other projects referenced in this finding (1934, 1935) were incorrectly billed in 2003 to the SOA and were subsequently re-billed to the contractor. The contractor requested and received adjustments to overhead rates and paid the bill.

The two remaining projects in this finding (1690,1691) were incorrectly billed to the SOA in 2003. AWWU did not have an agreement with the SOA but MOA public works did have a signed agreement. These expenses were later billed to MOA Public

Works with a reduced overhead using a journal entry rather than the billing system.

Subsequent to these findings, AWWU updated its business practices for Reimbursable projects to assist in resolving these problems.”

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

3. **Incorrect Billing Categories/Overhead Rate Used.**

- a. **Finding.** Incorrect billing categories and/or incorrect overhead rates were used to calculate project costs. For example, 5 of 33 closed work orders tested were adjusted upward by the State, resulting in payment of an additional \$2,291.79 more than billed. In all five cases the State found the problems and made the corrections.
- b. **Recommendation.** Current billing categories and overhead rates should be used to calculate project costs for reimbursable work.
- c. **Management Comments.** Management stated, “AWWU concurs there were billing errors.

Three of the projects (1893,1894,1562) referenced in the finding were billed in 2003. Administrative overhead was not applied to permits on these billings and the SOA made adjustments of \$21.18 for each of the billings. AWWU adjusted its billing template in 2003 to include overhead on permits.

One of the projects (1401) was billed in 2004. Administrative overhead was not applied to inventory although inventory overhead was already applied. AWWU did not believe it was appropriate to apply inventory overhead and also apply administrative overhead. The SOA believed inventory overhead and administrative overhead are appropriate for inventory and adjusted the billing accordingly.

The last project (1124) referenced above was billed in 2003. Administrative overhead was not billed on professional services charges. The SOA believes overhead should be applied to professional services and adjusted the billing accordingly.

Subsequent to discussions with SOADOT auditors, AWWU updated its billing procedures to include administrative overhead on inventory and on professional services charges.”

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

#### 4. **Work Orders Not Closed Timely.**

- a. **Finding.** State reimbursable work orders were sometimes kept open even though the work was complete. Our review of 17 open State reimbursable work orders for nine separate projects revealed that none of them had new charges for at least two years and sometimes longer than four years. According to AWWU staff, the work orders remained open because the State did not provide AWWU an updated blueprint of the completed project (record drawing) for review. However, our review of 33 closed work orders showed that 18 of them had no labor charges for reviewing record drawings.
- b. **Recommendation.** Reimbursable work orders should be closed in a timely manner.
- c. **Management Comments.** Management stated, “AWWU concurs with this finding.

However it is to be noted that projects have been kept open (not closed) as a “tracking” technique by Project Managers responsible for those jobs with ADOT, to afford staff a mechanism to monitor status of projects that have remaining work items to be done, including, but not limited to, closure tasks such as submission of

the State's project record drawings. The State, not AWWU, controls the timeline and many years do go by without action by the State to close these jobs. Over the past several years, AWWU has: 1) orally requested the State change its work practices to provide timely submission of record drawings to AWWU – to no avail; 2) asked ADOT to permit AWWU to have access to the data necessary for it (AWWU) to produce the required record drawings instead of the State – without widespread success; and 3) demanded ADOT include in future written reimbursable agreements a requirement for timely submission of record drawings following construction completion, with some success.

The reason some projects did not have charges for reviewing record drawings is explained on the basis of the nature of the work performed by the State. Some projects only involve “minor changes”, i.e., changes to AWWU assets that are as simple as vertical height adjustments that are not reportable to others (e.g., ADEC). In this case, the effort is nil to review the drawings, and project staff do not have to submit the drawings to others as required by Alaska Administrative Codes (AAC). They have used project status (i.e., projects kept “open”) in these cases to offer a “trigger” to alert them to pending closeout activity. The work is limited to receipt and proper filing of the drawings by our Archivist. However, in other projects, the work involves more significant changes (e.g., new section of water main) where the record drawings of improvements require detailed review, verification, and posting to outside agencies (e.g., ADEC) to meet AAC. Therefore, the standard of care necessary in these cases means project staff will exert labor to complete these tasks.

AWWU will thus close projects when the AWWU work is complete. AWWU will continue discussions with the SOA to develop an additional overhead rate for drawings not provided to AWWU at the completion of the project, as well as continue to press for reform in the method by which the State closes out its projects. To date these conversations with the SOA have only resulted in reaffirming the

State's understanding of AWWU's business needs.”

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

5. **Required Documentation Not Provided to ASD.**

- a. **Finding.** Documentation required by the MOUs with ASD was not always provided. These documents include monthly account statements, monthly progress reports, and certified project cost statements.
- b. **Recommendation.** The required documentation should be provided to ASD.
- c. **Management Comments.** Management stated, “AWWU concurs with this finding and recommendation and will develop business process and controls to see that reporting requirements outlined in MOU's are followed.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Accounting Errors Were Not Corrected.**

- a. **Finding.** Accounting errors were not always corrected. For one ASD project, more than the amount agreed to in the MOU was requested from ASD. The MOU authorized \$4,800,000 in funding; however, AWWU requested \$4,902,440, which ASD paid. Although AWWU discovered the \$102,440 overpayment in March 2008, AWWU did not issue a refund. In addition, AWWU failed to allocate the payment correctly resulting in one part of the project being overfunded by \$240,000 while a different part was underfunded by \$137,560.
- b. **Recommendation.** Accounting errors should be corrected when discovered.

- c. **Management Comments.** Management stated, “AWWU concurs with this finding.

However, because there is on-going work involved, when the projects (2291, 2292) referenced in the MOU are complete AWWU will reconcile the estimated project costs to the actual project costs and refund or bill the ASD as appropriate. This is because ASD was requested to forward fund, vs. reimburse, AWWU for its expenses incurred in performing services for the School District, with excess funds (if any) being reimbursed when all costs were known.”

- 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.

Audit Staff:  
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