

# INTERNAL AUDIT REPORT

2016-06

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Vendor Contracts: Compliance

Anchorage Water and Wastewater Utility

December 6, 2016

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 6, 2016

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2016-06, Vendor Contracts: Compliance, Anchorage Water and Wastewater Utility**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of Vendor Contracts: Compliance at the Anchorage Water and Wastewater Utility. The objective of this audit was to determine vendor contract compliance with Anchorage Municipal Code Title 7, *Purchasing and Contracts and Professional Services*. To accomplish this objective, we judgmentally selected six vendor contracts and reviewed documents pertaining to these contracts, their amendments, and corresponding invoice charges.

Our audit revealed that although Anchorage Water and Wastewater Utility generally complied with Anchorage Municipal Code Title 7, some improvements are needed. For example, five out of eight subcontractors employed under six vendor contracts did not comply with the Office of Equal Opportunity's Contract Compliance Program. In addition, project cost overruns not related to landscape architecture were charged to a landscaping vendor contract instead of amending a purchase order that would have required Assembly approval. Finally, one of six vendor contracts contained charges for services performed before the vendor contract begin date.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.

Michael Chadwick, CICA  
Acting Director, Internal Audit



# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 6, 2016

**Internal Audit Report 2016-06**  
**Vendor Contracts: Compliance**  
**Anchorage Water and Wastewater Utility**

**Introduction.** Anchorage Water and Wastewater Utility (AWWU) is the largest water and wastewater utility in Alaska. To sustain and improve its operations, AWWU procures a variety of goods and services using various purchasing methods, such as vendor (term) contracts, purchase orders, and procurement cards. While subjected to the same initial procurement and approval procedures as purchase orders, vendor contracts provide for greater speed and flexibility because individual Contract Task Orders and Notices to Proceed (NTP) can be readily issued for specific projects that respond to changing conditions and emerging demands. In 2016, AWWU utilized about 70 vendor contracts that authorized about \$25.9 million in goods and services.

**Objective and Scope.** The objective of this audit was to determine vendor contract compliance with Anchorage Municipal Code (AMC) Title 7, *Purchasing and Contracts and Professional Services*. Specifically, we judgmentally selected six vendor contracts and reviewed documents pertaining to these contracts, their amendments, and corresponding invoice charges.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was requested by the Administration.

**Overall Evaluation.** Although AWWU generally complied with AMC Title 7, some improvements are needed. For example, five out of eight subcontractors employed under six vendor contracts did not comply with the Office of Equal Opportunity's (OEO) Contract Compliance Program. In addition, project cost overruns not related to landscape architecture were charged to a landscaping vendor contract instead of amending a purchase order that would have required Assembly approval. Finally, one of six vendor contracts contained charges for services performed before the vendor contract begin date.

## FINDINGS AND RECOMMENDATIONS

### 1. **Subcontractor Noncompliance With OEO's Contract Compliance Program.**

- a. **Finding.** Five out of eight subcontractors employed under six vendor contracts did not comply with the OEO's Contract Compliance Program. Per the contract compliance specifications, every municipal contractor and first tier subcontractor must complete an information form that attests to the implementation of nondiscrimination policies, affirmative action programs, and other similar information. The Contract Compliance Program stems from AMC 7.50, *Equal Employment Opportunity Contract Compliance*, which stems from Title 41, *Public Contracts and Property Management*, Chapter 60 of the Code of Federal Regulations. Therefore, compliance with OEO's Contract Compliance Program represents compliance with the federal regulations, which is important because many AWWU projects receive federal funds.
  
- b. **Recommendation.** The AWWU General Manager should ensure that subcontractors employed under the vendor contracts are in compliance with the OEO's Contract Compliance Program.

- c. **Management Comments.** Management stated, “AWWU agrees with this finding. AWWU will change the terms of future contracts to ensure the contractor is responsible for all their sub-contractors compliance with OEO.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Out of Scope Work.**

- a. **Finding.** Project cost overruns not related to landscape architecture were charged to a landscaping vendor contract instead of amending a purchase order that would have required Assembly approval. Specifically, a draft Assembly Memorandum proposing a \$5,500 amendment to extend a water upgrade project completion date and finalize closeout of the project was not presented to the Assembly for approval. Because previous amendments approved by the Assembly exceeded monetary limits specified in AMC 7.15.080, *Contract amendments-Assembly approval*, along with clarifications provided in Assembly Memorandum 529-2001 Section 3, an amendment for additional project costs needed Assembly approval.

To further explain, from October 26, 2015, to December 26, 2015, \$12,534 of project costs were incurred. Of this amount, \$7,393 was invoiced by the contractor and charged to the purchase order. AWWU Engineering Management decided to charge the remaining amount to a vendor contract and directed the contractor to call the charges “Additional Landscaping Closeout Support”. An NTP was issued under this vendor contract on February 17, 2016, authorizing landscape architecture services time and materials not to exceed \$5,200. The corresponding contractor’s invoice, dated March 17, 2016, stated that the billing in the amount of \$5,141 was for landscaping services performed from February 28, 2016, to April 2, 2016.

However, the contractor's timesheets revealed that the services were actually performed in 2015, mostly in November. Because the NTP had no corresponding Scope of Work, no documentation as to what exactly was performed by the contractor, and the invoice contained no labor category charges that would typically be involved in landscaping architecture, we were not able to substantiate that the charges by the contractor were for landscaping services. Finally, a \$459 subcontractor charge included in the contractor invoice for corrosion support services rendered in 2015 was unrelated to landscaping.

- b. **Recommendation.** The AWWU General Manager should implement controls to ensure transparency of charges and compliance with AMC Title 7.
  - c. **Management Comments.** Management stated, "AWWU agrees with this finding. AWWU will ensure that correct contract vehicles are utilized for the type of services provided."
  - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Charges to a Vendor Contract Before the Contract Begin Date.**
- a. **Finding.** One of six vendor contracts contained charges for services performed before the vendor contract begin date. Specifically, a vendor contract for professional civil engineering services went into effect June 17, 2015. However, \$3,374 in services charged to this contract were performed from March 7, 2015, through April 11, 2015.

As the contractor explained, AWWU Engineering Management instructed the contractor to transfer in its accounting system costs already recorded for one project under an earlier civil engineering contract to a new project under a new civil

engineering contract. As a result, transferred charges were outside the time frame of the new vendor contract and also outside the time frame of the new NTP.

Such misrepresentation of the time frame of charges and noncompliance with the terms of the contract diffuses fiscal accountability. AMC 7.15.020, *Contracts enforceable against municipality*, states “No contract for supplies, services, professional services or construction, or any amendment thereto, may be enforced against the municipality unless its terms have been approved in accordance with this chapter and unless the contract or amendment thereto has been set forth in a writing executed in accordance with this chapter.”

- b. **Recommendation.** The AWWU General Manager should enforce controls to ensure transparency of charges and compliance with the terms of the contract.
  
- c. **Management Comments.** Management stated, “AWWU agrees with this finding. The vendor noted in this finding had a 2013 and a 2015 vendor contract with AWWU. Charges were inadvertently paid under the 2015 contract that should have been paid under the 2013 contract. AWWU will ensure that the correct contract is used for future work and payments.”
  
- 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 October 14, 2016.

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