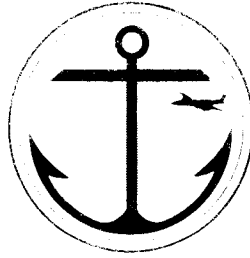


Municipality of Anchorage



P.O. Box 196650
Anchorage, Alaska 99519-6650
Telephone: (907) 343-4438
Fax: (907) 343-4370
<http://www.ci.anchorage.ak.us>

George P. Wuerch, Mayor

OFFICE OF THE INTERNAL AUDITOR

September 8, 2000

Internal Audit Report 2000-9 Road Improvement and Gas Improvement Districts Special Assessments Public Works Department

Introduction. A special assessment district for public capital improvements may be initiated by the petition of the property owners or by the Municipal Assembly's (Assembly) action. Examples of capital improvements include streets, roads, street lighting, curbs and gutters, sidewalks, and natural gas lines. A special assessment district may be created only with the approval of the property owners who would bear more than 50% of the estimated assessable cost of the improvement. The property owner's approval is obtained through petition ballots which contain the estimated costs to be assessed against the properties should the project be approved.

Anchorage Municipal Code (AMC) Title 19 permits the Assembly to assess 100% of any or all costs of public improvements against the parcels of property benefitted subject to limitations in AMC 19.30.040. In addition, since November 1995, a "90/10" program for funding the reconstruction of local roads has been adopted as Municipality of Anchorage Operating Policy/Procedure (P&P) 46-2, Street Reconstruction and Subdivision Agreement Completion Through Road Improvement Districts (RID's). The Municipality funds 90% of the costs if property owners agree to fund the other 10% through special assessments created by RID's. Since special assessment projects are completed prior to the benefitting property owners being assessed, initial funding for these project costs typically comes from the construction cash pool, grants, or general obligation bonds.

Scope. The objective of this audit was to determine whether special assessments were properly computed, allocated and processed. 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 June through July 2000. The audit was requested by Public Works Department (Public Works) administration.

Overall Evaluation. Special assessments were not always properly computed, allocated and processed. Specifically, P&P 46-2 was not consistent with AMC Title 19 and written policies and procedures had not been developed for estimating total project costs for special assessment projects. The methods used for calculating assessments for RID's were not always in compliance with the AMC and/or P&P 46-2. Management controls were not in place to ensure the accuracy of the computation. Costs for storm drain construction were not consistently charged to RID projects. Assembly ordinances for RID's and gas improvement districts (GID's) were not recorded with the district recorder.

FINDINGS AND RECOMMENDATIONS

1. P&P 46-2 Not Consistent With AMC Title 19.

- a. Finding.** The funding methodology prescribed by P&P 46-2 is not consistent with AMC Title 19. According to AMC 19.30.040, the project costs assessed against the benefitted parcels shall be the least of the following methods: (1) construction contract costs plus 20% for non-contract costs, (2) the last approved estimate plus 10%, or (3) the total cost of the improvement less the amount of any grant the Municipality uses to defray the cost of the project. However, the method prescribed by P&P 46-2 established a "90/10" program where the Municipality funds 90% of the costs if property owners agree to fund the other 10% through a RID.
- b. Recommendation.** Funding methodology for special assessment districts should be consistent with AMC requirements. If other methodology is found to be more appropriate, the AMC should be revised to include the additional methodology.

- c. **Management Comments.** Management stated, “We concur with the findings and recommendations. Revisions to the AMC to incorporate P&P 46-2 would effectively allow inconsistencies between the two to be addressed.”
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
2. **The Rate in AMC for Estimating Non-Construction Assessable Costs Outdated.**
- a. **Finding.** The percentage used in the AMC for limiting non-construction costs appears to be outdated. Estimated non-construction costs have significantly increased in recent years. Our review of 11 RID projects in the design phase revealed that the average amount of non-construction costs was equal to approximately 62% of construction contract costs. However, AMC 19.30.040 uses 20% of construction contract costs as a limit on non-construction costs.
 - b. **Recommendation.** Public Works personnel should review the percentage of estimated non-construction costs to determine whether AMC 19.30.404 should be revised to reflect current rates.
 - c. **Management Comments.** Management stated, “We concur with the findings and recommendations. It’s unclear whether the current 20% limit on “assessable” non-construction costs was intended to actually cover the non-construction costs. Increased requirements related to surveying, materials testing, public contract, and traffic control have resulted in design and construction of more functional and durable facilities. The down side to this is the increased non-construction costs. The key issue, whether to incorporate total project costs in the assessment, could be addressed with proposed revisions to the AMC.”

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

3. **P&P 46-2 Requires Revision.**

- a. **Finding.** P&P 46-2 was not clear with regard to assessing the cost of amenity items that were installed to meet the new building code requirements. P&P states that “if the property owners within a RID elect to install amenities, such as street lighting or sidewalks that did not previously exist, or was not included in the original Subdivision requirements, the 10% limitation for assessable cost will not apply to these new amenities. The RID will be assessed for 100% of any amenity or expansion that is new and is not a replacement item.” Our audit revealed that 29 new street lights for the Geneva Woods RID project and three new street lights for the Albatross Drive & Curlew Circle RID project were installed to meet building code requirements. In these instances, it was not clear per our review of the P&P whether these amenities should be assessed to the property owners at the 10% limitation or for 100% of the costs.
- b. **Recommendation.** P&P 46-2 should be revised to provide clear guidance for assessing property owners the costs of amenities that are added to meet building code requirements.
- c. **Management Comments.** Management stated, “We concur with the findings and recommendations. Revisions to the AMC to incorporate P&P 46-2 should also provide clarification on this issue.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Lack of Policy and Procedure.**

- a. **Finding.** Written policies and procedures had not been developed for estimating total project costs for special assessment projects. The construction portion of total project costs for 1999 and 2000 projects were estimated based on 1994 average unit prices for construction contract costs plus a 20% adjustment rate. The estimated non-construction portion of total costs for the right-of-way acquisition, easement permits, and utility relocation was dependent upon the discretion of Public Works personnel who work with the special assessments without documentation to support their judgement. As a result, the methods used for calculating the project costs were not consistent throughout similar projects.
- b. **Recommendation.** Public Works personnel should develop and implement written policies and procedures to formalize a consistent method for estimating total project costs.
- c. **Management Comments.** Management stated, “We generally concur with the findings and recommendations. While the current process works fairly well in estimating project costs, clearer procedures would provide some benefit. Since the audit occurred, the spreadsheets used to estimate construction contract costs have been adjusted to reflect the latest average unit prices. Development of clearer procedures for estimating and documenting non-construction contract costs such right-of-way acquisition, construction permit acquisition, and utility relocation costs is appropriate.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. Methods Used Were Not in Compliance with AMC and/or P&P's.

a. Finding. The methods used for calculating assessments for RID's were not always in compliance with the AMC and/or P&P 46-2. For example:

- 1) Assessable costs were computed by using a combination of the methods prescribed by the AMC and P&P 46-2. Instead of only applying P&P 46-2 (i.e., 10% of total project cost), assessable costs were derived by taking 10% of the lowest assessable cost computed under the AMC (i.e., the last approved estimated costs plus 10%). This combination of methods understated the assessable cost.
- 2) The method used to allocate assessable costs to each benefitting property owner was not as prescribed by AMC 19.40.060 for all RID projects reviewed. The AMC prescribes specific methods using weighted average computations under different zones for allocating assessable costs for RID's. Instead, individual property owner's share was allocated by the size of the lot in relation to the total assessment district. In some cases, each lot was limited to a depth of 150 feet.
- 3) For three out of seven alley paving projects, the estimated assessments were computed incorrectly. A portion of construction costs was assessed at 100% while costs related to removing existing sidewalks and pavement were assessed at 5% and 15%. In addition, costs for the construction survey was assessed at 200%.

b. Recommendation. Public Works personnel should review methods used for calculating RID projects in relation to the provisions of AMC and P&P 46-2. If the current methods are found to be more appropriate, these methods should be incorporated into the AMC and P&P 46-2.

- c. **Management Comments.** Management stated, “We generally concur with the findings and recommendations. Most of the confusion relates to inconsistencies between the AMC and P&P 46-2. At times, equitable application of the intent of both documents was difficult in light of these inconsistencies. Revisions to the AMC to incorporate P&P 46-2 will eliminate inconsistencies and clarify assessment calculation methods.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

6. **Inadequate Controls Over Computation of Assessments.**

- a. **Finding.** Management controls, such as an independent review of the cost computations, were not in place to ensure the accuracy of the computation of special assessment costs. The lack of an independent review could result in undetected errors and inaccurate assessments. The following instances were found during our audit:
 - 1) Errors in calculating assessable costs were found for four properties for the Ledora Circle project. For all four properties, the assessable size of the lot was incorrectly computed.
 - 2) Utility relocation costs of \$250,000 were incorrectly included in the estimated construction contract costs for the Geneva Woods RID project. According to Public Works personnel, utility relocation work for this project was not part of the construction and should have been included in non-construction costs.
 - 3) The wrong interest rate of 6.0% on the “Final Special Assessment Roll” was sent to the Assembly for approval. The AMC requires that the rate not

exceed the effective interest rate on the last bond sold to finance similar improvements. The last similar bonds were sold in April 1999 with a 4.78% rate. A revised final special assessment roll was sent to the Assembly on June 8, 2000, correcting the interest rate during our audit.

- 4) The payment schedule for property owners was set up incorrectly for five properties under the North Point Drive, North Point Circle & Mere Circle Reconstruction Project RID (e.g., 15 years vs. 10 years). Assembly Resolution (AR) 93-179 required that property owners make 10 equal annual installments for the special assessment.
- 5) The total assessable cost allocated to each benefitted property owner on the final assessment roll exceeded the total assessable cost noted on the Assembly Memorandum for Foxridge Subdivision RID.

- b. **Recommendation.** Public Works should implement management review procedures, such as an independent review of project cost computations and final assessment rolls, to detect and correct any errors or omissions.
- c. **Management Comments.** Management stated, "We generally concur with the findings and recommendations. The specific concerns raised in each of the examples have been addressed as needed. Establishing project development procedures, that include a check list and a review, would more effectively address these issues in the future."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

7. **Inconsistency for Assessing Storm Drain Construction Costs.**

- a. **Finding.** Costs for storm drain construction were not consistently charged to RID projects. Our review of four projects with storm drain work revealed that three were charged 10% of the estimated storm drain costs and one was not charged any costs. The AMC does not address how to charge for storm drain work, however, the AMC states that all costs shall be included in the computation.
- b. **Recommendation.** Public Works personnel should re-evaluate the provisions of AMC and determine if the current practice meets the intent of assessing 100% of any or all costs of a public improvement including storm drains to the benefitted properties.
- c. **Management Comments.** Management stated, “We concur with the findings and recommendations. Our practice has been not to assess storm drain costs unless the projects were constructed under P&P 46-2. We will continue to consistently follow this practice unless changes occur in the AMC or P&P 46-2.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

8. **Ordinances for RID’s and GID’s Were Not Recorded.**

- a. **Finding.** Assembly ordinances for RID’s and GID’s were not recorded with the district recorder by Public Works personnel as required by AMC 19.20.050. All of the 11 RID projects and one GID project reviewed had not been recorded with the District Clerk’s office.
- b. **Recommendation.** Public Works personnel should record all Assembly Ordinances for special assessment districts with the District Clerk’s Office. In addition, all

current RID's and GID's should be reviewed to ensure that Assembly Ordinances were recorded.

- c. **Management Comments.** Management stated, "We concur with the findings and recommendations. Before the audit began, we learned that our assumption that such recording was done by the clerk's office was incorrect. We are currently recording petition and final assessment rolls as assembly action occurs and hope to record any backlog of current RID's and GID's this fall."

- 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 July 14, 2000.

Audit Staff:
Lily Li
Martin Hoffer