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Anchorage



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Internal Audit Report 95-17
Reimbursable Work Orders
Anchorage Water and Wastewater Utility

Introduction. The Anchorage Water and Wastewater Utility (AWWU) performs various services for customers on a reimbursable basis. Reimbursable work orders are established to accumulate costs associated with these services which include: private development projects, connects, State of Alaska Department of Transportation projects, repairs, and water and sewer improvement district studies. Costs accumulated in the reimbursable work orders are billed to the appropriate customer.

Scope. Our audit objective was to determine whether reimbursable work orders were properly established, maintained, billed and closed. The audit included tests of accounting records and such other procedures as we considered necessary in the circumstances.

Overall Evaluation. Reimbursable work orders were not always properly established, maintained, billed and closed. Costs for preliminary surveys, plans and investigations associated with water and sewer improvement districts were

incorrectly categorized as reimbursable work. Overhead charges were not applied timely to reimbursable work orders and deposits were not always collected and maintained in compliance with the Anchorage Municipal Code (AMC). Private development projects were not always billed timely.

FINDINGS AND RECOMMENDATIONS

1. Costs Incorrectly Categorized as Reimbursable Work.

- a. **Finding.** Costs for preliminary surveys, plans, and investigations associated with water and sewer improvement districts were incorrectly categorized as reimbursable work and reported as current assets for financial statement purposes. These costs should either be expensed or capitalized once a determination has been made regarding the feasibility of the project. National Association of Regulatory Utilities Commissioners (NARUC) requires that these amounts be recorded in an account titled "Preliminary Survey and Investigation Charges". The failure to accurately categorize these costs has resulted in current assets being overstated.

- b. **Recommendation.** Accumulated costs associated with determining the feasibility of water and sewer improvement districts should be reported as "Preliminary Survey and Investigation Charges" in compliance with NARUC.

- c. **Management Comments.** Management stated, "AWWU concurs with this finding. We will set up the necessary accounts and work order numbers and implement the recommendation."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
2. **Overhead Charges Not Applied Timely.**
- a. **Finding.** Overhead charges were not applied to reimbursable work orders in a timely manner. Instead, overhead charges were added to work order balances at the time of billing which may be more than a year after the work was performed. Since overhead rates change annually, the overhead rate used at the time of billing may not have been the same rate that was in effect when the charges occurred. As a result, the work order balances did not always reflect the actual amount owed to AWWU.
 - b. **Recommendation.** Overhead should be applied regularly and included in the work order balances.
 - c. **Management Comments.** Management stated, "AWWU concurs with this finding. We are discussing three alternatives to resolving the issue of accounting for overhead at the work order level."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Current Procedures Allowed for More Than One Work Order to be Opened for the Same Project.**
 - a. **Finding.** Current procedures allowed a separate work order to be opened by each AWWU division providing a service to the project. For example, Engineering division personnel opened work orders for plan reviews and private development projects while Field Services division personnel opened a separate work order for the connect. Having several work orders for the same project increases the potential for error and increases overhead costs associated with project management, file maintenance and billings. For example in one instance a project was complete but only the plan review work order was billed and closed. The work order for the connect remained open with a refund due to the customer.
 - b. **Recommendation.** Procedures should be implemented to manage reimbursable projects as a whole rather than by individual services performed.

- c. **Management Comments.** Management stated, "We concur with this finding. We will address the process of more effectively managing reimbursable work orders in a Policy and Procedure."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
4. **Deposits Collected Were Not Always the Amounts Specified by AMC.**
- a. **Finding.** The deposits collected for private development projects were not always the amounts specified by AMC 24.20. Our review of 17 work orders identified six discrepancies:
 - (1) Three deposits were computed using an incorrect percentage of estimated costs.
 - (2) Three deposit amounts exceeded the required amount because the initial \$300 payment had not been subtracted from the total deposit due.
 - b. **Recommendation.** AWWU should ensure deposits are in compliance with the amounts authorized by the AMC. Deposit amounts in excess of those authorized should be refunded.

- c. **Management Comments.** Management stated, "We generally concur with the findings. AWWU will advise developers of the code requirements for deposits to avoid redundant or excessive deposits.

"However, the AMC is silent as to whether or not the developer may actually deposit more than the sum required. The deposits identified in the code are interpreted as an accepted minimum amount.

"Experience indicates the deposits collected from developers are not sufficient to cover AWWU costs. In 1995 we will review the deposits in the Municipal Code and initiate changes to the Code to bring deposits in line with charges from AWWU."

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

5. **Deposits Were Not Collected for Plan Reviews.**

- a. **Finding.** Customer deposits were not required for plan reviews. However, deposits were required for connects and private development projects. The collection of an advance deposit for plan reviews would reduce AWWU's risk of loss due to uncollectible amounts.

- b. **Recommendation.** AWWU should consider requiring a deposit for plan reviews.

- c. **Management Comments.** Management stated, "AWWU concurs with the finding. AWWU will investigate several alternatives to resolve this problem including the requirement of deposits and or a flat fee for plan review. In addition we will incorporate a change in billing procedures in a policy and procedure."

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

6. **Warranty Deposits Were Not Collected and Maintained in Compliance with the AMC and Utility Extension Agreements.**

- a. **Finding.** Warranty deposits were not collected and maintained in compliance with the AMC and Water and Sewer Extension Agreements. Specifically we found the following:
 - (1) Warranty deposits collected were less than the amounts specified in the Water and Sewer Extension Agreements. Instead of a maximum \$2,000 warranty deposit for water and \$2,000 for sewer as identified in the separate agreements, AWWU's calculation resulted in a maximum of \$1,000 for each utility.

- (2) AWWU did not collect warranty deposits from all developers.
- (3) Warranty deposits were not maintained in a separate account.
- (4) Excess deposits were not refunded to the developer when the project was placed under warranty.
- (5) Current charges were applied against warranty deposits rather than being billed to the private developer.

b. **Recommendation.** Warranty deposits should be collected and maintained in compliance with AMC and Water and Sewer Extension Agreements.

c. **Management Comments.** Management stated, "AWWU will address the issue of accounting for warranty deposits in a Policy and Procedure. We concur with most, but not all, of the findings and recommendations given here. We believe that the Municipal Code is open to interpretation on some of the issues.

"(1) The Code permits the warranty deposit amount to be determined by the Director of Public Works, but not to exceed (emphasis added) \$2,000, per AMC 24.20.040.D. In other words, the \$2,000 amount is the ceiling for this deposit. AWWU's mainline extension agreements

are more specific; the warranty deposit is based on the certified cost statement for the project and ranges from \$500 to \$2,000.

“(2) We concur that, under current procedures, developers may escape paying the required warranty deposit. We are exploring changes to the Municipal Code and/or AWWU procedures that will prevent this from occurring.

“(3) It is our belief that AWWU correctly accounts for Warranty deposits. Our interpretation of AMC 24.20.040E is that all deposits, (of one project) whether plan review, private development, or warranty deposits, may be kept together in the same work order but should be separate from other accounts.

“(4) We concur with this finding, as interpreted by the Code. We are reviewing our options as to amending the Code and/or changing our procedures.

“(5) AWWU concurs with this finding. In a few instances we are aware that payroll charges incurred before the warranty period were applied against a project after it entered the warranty period. As a result the warranty deposit was reduced, during the final reconciliation and billing, by the amount of the charges incurred before the warranty

period went into effect. We will address the issue in the policy and procedure to insure that this problem is minimized.”

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

7. **Private Development Projects Not Always Billed Timely.**

- a. **Finding.** Billings for private development projects were not always timely. AWWU’s procedures for private development projects required billings to be processed when the work order balance exceeded \$100. Our review of nine reimbursable work orders for private development projects revealed three with balances greater than \$100 which had not been billed for more than seven months.
- b. **Recommendation.** Private development projects should be billed when the work order balance exceeds \$100.
- c. **Management Comments.** Management stated, “AWWU concurs with this finding. In 1995, the Finance Division cleaned up all outstanding reimbursable work orders and initiated procedures to insure the process is done on a scheduled basis. This issue will also be addressed in a Policy and Procedure.”


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

8. **Reimbursable Work Orders Were Not Always Closed Timely.**

- a. **Finding.** Reimbursable work orders were not always closed timely. We found it took Finance division personnel from eleven months to four years to close 9 of 13 work orders where Engineering division personnel had requested closure and final billing.
- b. **Recommendation.** Procedures should be implemented for timely closure of reimbursable work orders.
- c. **Management Comments.** Management stated, "AWWU concurs with this finding. We will address the issue of timely closing in a Policy and Procedure."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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Discussion With Responsible Officials. The results of this audit were discussed with the appropriate Municipal officials on August 9, 1995.



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