

February 6, 1998

**Internal Audit Report 98-03  
Contract for Professional Services With Montgomery Watson  
Anchorage Water and Wastewater Utility**

**Introduction.** Anchorage Water and Wastewater Utility (AWWU) entered into a contract with Montgomery Watson (Contractor), a consulting engineering firm, to perform professional construction management services for the AWWU Anchorage Loop Water Transmission Main (WTM) - Phases I, II, and III project. The Contractor provided construction management and inspection services to support the AWWU project manager during all phases of management, administration, and construction inspection. The contract was effective November 21, 1995, through July 15, 1998. The original amount of the contract was not to exceed \$1,585,000 for basic services and \$110,000 for additional services. The contract was amended to increase the contract amount by \$150,000 in September 1997, bringing the total allowable compensation to \$1,845,000. The amount spent on the contract through October 31, 1997, was \$1,731,531. This represents approximately 12% of the construction costs to date. (See Attachment 1 for detail.)

**Scope.** The objective of this audit was to review the contract costs, contract administration, and compliance with contract provisions. Specifically, we reviewed the supporting documentation for the invoiced costs billed by the Contractor through the period of October 31, 1997, and verified that the costs were allowable by the contract, were within the Contractor's scope of services, and that the amounts billed were in compliance with the contract's standard billing rates. We also reviewed the adequacy of the review and approval procedures performed by the AWWU project manager over Contractor submitted invoices. 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 December 1997. The audit was requested by the Assembly as a revision to the 1997 Audit Plan.

**Overall Evaluation.** Review and approval procedures performed by AWWU project management of the invoiced costs were generally adequate. However, the Contractor was directed to start work prior to the contract effective date and some costs billed to the project were not within the scope of services, were not in compliance with the contract terms, and were not in compliance with the contract's standard billing rates.

## **FINDINGS AND RECOMMENDATIONS**

### **1. AWWU Authorized the Contractor to Initiate Work Prior to the Contract Effective Date.**

- a. Finding.** AWWU authorized the Contractor to initiate work prior to the contract effective date. The Contractor was authorized to commence work on October 7, 1995, although the formal Notice to Proceed was not given until November 22, 1995. Cost for the work during this period totaled approximately \$20,300. Discussion with AWWU project management indicated that the work consisted of preparation of the field office, preconstruction meetings, and the overall gearing up to manage the contract, and was performed with their approval. The contract states that, "The Engineer shall commence performance of the work described in Section 2 only upon the issuance of a written Notice-to-Proceed from the Administrator and complete that performance in accordance with the schedule set forth in Section 2."

b. **Recommendation.** The AWWU project manager should not authorize commencement of work prior to the contract effective date. The Notice-to-Proceed should serve as the official notice.

c. **Management Comments.** Management stated, “AWWU concurs with the finding and recommendation. AWWU directed the Montgomery Watson Construction Management Services Contractor (MW CMS Contractor) to proceed with work as it was in the best interest of AWWU and MOA to eliminate the potential for owner initiated start up construction change orders. In the future, the Utility needs to better schedule the anticipated Notice to Proceed (NTP) of two related contracts.

“Construction authorization and start up proceeded faster than expected. As a result, the CMS services needed to be initiated in order to precede construction. The work accomplished by MW prior to NTP was within the negotiated scope of services and fees as defined in the MW CMS Contract.

“MASS requires that the NTP be issued within seven working days after the Contract Date unless otherwise specified in the Special Provisions. The Phase I Construction Contract Documents required that a preconstruction conference be scheduled for a time not more than seven days after NTP and prior to commencement of work at the site. The purpose of the conference was to designate responsible personnel and establish a working relationship.

“Based on the construction contract, AWWU was required to conduct the preconstruction conference no later than November 24, 1995. If not, AWWU stood the chance of receiving a construction delay claim. AWWU determined that it was in the best interest of the Municipality and the Utility to have the MW CMS team precede prior to construction.”

- d. **Evaluation of Management Comments.** Directing a contractor to perform work without a contract may be expeditious, but is not consistent with Municipal Policy. Also, this practice places the Municipality at risk since insurance provisions contained in the contract would not be in effect.

2. **Services for Unrelated Projects Performed by Contractor.**

- a. **Finding.** The Contractor was directed to perform services outside the contract scope of services. Our review identified the following projects performed as “Additional Services” under the contract:

- 1) Work performed by Montgomery Watson personnel for projects other than the AWWU Anchorage Loop WTM included AWWU’s acquisition of the Eklutna Utility and a project on Government Hill. Our review of the supporting time sheets identified approximately \$4,400 of labor costs charged to the AWWU Anchorage Loop WTM project that were actually for these projects, although both the Contractor’s construction manager and AWWU’s project manager estimated the total cost to be from \$12,000 to \$15,000.
- 2) Work related to a lateral improvement district project in Girdwood was performed by a subcontractor for the Contractor. The cost totaled \$1,284, which included a 12% markup on the invoiced amount.

- b. **Recommendation.** The AWWU project manager should not direct and authorize the Contractor to perform services outside the contract scope of services.

- c. **Management Comments.** Management stated, “AWWU concurs with the finding and recommendation.

“In all three of the cited projects, MW either had personnel on staff or under contract that were familiar with the project area and concerns and could respond promptly to AWWU’s request. In these instances, AWWU utilized the expertise that was available through the MW CMS contract to facilitate timely business decisions. AWWU has taken steps to expand the AWWU on-call term contracts so that this type of expertise is more readily available through other contracts.”

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

3. **Purchases Were Not in Compliance With the Contract.**

- a. **Finding.** Items purchased by the Contractor were not always in compliance with the contract. For example, field office furnishings and phone equipment were purchased by the Contractor with a 12% markup although the contract required that AWWU provide furnishings for the functional operation of the field office and that the Phase I construction contractor provide fixed telephones. The items purchased included a microwave and a refrigerator (\$446); a Mylar file (\$1,110); and six telephones, a phone system purchase, and service installation charges (approximately \$4,610). In addition, a storm drain permit fee (\$201) was paid for by the Contractor although the contract requires that AWWU obtain all required permits.
- b. **Recommendation.** The AWWU project manager should only approve payments that are in compliance with the contract.
- c. **Management Comments.** Management stated, “AWWU concurs with the recommendation. The AWWU Project Manager did only approve payments that were in compliance with the contract.”

“The CMS contract stipulated that AWWU provide furnishings and that MW provide other miscellaneous supplies. AWWU had surplus equipment set aside to fulfill this requirement (desks, chairs, tables, file cabinets, bookcases, etc.). AWWU views purchase of the microwave, refrigerator and mylar file as “other miscellaneous supplies” which were allowed to be purchased under this contract and necessary for a functional field office. The Phase I construction contractor did provide phone equipment in compliance with the construction contract which was later deemed inadequate. Therefore, AWWU directed MW to provide an adequate phone system. The MW CMS contract also stipulated that AWWU acquire permits. The intent behind this statement was for AWWU to acquire permits identified during design. The referenced storm drain permit was not identified during design, but was required in order to respond to an emergency situation that arose during construction.

“**Field Office Furnishings:** AWWU concurs that the contract required AWWU to provide furnishings for functional operation of the Field Office. When AWWU moved into the remodeled Headquarters Building (November 1994), the AWWU Project Manager noted that a significant amount of AWWU furniture was slated for surplus. Rather than surplus useable furniture, then turn around and purchase new furniture, equipment suitable for a Field Office was tagged and stored. This formed the basis of the AWWU provided furniture.

“The contract also stipulates that: “The Engineer shall provide cellular telephones, vehicles and other miscellaneous supplies for the Engineer’s Field Office personnel and all other electronic equipment required for a functional Field Office.” AWWU determined that a small microwave (\$149) and a small refrigerator (\$249) were appropriate additions for the field office and authorized MW to purchase them. In order to properly store the original mylar drawings so that they would not be damaged, AWWU authorized MW to purchase a mylar file (\$991) compatible with other such files in the AWWU Archives. The microwave, refrigerator and mylar file

were delivered to AWWU when the Field Office was vacated and are considered “other miscellaneous supplies required for a functional Field Office”.

**“Phone Equipment:** The Phase I Construction Contract required the Construction Contractor to provide fixed telephones. The Phase I Construction Contractor did provide the two-line phones required by the contract. However, once AWWU and the MW Construction Management Team occupied the field office, AWWU and MW determined that two phone lines were inadequate to conduct business in an office staffed with a minimum of five individuals. Therefore, AWWU directed MW to evaluate and implement an option more suitable for conducting business. Both the Construction Contractor and the MW provided telephones were delivered to AWWU when the Field Office was vacated.

**“Storm Drain Permit:** AWWU concurs that the MW contract states AWWU shall acquire permits. The acquisition of permits, as defined in the MW contract, is intended to cover construction contract permits. As such, the contract is silent as to “other permits”. The subject permit was acquired on an emergency basis in order to divert overland Chester Creek flow into a storm drain and avoid flooding numerous private properties. Time was of the essence in order to protect private property and, ultimately, save the Municipality significant dollars in claims from the property owners and, possibly, the construction contractor. Therefore, AWWU authorized MW to acquire the Storm Drain Permit from the Department of Public Works (DPW) in January 1997 for \$180 and reimbursed them their costs. DPW required payment for this permit at the time of issuance, which was a matter of a few hours after identifying the need for the permit. AWWU would still have paid for the permit if AWWU had furnished it; however, this could not be done in a timely manner to facilitate construction.”

- d. **Evaluation of Management Comments.** While management has provided rationale for not following the terms of the contract, the finding and recommendation reflect proper contract administration.

4. **Rates Paid Not in Compliance with the Contract.**

- a. **Finding.** Invoiced rates billed and approved for payment were not in compliance with the contract billing rates. Specifically, \$160 per month per unit was billed and paid for field office use of personal computer (PC) hardware, software, and LAN connections, rather than the contract rate of \$40 per month per unit for the period of November 26, 1995, through April 22, 1997. This resulted in overpayments of approximately \$8,000. The contract was amended on May 22, 1997, to increase the rate to \$160 per month per unit.
- b. **Recommendation.** The AWWU project manager should only approve payments that are in compliance with the contract.
- c. **Management Comments.** Management stated, "AWWU does not concur with this finding but does concur with the recommendation. Throughout the contract negotiation process, MW proposed \$160 per month per unit as the price for "PC hardware, software and LAN connections", and the \$160 per month was accepted by AWWU.

"However, MW submitted a Billing Rates Schedule (Page B-2 of the CMS Contract) which incorrectly listed that item at \$40 per month per unit. MW noticed this oversight after the contract was signed, but before the first invoice was issued, and alerted the AWWU Project Manager. The AWWU Project Manager and the MW Construction Engineer lined through the "\$40" reference, inserted "\$160" and both of their initials on their copies of the original, signed contract. This revised Page B-2



was then used to verify billings. AWWU does not concur that this correction resulted in overpayments to the contract. It was viewed as an administrative change that did not warrant a full fledged contract amendment. As was noted above, this oversight was corrected when Amendment Number One was processed.”

- d. **Evaluation of Management Comments.** While management has provided rational for not following the terms of the contract, the finding and recommendation reflect proper contract administration.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on January 29, 1998.

Audit Staff:  
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## Invoiced Costs Through 10/31/97

### MONTGOMERY WATSON PERSONNEL COSTS:

(Personnel costs reimbursed at loaded labor rates)

Construction Management	\$522,226
Construction and Mill Inspection	345,592
Administrative/Clerical	219,727
Other Professional Services	136,879
<b>Total Personnel Costs:</b>	<b>\$1,224,424</b>

### OTHER DIRECT EXPENSES:

Outside Professional Services (cost plus 12% markup) *	\$375,172
Travel Expenses (cost plus 12% markup) *	13,896
Equipment, Supplies, Miscellaneous (cost plus 12% markup) * **	14,401
Telephone Expense (cost plus 12% markup) *	11,960
Freight, Postage, and Courier Service (cost plus 12% markup) *	3,700
Field Office Direct Costs:	
35mm Camera (\$20 per month per unit)	\$ 1,120
VCR Equipment (\$40 per month per unit)	1,800
Cellular Phones (\$185 per month per unit)	12,303
PC Hardware, Software LAN (\$160 per month per unit)	13,360
Printer (\$120 per month per unit)	2,700
Modem (\$100 per month per unit)	2,250
Vehicle (\$700 per month per vehicle)	39,200
Standby Vehicle (\$500 per month per vehicle)	1,250
Miscellaneous Small Field Equipment (\$100 per month)	4,025
	\$78,008
Home Office Direct Costs:	
Telecommunications Charges (\$1.60 per hour)	\$2,251
Direct Computer Charges (\$7 per month)	98
PC Computer Charges (\$12 per hour)	3,182
CADD (\$28 per hour)	3,178
Standard Mileage (\$.30 per mile)	848
Reproduction (\$.14 per copy)	413
	\$9,970
<b>Total Other Direct Expenses:</b>	<b>\$507,107</b>

**Total Invoiced Costs Paid Through October 31, 1997:** **\$1,731,531**

#### Footnote:

\* Our review of five other Municipal professional management services contracts revealed that the markup on subcontracts and direct costs ranged from no markup to a 10% markup on certain direct costs.

\*\* Miscellaneous expenses included coffee, coffee supplies, food items, office supplies, floormats, film, and audio/video supplies.