

November 9, 2006

Internal Audit Report 2006-15
Transfer of Responsibility Agreements
Finance Department

Introduction. The Municipality of Anchorage receives State of Alaska funds through Transfer of Responsibility Agreements (TORAs). TORAs are used to transfer funds from the State of Alaska to the Municipality to deliver basic services that the State is required to provide. Currently, the Municipality has 24 active TORAs totaling \$16,455,935 to fund projects and programs such as the Engine Block Heater Program, the Anchorage Area Street Cleaning project, the Traffic Control Signalization, and the Transit Route Expansion project.

Objective and Scope. The objective of this audit was to determine whether TORAs were properly administered. Specifically, we reviewed all 24 currently active TORA files to ensure they contained the appropriate documentation and verified that TORAs were properly set up in the PeopleSoft financial reporting system. In addition, we determined if the TORA expenditures met the intent of the agreement. Finally, we selected a sample of five TORAs to determine if the TORA award amounts covered the actual costs the Municipality incurred.

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 August 2006. The audit was requested by the Administration.

Overall Evaluation. Overall, we found that TORAs have been properly administered and, for the majority of TORAs, the transfer payments covered the expenditures incurred by the Municipality. However, our review revealed that the Municipality may have subsidized two TORAs by at least

\$1,000,000 in 2005. Also, we found that two departments did not track actual costs associated with TORAs through separate project numbers.

FINDINGS AND RECOMMENDATIONS

1. Actual Costs Not Covered.

- a. Finding.** State payments did not always cover the actual costs to provide the services outlined in the Street Sweeping TORA and the Traffic Signal TORA. As a result, in 2005 Municipal departments may have incurred costs of at least \$1,000,000 in excess of the two TORA payments.

The Municipality's Maintenance and Operations Department provides street sweeping services for the State of Alaska under a TORA. In 2005, according to information provided by Maintenance and Operations staff, the costs to provide the street sweeping service amounted to roughly \$725,000. However, Maintenance and Operations only received \$422,000 from the State to perform the service, resulting in a funding shortfall over \$300,000.

Under the Traffic Signal TORA, the Traffic Department is responsible for the operations and maintenance of a traffic control system that encompasses intersections owned by the Municipality and the State. In addition, the Maintenance and Operations Department is responsible for the utility and maintenance costs for most State street lights sharing the same load centers as the traffic signals. Based on the initial cost estimate, the cost to provide these services for the State would total \$1,888,800 plus \$250,000 for indirect costs. However, 2005 State payments for the Traffic Signal TORA totaled \$1,400,000, resulting in a potential funding shortfall over \$700,000.

Alaska State Statute, Sec. 19.20.017(c), Local Control of Traffic Control Systems, states that, “If the commissioner and a municipality enter into an agreement under (b) of this section, the commissioner shall annually pay to the municipality, for the period beginning with the effective date of transfer of responsibility, the cost to the state of operating the traffic control system during the fiscal year preceding the effective date of the transfer, adjusted annually for inflation.” Assuming that the cost to maintain traffic control systems would be the same for the State and the Municipality, the amount of payment may not be in compliance with the State Statutes.

- b. **Recommendation.** The Municipal Manager and the Office of Management and Budget should require Departments to track actual expenditures related to TORAs and initiate negotiations with the State for adjustments to the TORA should actual expenditures exceed revenues available from the TORA.
- c. **Management Comments.** Management stated, “Concur with the audit finding and recommendation.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Street Sweeping Costs Not Properly Tracked.**

- a. **Finding.** The Maintenance and Operations Department did not track actual Street Sweeping TORA expenditures through a separate project number. Without an appropriate mechanism, it is difficult to track project expenditures accurately and efficiently. One result of the lack of a tracking mechanism may be that cost estimates for street sweeping services are not realistic, potentially resulting in a funding shortfall.

- b. **Recommendation.** The Maintenance and Operations Department Director should ensure that all expenditures for the Street Sweeping TORA are tracked by a separate project number.

- c. **Management Comments.** Management stated, “The Maintenance and Operations Department concurs with finding number two. We have met with the State of Alaska, Department of Transportation (DOT) on several occasions to resolve the potential funding shortfalls for this TORA. In 2006 approximately 60 percent of the work agreed to in the initial agreement was dropped to align the work with the funds received. We have provided the State DOT actual cost numbers for the 2008 year sweeping TORA which they intend to fully fund based on appropriation by the State legislature. Maintenance and Operations, Resource Management Division will set up a specific project number in the PeopleSoft system to isolate and track all costs associated with the State DOT sweeping TORA beginning in 2007.”

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

3. **Traffic Signal Costs Not Properly Tracked.**

- a. **Finding.** The Traffic Department did not track the total actual costs associated with the Traffic Signal TORA. As a result, we were unable to determine if the TORA payments covered the actual costs incurred by the Municipality for 2005. According to Traffic Department staff, only part of the costs was tracked through a separate project number. Other costs, such as indirect costs charged by other departments as well as equipment usage costs were not accounted for in the Department’s cost calculations. However, to help estimate direct and indirect costs, the Traffic Department has determined that about 70 percent of Municipal traffic signals are

owned by the State. Therefore, a 70 percent rate could be applied to total direct and indirect costs for operating and maintaining traffic signals.

- b. Recommendation.** The Traffic Department Director should ensure that all expenditures for the Traffic Signal TORA are tracked by a separate project number.
- c. Management Comments.** Management stated, “This audit process has been helpful in changing the management and tracking process for the Traffic Signal TORA. It is important to recognize that the TORA does not require expenses to be tracked as identified in this audit. The Department has been tracking and will continue to do so for directs / labor. At this time, it is, and will continue to be difficult to track indirect costs for intersection work, particularly where State and Municipal roads intersect. The Department is pleased to report that a new accounting process for tracking cost for signal maintenance will be implemented by the Traffic Department beginning in 2007. The method of payment for accounts payable will be tracked through a separate project number during the payment process. This new process will assist in addressing the findings in this report.”
- 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.

Audit Staff:
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