

Municipality  
of  
Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

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**Internal Audit Report 97-01**  
**Private Development Program**  
**Anchorage Water and Wastewater Utility**

**Introduction.** Public water and sewer improvements are developed by private property owners wishing to extend public water and/or sewer service to their property. Installation of public water and sewer improvements may also be required by the platting authority as a condition of a subdivision plat. Developers are required to enter into an agreement with the Anchorage Water and Wastewater Utility (AWWU) for the design, construction and installation of sewer and/or water mains from the developer's property to the Municipality's existing sanitary sewer system and/or water system. Developers are required by Anchorage Municipal Code (AMC) 21.87.025 to pay for all work, labor and materials for the construction of the improvement including AWWU's costs to administer the agreement, review plans, perform inspections, provide surveillance and testing and any related overhead costs. AWWU's costs are tracked through a reimbursable work order and billed to the developer periodically. AWWU administers each agreement and monitors the progress of each private development project, however, the improvements are the responsibility of the developer until they are accepted by AWWU. Developers are required to warrant and guarantee the improvements for a two year period after the construction is complete and the improvements are accepted by AWWU. At the end of the two year warranty period, AWWU conducts a warranty inspection to determine whether the improvements continue to meet Municipality of Anchorage Standard Specifications (MASS). Upon a satisfactory warranty inspection and completion of all pre-requisites for acceptance, AWWU accepts full maintenance responsibility of the water and sewer improvements.

**Scope.** The objective of this audit was to determine the adequacy of procedures and controls for private development at AWWU. This included verifying compliance with AMC Chapter 21.87

“Subdivision Agreements” and Chapter 24.20 “Improvement of Public Places.” The audit was conducted in accordance with generally accepted government auditing standards 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 August through October 1996.

**Overall Evaluation.** The overall procedures and controls at AWWU over the private development process were proper and in accordance with the AMC. Specifically, the required documentation was maintained in the project files; plans were reviewed and approved in the time frame required; performance/warranty guarantees and project cost/warranty deposits were obtained from the developer when required; the appropriate construction and final inspections were performed; and projects were accepted and closed in a timely manner. In addition, our review of the private development reimbursable work order files revealed that Finance Division personnel had taken action to correct the findings contained in Internal Audit Report 95-17. However, we found several areas which required improvement. Specifically, proof of insurance submitted did not always meet MASS, plan approval by the Public Works Department (Public Works) was not always documented in the private development project file, documentation was not always available to support the value assigned to a deed of trust granted to the Municipality as a performance or warranty guarantee, and excess deposits were not always refunded to developers in the time frame required by the AMC.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Proof of Insurance Submitted Did Not Always Meet MASS.**

- a. Finding.** Proof of insurance submitted by developers did not always meet MASS. The AWWU extension agreement required the developer to provide proof that the contractor had acquired the insurance required under the standard specifications of the Municipality. Our review of 19 files for which AWWU had given authorization to proceed with the construction of the water and/or sewer improvements, revealed 10 for which the certificate of insurance submitted by the developer did not meet the

specified insurance requirements. Specifically, workers' compensation insurance and auto insurance was not always listed on the certificate of insurance and insurance limits were lower than the minimums set for auto insurance and for comprehensive general liability, each occurrence and in aggregate. As a result, it appeared that the contractors were not in compliance with the insurance requirements of MASS.

- b. **Recommendation.** AWWU should require that developers show proof that they have acquired the minimal insurance limits required under MASS prior to granting authorization on the Notice-to-Proceed to the contractor to commence with construction.
  
- c. **Management Comments.** Management stated, "AWWU agrees with the recommendation. It has been and is the practice of AWWU to require copy of the Contractors' Certificate of Insurance prior to AWWU issuing a Notice-To-Proceed for construction. AWWU Private Development will review insurance policies carefully to verify insurance levels meet the minimum limits stipulated in MASS, Section 10.06.9."
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Public Works' Plan Approval Not Always Documented.**

- a. **Finding.** Public Works' plan approval was not always documented in AWWU's private development project file. AMC 24.20.030 requires that all plans, specifications and other data be submitted to Public Works for approval prior to the start of any work. AWWU's procedures were to submit a set of the preliminary plans to Public Works and obtain their plan approval in writing, or at a minimum, a verbal approval prior to AWWU's concurrence on the Notice-to-Proceed with construction

of public water and sewer improvements. However, documentation of Public Works' approval was not on file for three of nineteen files reviewed where AWWU concurred with the Notice-to-Proceed. As a result, Right-of-Way or other conflicts may not have been identified prior to the Notice-to-Proceed and the commencement of construction.

b. **Recommendation.** Public Works' approval should be obtained by AWWU and documented prior to AWWU's concurrence with the Notice-to-Proceed and the commencement of construction.

c. **Management Comments.** Management stated, "AWWU agrees with the recommendation. Documentation of the requisite approval in the project log and/or file can easily be accommodated. Any discrepancy in documentation has generally stemmed from the current practice of approving plans and issuing of a Notice-To-Proceed for construction having secured a verbal approval from Municipality of Anchorage Department of Public Works (DPW). The verbal approval was neither noted in the log book nor tracked for receipt of follow-up written approval. It is also possible that DPW approval information was removed from the project file and not returned properly.

"AWWU Private Development will add a procedure to the pre-construction check list that includes checking project files for a copy of DPW approval. AWWU Private Development will continue with practice of approving plans with a verbal approval from DPW but will not issue a Notice-To-Proceed unless a hard copy of the approval is in the project file."

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

3. **Documentation Was Not Always Found to Support the Value Assigned to a Deed of Trust.**

- a. **Finding.** Documentation was not always available to support the value assigned to a deed of trust granted to the Municipality as a performance or warranty guarantee. Two of the five deeds of trust in a sample of performance and warranty guarantees reviewed did not identify the value of the assigned deed of trust nor was there supporting documentation to show evidence that the value of the unencumbered property was determined. As a result, it could not be determined whether the amount of the guarantee was proper. Discussion with AWWU personnel indicated that the value assigned to the deed of trust was always verified at the time the guarantee was accepted by AWWU. However, this process was not always documented.
- b. **Recommendation.** Documentation to support the value assigned to a deed of trust should be included in the project file. This should include a record of the property value at the time the guarantee was required and a copy of the title report evidencing the unencumbered property assigned by the deed of trust to AWWU.
- c. **Management Comments.** Management stated, "AWWU agrees with the recommendation. AWWU Private Development will continue to use the Municipality of Anchorage property assessment information to determine value of property to which the Deed of Trust applies. AWWU Private Development will include a hard copy of the property assessment information (and other legitimate forms of property valuation) in the project file."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Excess Deposits Not Refunded in the Time Frame Required by AMC.**

- a. **Finding.** Deposits paid by developers in excess of project costs and the required warranty deposit amount were not refunded to developers after the improvements were found to conform to MASS. Our review of 13 work order files in which the project had met MASS revealed nine where the deposit had not been refunded to the developer. In all instances, the project files did not contain notification from the Private Development Unit to the Finance Division advising them that any excess deposits should be refunded.
- b. **Recommendation.** Excess deposits should be refunded by AWWU to the developers when the improvement is found to meet MASS as required by the AMC and the project is placed into warranty.
- c. **Management Comments.** Management stated, "AWWU agrees with the recommendation. AWWU Private Development has initiated (as a result of findings in the Internal Audit Report 95-17) and will continue an office practice to forward a copy of final acceptance of the improvements to the AWWU Finance Division. AWWU Finance will provide a reconciliation of the project and return excess funds to the Developer."
- 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 January 8, 1997.

Audit Staff:  
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