

INTERNAL AUDIT
ANNUAL REPORT FOR 1991

Peter Raiskums, CIA
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January 1991

ANNUAL REPORT OF AUDIT ACTIVITIES

Honorable Mayor and Members of the Assembly:

The primary focus of the Internal Audit Department was to assist the Mayor and the Assembly in improving the efficiency and effectiveness of municipal government within the constraints of the Municipal Code and public law. To accomplish this we performed audits to ensure the reliability and integrity of financial records; compliance with established policy and procedures; accountability and protection of Municipal assets; and the achievement of program results.

This Annual Report of Audit Activities includes background information on the audit profession and a summary of the 1991 internal audit activity.

A handwritten signature in dark ink, appearing to read "Peter Raiskums". The signature is fluid and cursive, with the first and last names being more prominent.

Peter Raiskums, CIA
Director, Internal Audit

**INTERNAL AUDIT
ANNUAL REPORT FOR 1991**

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INTRODUCTION

A. Definition of Auditing

An audit is a term used to describe procedures performed by an auditor in examining financial reports and reviewing compliance with laws and regulations, efficiency and economy of operations, and effectiveness in achieving program results.

An auditor evaluates internal controls, examines financial and other data, verifies and evaluates management systems and programs, and recommends improvements.

Auditors are classified into two categories - internal auditors and external auditors.

Internal Auditors are employees of the organization being audited. Their focus is on accountability, internal controls and on improving management efficiency. Even though we are employees of the Municipality, the Internal Audit Department operates with complete independence. The Municipal Code provides a framework that makes this independence possible.

External Auditors are not employees of the organization which they are auditing. The external auditor performs, under contract, an annual audit of the financial records of the Municipality. This examination results in a written report that contains Municipal financial statements and the auditor's opinion as to the statements' conformity with generally accepted accounting principles. The certified public accounting firm of KPMG Peat Marwick is currently the external auditor for the Municipality of Anchorage.

B. Audit Procedures

Work of the Internal Audit Department is performed in compliance with professional standards.*

*Professional organizations which provide guidance and standards include the Comptroller General of the United States, the U.S. Office of Management and Budget, the American Institute of Certified Public Accountants (AICPA), and the Institute of Internal Auditors (IIA).

The audit process involves four phases: survey, field work, reporting, and follow-up. Communication with auditees is an important part of all four phases.

Survey - To determine whether an area warrants a detailed examination. Survey work consists of discussions with agency personnel, physical inspections, reviews of records, and sample transaction tests.

Field Work - To review and evaluate extensive data, document findings, and develop recommendations for corrective action.

Reporting - To compile and organize results of all survey and field work. Findings and recommendations are presented in a draft report, which is furnished to auditees for their review and response. The final report of audit includes the auditor's findings and recommendations, and management's response.

Follow-up - To determine whether management action was taken and whether the action corrected the deficiency.

C. Scheduling of Audits

An annual audit plan is prepared at the beginning of each fiscal year. Input is solicited from the Assembly, the Mayor, Administration officials, external auditors, and staff members. About 75% of available staff time is scheduled in advance. The audit plan is continually revised to accommodate requests from the Assembly and the Administration. Criteria for scheduling audits include the following:

- . Rotation of audit schedule among Municipal Departments;
- . Interest expressed by the Assembly or Administration;
- . Issues identified by the external auditors;
- . Issues identified as problem areas;
- . Potential for increasing revenues;
- . Potential for cost savings through more efficient, effective management;
- . Safeguarding and management of Municipal assets;

- . High risk of Municipal liability;
- . Suspected fraud or error.

D. Distribution of Audit Reports

Internal Audit reports are distributed to the Mayor, each Assembly Member, the respective Executive Manager, the respective Department Director, the Director of Management and Budget, and the Chief Fiscal Officer.

Copies of reports are available to the public at the Internal Audit Department, Municipal Hill Building, 632 West 6th Avenue, Room 312, Anchorage, Alaska; telephone (907) 343-4438.

E. Staffing of the Internal Audit Department

Five professional audit staff members and a part-time office associate work with the Director. All auditors have academic degrees and/or professional certification, and extensive audit experience.

ANCHORAGE MUNICIPAL CODE

INTERNAL AUDITOR

3.20.100 Office of Internal Audit.

- A. There is established an Office of Internal Audit to provide the Assembly and the mayor with objective information to assist them in determining whether government operations are adequately controlled and whether the required high degree of public accountability is maintained.
1. the Office of Internal Audit shall meet generally accepted government audit standards with regard to independence;
 2. the Director of Internal Audit shall be appointed by the mayor with concurrence of a majority vote of the Assembly;
 3. the Director of Internal Audit may be dismissed by the mayor only for cause shown, and only with concurrence of a majority of the Assembly;
 4. the Director of Internal Audit shall be a person able to manage a professional audit staff, analyze financial records, and evaluate operations for economy, efficiency, and program results;
 5. the Director of Internal Audit shall be either a certified internal auditor or a certified public accountant;
 6. the Director of Internal Audit shall not be actively involved in partisan political activities or the political affairs of Anchorage;
 7. the Director of Internal Audit shall interact with the Municipal Audit Committee to ensure maximum coordination between the needs of the Assembly and the mayor in the development and execution of the annual audit plan.
- B. The Director of Internal Audit shall have such assistants and employees as are necessary to perform all required duties. (Adapted from AO 77-359, am AO 79-27, AO 80-5, AO 88-70(S)).

3.20.110 Responsibilities of the Director of Internal Audit.

- A. Each year, the Director of Internal Audit shall prepare and submit an annual audit plan to the Municipal Audit Committee for review and comment. Additionally, the Director of Internal Audit may revise the audit plan during the year to include other appropriate audits, which are consistent with the responsibilities specified in 3.20.100, and submit the revisions to the municipal audit committee.
- B. The Director of Internal Audit shall cooperate with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be coordinated.
- C. The Director of Internal Audit shall have responsibility to conduct expanded scope audits of all municipal departments, agencies, authorities and activities to independently determine whether:
 - 1. there are adequate internal administrative and accounting control systems in place and that they are functioning as intended;
 - 2. activities and programs being implemented have been authorized by the Assembly, the mayor or this code;
 - 3. activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by the Assembly, the mayor, or this code;
 - 4. activities or programs efficiently and effectively serve the purpose intended by the Assembly, the mayor, or this code;
 - 5. activities and programs are being conducted and funds expended in compliance with applicable laws;
 - 6. revenues are being properly collected, deposited and accounted for;
 - 7. resources, including funds, property and personnel, are adequately safeguarded, controlled and used in lawful, effective and efficient manner;
 - 8. financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to

ascertain the nature and scope of programs and activities, and that is necessary to establish a proper basis for evaluating the programs and activities; and

9. during the course of audit work, there are any indications of fraud, abuse, conflict of interest, or illegal acts.
- D. Audits shall be conducted in accordance with generally accepted government auditing standards.
- E. In all matters relating to the audit work, the Director of Internal Audit and the audit staff must be free from personal and external impairments to independence and shall maintain an independent attitude and appearance.
- F. The Director of Internal Audit shall present conclusions, finding, and recommendations, along with verbatim responses from the administration, in a written audit report.
- G. The written audit report shall be promptly presented simultaneously to the mayor and the Assembly.
- H. Copies of final audit reports of the Office of Internal Audit shall be available for public inspection during regular business hours.
- I. The duties of the Director of Internal Audit under this section shall not be construed to replace or relieve the responsibility of any other person. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S)).

3.20.120 Responsibilities of the administration.

A. The administration shall:

1. plan or implement corrective action in response to reported deficient condition within 30 days of receiving a draft internal audit report disclosing the conditions;
2. submit to the Director of Internal Audit a written response stating concurrence or non-concurrence with the audit findings and action taken or planned under subsection A of this section to correct the reported deficiencies, suitable for verbatim inclusion in the final report of audit; and

3. if the response under subsection B of this section describes a plan of action, submit to the Director of Internal Audit a second report promptly upon implementing the plan.
- B. This section shall not authorize the public disclosure or material that is confidential or privileged under federal, state or local law, or material the public disclosure of which otherwise would constitute an unwarranted invasion of personal privacy. (AO 77-359, am AO 79-27, AO 88-70(S)).

3.20.130 Access to municipal information.

- A. In the performance of their duties under section 3.20.110, the Director of Internal Audit and internal audit staff are authorized to have full, free and unrestricted access to:
1. all public records, as defined in section 3.90.020C of this code;
 2. all activities of the municipal government;
 3. all municipal property;
 4. all municipal personnel; and
 5. all policies, plans and procedures and records pertaining to expenditures financed by municipal funds. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S)).

INTERNAL AUDIT REPORTS

<u>REPORT NO.</u>	<u>DATE</u>	<u>SUBJECT</u>	<u>REQUESTED BY</u>
AR 91-01	01-16-91	Contract Administration Port of Anchorage	Audit Plan
AR 91-02	02-07-91	Payroll Processing ATU	Audit Plan
AR 91-03	02-13-91	Purchase of Transmission Capability ML&P	Administration
AR 91-04	02-27-91	1990 Parts & Fuel Inventory - AWWU	Annual
AR 91-05	02-28-91	1990 Parts Inventory Observation - ML&P	Annual
AR 91-06	03-01-91	1990 Parts Inventory ATU	Annual
AR 91-07	03-08-91	Heritage Land Bank	Assembly
AR 91-08	03-08-91	Day Labor Contract ATU	Assembly
AR 91-09	06-04-91	Municipal Cellular Telephones	Assembly
AR 91-10	06-05-91	ML&P Vehicle Maintenance	Administration
AR 91-11	06-04-91	AWWU Vehicle Maintenance	Administration
AR 91-12	06-25-91	1990 General Government Year End Inventory	Annual
AR 91-13	07-11-91	Job Training Partnership Act	Administration
AR 91-14	10-24-91	P & P 24-10, Time Card Exception	Audit Plan
AR 91-15	11-21-91	AWWU Special Assessments	Administration

1991 SPECIAL PROJECTS

<u>DATE</u>	<u>SUBJECT</u>	<u>REQUESTED BY</u>
02-25-91	Employee Leave	Audit Plan
04-05-91	AJCC Costing of Proposed Contract	Administration
05-07-91	AMEA Costing of Proposed Contract	Administration
05-14-91	ML&P IBEW Costing of Proposed Contract	Administration
05-30-91	Operational Review - Remittance Processing	Administration
06-04-91	ATU IBEW Costing of Proposed Contract	Administration
06-10-91	Water Quality Bond Analysis	Administration
07-15-91	Impact of Equity Proposals	Administration
10-09-91	Selected Payroll Transactions	Audit Plan
11-01-91	Hud Section 312 Loans	Administration

Municipality of Anchorage



OFFICE OF THE INTERNAL AUDITOR

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TOM FINK,
MAYOR

January 16, 1991

Executive Summary

Internal Audit Report 91-01
Contract Administration
Port of Anchorage

Honorable Mayor and Members of the Assembly:

We have completed an audit of contract administration at the Port of Anchorage.

Scope: Our audit objective was to determine whether contracts were properly administered by the Port of Anchorage.

Summary of Findings: Contracts were not properly administered by the Port of Anchorage. For example, contract files did not always contain sufficient documentation to evidence contract administration; work performed by contractors was not always monitored to ensure that it was performed as specified by the contract; invoices were approved for payment without adequate evidence of work completed; and routine Port operations were contracted to consultants. In addition, the Municipality had not developed written procedures nor provided training for contract administration duties and responsibilities.

Evaluation of Management Comments: Management comments were responsive to the audit findings and recommendations in this report.

Municipality of Anchorage



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TOM FINK,
MAYOR

February 7, 1991

Executive Summary

Internal Audit Report 91-02
Payroll Processing
Anchorage Telephone Utility

Honorable Mayor and Members of the Assembly:

We have completed an audit of Payroll Processing at the Anchorage Telephone Utility (ATU).

Scope: The audit objective was to determine whether adequate controls were in place at ATU to ensure accurate payroll transactions.

Summary of Findings:

- a. Generally, adequate controls were in place at ATU to ensure accurate payroll transactions.
- b. Changes made to timecards were not always initialed by the individual making the changes.
- c. Timecards for holidays were not always properly prepared by employees.
- d. Authorized signature lists were not maintained.
- e. An approved exception for departures from Policy & Procedure 24-10 was not on file for ATU.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Municipality of Anchorage



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TOM FINK,
MAYOR

February 12, 1991

Executive Summary

Internal Audit Report 91-03
Purchase of Transmission Capability
Municipal Light and Power

Honorable Mayor and Members of the Assembly:

At the request of Municipal Light and Power (ML&P), we performed an audit of construction costs invoiced by Homer Electric Association to determine whether they were accurate and valid. The construction costs were for a transmission line associated with the Bradley Lake Hydroelectric Project.

Summary of Findings: Our audit tests revealed that \$980,997 of the \$7,452,322 invoiced amount was not appropriate. As a result, ML&P was able to reduce their portion of the invoiced construction costs by \$207,027.

Municipality of Anchorage



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TOM FINK,
MAYOR

February 27, 1991

Executive Summary

Internal Audit Report 91-04
1990 Parts and Fuel Inventory Observation
Anchorage Water and Wastewater Utility

Honorable Mayor and Members of the Assembly:

We have completed an audit of Anchorage Water and Wastewater Utility Parts and Fuel Inventory.

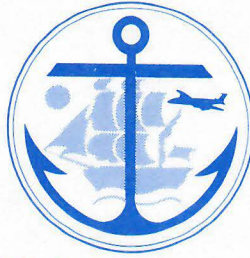
Scope: Our audit objectives were as to determine if the physical inventory count of parts and fuel were reasonably accurate, and correcting adjustments were properly input into the financial records.

Summary of Findings:

- a. The physical inventory of parts and fuel did not include all items on hand resulting in the inventory being understated by as much as \$138,000.
- b. Inventory count sheets did not always contain complete/accurate bin locations.
- c. There were no written guidelines for determining which small items should be inventoried and which should be expensed.

Evaluation of Management Comments: Management comments were responsive to the audit findings and recommendations in this report.

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TOM FINK,
MAYOR

March 8, 1991

Executive Summary

Internal Audit Report 91-07
Heritage Land Bank

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Heritage Land Bank (HLB).

Scope: Our audit objectives were to determine whether Anchorage Municipal Code (AMC) requirements were being met regarding inventory records and to determine the accuracy of the 1988 real property record inventory. (HLB Inventory)

Summary of Findings:

- a. AMC requirements were not always followed by HLB.
- b. The HLB Inventory had not been updated to reflect changes.
- c. HLB failed to effectively manage all HLB properties.

Evaluation of Management Comments: Management comments, with some exceptions, were generally responsive to the audit findings and recommendations in this report.

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TOM FINK,
MAYOR

March 8, 1991

Executive Summary

Internal Audit Report 91-08
Day Labor Contract
Anchorage Telephone Utility

Honorable Mayor and Members of the Assembly:

We have completed an audit of The Anchorage Telephone Utility Day Labor Contract.

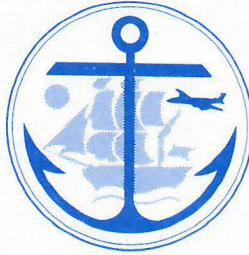
Scope: Our audit objective was to perform a contract compliance audit of the day labor contract.

Summary of Findings:

- a. Contract administration required strengthening.
- b. The Contractor was not always in compliance with contract requirements.

Evaluation of Management Comments: Management comments, with two exceptions, were generally responsive to the audit findings and recommendations in this report.

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TOM FINK,
MAYOR

June 4, 1991

Executive Summary

Internal Audit Report 91-09
Municipal Cellular Telephones

Honorable Mayor and Members of the Assembly:

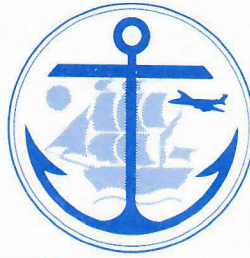
We have completed an audit of the Municipal Cellular Telephones.

Scope: The audit objective was to determine whether Municipal cellular telephones were properly controlled and limited to official use.

Summary of Findings: Municipal cellular telephones were not always controlled nor limited to official use.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Municipality of Anchorage



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TOM FINK,
MAYOR

June 5, 1991

Executive Summary

Internal Audit Report 91-10
Controls Over Parts and Tools
Vehicle Maintenance
Municipal Light and Power

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Municipal Light and Power (ML&P) Vehicle Maintenance Section.

Scope: The audit objective was to determine the adequacy of controls over parts and tools in the Vehicle Maintenance Section.

Summary of Findings:

- a. Adequate controls were not in place over parts and tools in the Vehicle Maintenance Section.
- b. There was a lack of segregation of duties which resulted in a weak internal control structure.
- c. Purchases of parts and tools were not approved by an appropriate level of personnel and these parts and tools were not adequately safeguarded in the Vehicle Maintenance Section.
- d. ML&P lacked formal written policies and procedures over parts and tools.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Municipality of Anchorage



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TOM FINK,
MAYOR

June 4, 1991

Executive Summary

Internal Audit Report 91-11
Controls Over Parts and Tools
Vehicle Maintenance
Anchorage Water and Wastewater Utilities

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Anchorage Water and Wastewater Utilities (AWWU) Vehicle Maintenance Section.

Scope: The audit objective was to determine the adequacy of controls over parts and tools in the Vehicle Maintenance Section.

Summary of Findings:

- a. Adequate controls were not in place over parts and tools.
- b. There was a lack of segregation of duties which resulted in a weak internal control structure.
- c. Purchases of parts and small tools were not always properly approved.
- d. Tools were not adequately safeguarded.
- e. There were no written policies and procedures.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Municipality of Anchorage



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TOM FINK,
MAYOR

June 24, 1991

Executive Summary

Internal Audit Report 91-12
1990 General Government Year-End Inventories

Honorable Mayor and Members of the Assembly:

We have completed an inventory observation audit of the Transit Department, Department of Property and Facility Management and Public Works, Paint and Sign Shop.

Scope: The audit objective was to determine if the physical inventory of parts and fuel at the Transit Department, the Department of Property and Facility Management and the Paint and Sign Shop were reasonably accurate.

Summary of Findings: Based on the results of the work performed, we found the physical inventory of parts and fuel at the Transit Department and the Department of Property and Facility Management to be reasonably accurate. However, the Paint and Sign Shop inventory was not found to be reasonably accurate.

Evaluation of Management Comments: Management comments were generally responsive to the findings and recommendations in this report.

Municipality of Anchorage



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TOM FINK,
MAYOR

July 11, 1991

Executive Summary

Internal Audit Report 91-13
Job Training Partnership Act
Career Development and Training Section

Honorable Mayor and Members of the Assembly:

We have completed a contract administration of the Job Training Partnership Act (JTPA) program.

Scope: Our audit objectives were to perform a contract administration audit of the JTPA grants and to determine whether program results were met. Three of the six JTPA programs were examined in detail. The three programs were: Title II-A, Adult and Youth Programs; Title II-B, Summer Youth Employment and Training Programs; and Title III, Economic Dislocation and Worker Adjustment Act. The audit period was April 1990 through February 1991.

Summary of Findings: Administration of the JTPA program required strengthening. Specifically, costs were not properly allocated, reports were not always accurate and timely and contracting for professional services needed improvement. However, JTPA program results were generally met.

Evaluation of Management Comments: Management comments were generally responsive to the findings and recommendations in this report.

Municipality of Anchorage



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TOM FINK,
MAYOR

October 24, 1991

Executive Summary

Internal Audit Report 91-14
Review of Exceptions to Municipal
Policy and Procedure 24-10
for Time Card Authorizations

Honorable Mayor and Members of the Assembly:

We have completed the annual audit of exceptions to Municipal Time Card Authorization Policy.

Scope: Our overall objectives were to determine whether all eight payroll groups that were not following the standard procedures had been granted exception by the Chief Fiscal Officer and whether the approved compensating controls were being followed.

Summary of Findings: All payroll groups had been granted an exception to the standard procedures except ATU. The approved compensating controls were not always being followed to control time cards and payroll transactions by most of the payroll groups. This audit disclosed eight findings that were also reported in the 1990 audit.

Municipality of Anchorage



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TOM FINK,
MAYOR

OFFICE OF THE INTERNAL AUDITOR

November 21, 1991

Executive Summary

Internal Audit Report 91-15
Anchorage Water and Wastewater Utility
Special Assessments

Honorable Mayor and Members of the Assembly:

We have completed an audit of water and sewer special assessments at the Anchorage Water and Wastewater Utility.

Scope: The objective of this audit was to determine whether water and sewer special assessments were properly calculated and processed. Specifically, we reviewed compliance with the Anchorage Municipal Code (AMC), the setup of assessment receivables, procedures for delinquent accounts, calculation of assessable project costs, calculation of refunds, and cash controls.

Summary of Findings: Generally, water and sewer special assessments were properly calculated and processed. Also, adequate controls were in place at AWWU to ensure the proper setup of receivables. However, we noted discrepancies in compliance with the AMC, procedures for delinquent accounts, calculation of assessable project costs, calculation of refunds, and cash controls.