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# INTERNAL AUDIT DEPARTMENT 1994 ANNUAL REPORT

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MUNICIPALITY OF ANCHORAGE

P.O. Box 196650  
Anchorage, Alaska  
99519-6650



OFFICE OF INTERNAL AUDIT

Peter Raiskums, CIA  
Director  
(907) 343-4438

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# Municipality of Anchorage



P.O. Box 196650  
Anchorage, Alaska 99519-6650  
Telephone: (907) 343-4438

*Rick Mystrom, Mayor*

## OFFICE OF THE INTERNAL AUDITOR

January 1995

Honorable Mayor and Members of the Assembly:

The primary focus of the Internal Audit Department is to assist the Mayor and the Assembly in ensuring that proper accountability is maintained over public funds and improving the efficiency and effectiveness of municipal government within the constraints of the Anchorage Municipal Code. To accomplish this we perform 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 report includes background information on the audit profession, a summary of the 1994 internal audit activity and the portion of the Anchorage Municipal Code pertaining to the Internal Audit Department.

A handwritten signature in black ink, appearing to read "Peter Raiskums".

Peter Raiskums, CIA  
Director, Internal Audit

## **INTRODUCTION**



# INTRODUCTION

## **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. Emphasis is on assisting management and the board of directors in the proper discharge of their duties. To accomplish this, they focus on accountability, internal controls and on improving management efficiency. Although they are employees of the municipality, the Internal Audit Department operates with complete independence. The Anchorage Municipal Code provides a framework that makes this independence possible.

**External Auditors** are not employees of the organization that they are auditing. The external auditor performs, under contract, an annual audit of the financial records of the Municipality and the Federal and State single audits. Their emphasis is on the fairness of financial representations. The certified public accounting firm of KPMG Peat Marwick is currently the external auditor for the Municipality of Anchorage.

## **AUDIT PROCEDURES**

Work of the Internal Audit Department is performed in compliance with professional standards. Professional organizations that 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, review 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 responses.

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

## **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. 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.



## **DISTRIBUTION OF AUDIT REPORTS**

Internal Audit reports are distributed to the Mayor, each Assembly Member, the Municipal Manager, Operations Manager, the respective Department Director, the Chief Fiscal Officer and other appropriate municipal personnel.

Copies of reports are available to the public at the Internal Audit Department, City Hall, 632 W. 6th Avenue, Suite 300, Anchorage, Alaska, telephone (907) 343-4438.

## **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.

## **INDEX OF 1994 AUDIT REPORTS**

## 1994 AUDIT REPORTS

Report #	Date	Subject	Dept.	Initiated By
AR 94-01	01/17/94	Injury Leave Payments	Various	Administration
AR 94-02	01/18/94	Locate Program	AWWU	Administration
AR 94-03	01/18/94	1993 Parts & Fuel Inventory	AWWU	Routine
AR 94-04	01/21/94	1993 Parts & Fuel Inventory	ML&P	Routine
AR 94-05	02/01/94	AK Science and Technology Foundation Grant	H&HS	Administration
AR 94-06	02/09/94	1993 General Government Year-End Inventories	Various	Routine
AR 94-07	02/25/94	Anchorage Convention and Visitors Bureau	P&FM	Administration
AR 94-08	03/07/94	Controls Over Municipal Cash Receipt Forms	Finance	Audit Plan
AR 94-09	04/01/94	Utility Bill Payment Procedures	AWWU/SWS	Administration
AR 94-10	05/23/94	Customer Deposits	ML&P	Audit Plan
AR 94-11	07/05/94	Accounts Payable Section	Finance	Assembly
AR 94-12	08/08/94	Community Health Services Division	H&HS	Administration
AR 94-13	08/26/94	Vehicle/Heavy Equipment Program	Port	Administration
AR 94-14	09/01/94	Credit Memos	Finance	Audit Plan
AR 94-15	09/21/94	Contract Administration	ML&P	Audit Plan
AR 94-16	11/21/94	Non-Standard Payroll Procedures	Various	Routine
AR 94-17	12/07/94	Classified	APD	Assembly
AR 94-18	12/12/94	Industrial Park Leases and Preferential Use Agreements	Port	Administration
AR 94-19	12/30/94	Bradley Lake Transmission Line	ML&P	Administration



## **INDEX OF 1994 SPECIAL PROJECTS**

## 1994 SPECIAL PROJECTS

Date	Subject	Dept.	Initiated By
02/16/94	Analysis of the Processing Cycle for the Requisition of Computer Items	MISD/ Purchasing	Assembly
02/18/94	Bradley Lake Transmission Line	ML&P	Administration
03/04/94	Human Resource Company Contract	H&HS	Administration
05/17/94	Purchase of Used Equipment	Port	Administration
06/29/94	1994 Office Place Annual Supply Contract	Purchasing	Administration
08/25/94	Reimbursable Billing to Girdwood Board of Supervisors	AWWU	Assembly
11/21/94	Heritage Land Bank	HLB	Assembly
12/22/94	Equal Rights Commission	ERC	Assembly
12/22/94	Street Maintenance	PW	Assembly

## **EXECUTIVE SUMMARIES**

# Municipality of Anchorage



OFFICE OF THE INTERNAL AUDITOR

P.O. BOX 196650  
ANCHORAGE, ALASKA 99519-6650  
(907) 343-4438

TOM FINK,  
MAYOR

January 17, 1994

## Executive Summary

### Internal Audit Report 94-01 Injury Leave Payments

Honorable Mayor and Members of the Assembly:

We have completed an audit of Injury Leave Payments.

**Scope:** Our audit objective was to determine whether controls were in place to ensure proper treatment of injury leave payments and the extent of compliance with policy and procedures. The audit was requested by the Administration.

**Summary of Findings:** Controls were not in place to ensure proper treatment of injury leave payments and compliance with policy and procedures. The primary reason for the inadequate controls was the lack of a central point to oversee injury leave payments. Specifically, we found that time cards were improperly coded, injury leave was paid in excess of the maximum time period allowed, and wages paid in addition to workers' compensation were not always properly recovered. Further, the Municipal Personnel Rules were unclear for administrative injury leave and the contract with Scott Wetzel Services for workers' compensation claims adjusting did not contain adequate procedures for interacting with the Municipality.

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



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TOM FINK,  
MAYOR

January 18, 1994

## Executive Summary

### Internal Audit Report 94-02 Locate Program Anchorage Water and Wastewater Utility

Honorable Mayor and Members of the Assembly:

We have completed an audit of the locate program at the Anchorage Water and Wastewater Utility (AWWU).

**Scope:** Our audit objective was to perform a management review of the AWWU locate program. The audit was requested by the General Manager of the AWWU. Specific concerns were as follows: adequacy of resources to accomplish the number of locate requests; adequacy of locate procedures; adequacy of time allocated to perform the locate; adequacy of the training program; condition of trace equipment; adequacy of pre-locate research; and whether decisions were being made at the appropriate time to request an engineering survey versus the standard locate procedure.

**Summary of Findings:** The management of the locate program at AWWU required some improvement. Specifically, procedures used by AWWU to provide locate services required strengthening. The number of personnel assigned to review and schedule locates was not adequate and a training program was not in place. However, the time allocated to perform locates was adequate; equipment used to perform locates was adequate; and pre-locate research was sufficient.

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



# Municipality of Anchorage



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*TOM FINK,*  
*MAYOR*

January 18, 1994

## **Executive Summary**

### **Internal Audit Report 94-03 1993 Parts and Fuel Inventory Anchorage Water and Wastewater Utility**

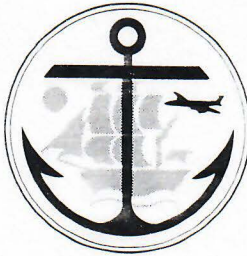
Honorable Mayor and Members of the Assembly:

We observed the inventory process of parts and fuel at the Anchorage Water and Wastewater Utility (AWWU).

**Scope:** Our audit objectives were to determine if the physical inventory count of parts and fuel was reasonably accurate and correcting adjustments were properly entered in the financial records. The audit included tests of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

**Summary of Findings:** Total inventory at AWWU was recorded at approximately \$530,410 as of September 1993. The value of the inventory was based on a weighted average unit cost. Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate and correcting adjustments were properly input into the financial records.

# Municipality of Anchorage



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*TOM FINK,  
MAYOR*

January 21, 1994

## Executive Summary

### Internal Audit Report 94-04 1993 Parts and Fuel Inventory Municipal Light and Power Utility

Honorable Mayor and Members of the Assembly:

We observed the inventory process of parts and fuel at the Municipal Light and Power Utility (ML&P).

**Scope:** Our audit objectives were to determine if the physical inventory count of parts and fuel was reasonably accurate and correcting adjustments were properly entered in the financial records. The audit included test of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

**Summary of Findings:** The parts and fuel inventory at ML&P was recorded at \$2,756,280.13 as of November 1993. The value of the inventory was based on a weighted average unit cost. Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate and correcting adjustment were properly input into the financial records.



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TOM FINK,  
MAYOR

February 1, 1994

## Executive Summary

### Internal Audit Report 94-05 Alaska Science and Technology Foundation Grant Health and Human Services

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Alaska Science and Technology Foundation Grant at Health and Human Services (H&HS).

**Scope:** Our audit objective was to determine whether grant funds were properly expended and selected requirements of the grant agreement were met. The audit included tests of accounting records and such other procedures as considered necessary in the circumstances. The audit was requested by the Administration.

**Summary of Findings:** Based on the results of our audit tests, we found that the grant funds were properly expended and the requirements of the grant agreement were properly met.

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TOM FINK,  
MAYOR

February 9, 1994

## Executive Summary

### Internal Audit Report 94-06 1993 General Government Year-End Inventories

Honorable Mayor and Members of the Assembly:

We observed the inventory process of parts and fuel for General Government.

**Scope:** Our audit objectives were to determine if the physical inventory of parts and fuel at the Transit Department and the Fleet Services Division of the Department of Property and Facility Management were reasonably accurate and correcting adjustments were properly input into the financial records. The audit included tests of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

**Summary of Findings:** Based on the results of the work performed, it is our opinion that the physical inventories were reasonably accurate and correcting adjustments were properly input into the financial records.



# Municipality of Anchorage



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TOM FINK,  
MAYOR

February 25, 1994

## Executive Summary

### Internal Audit Report 94-07 Anchorage Convention & Visitors Bureau Professional Services Agreement

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Professional Services Agreement with the Anchorage Convention & Visitors Bureau (ACVB).

**Scope:** Our audit objective was to perform a compliance audit of the Professional Services Agreement with ACVB. Specifically we determined the adequacy of and compliance with the Professional Services Agreement. In addition, we determined whether any Municipal or Assembly personnel had received any payments from ACVB. The audit included tests of accounting records and such other procedures as we considered necessary in the circumstances. The audit period was January 1992 through September 1993. The audit was requested by the Mayor.

**Summary of Findings:** ACVB had complied with the requirements of the Professional Services Agreement. However, the Professional Services Agreement was not adequate in that it had not been awarded through a competitive process and did not contain a specific and measurable scope of services; the funding for the Professional Services Agreement with ACVB appeared to have been excessive to their financial needs; and payments to ACVB were made prior to the date required by the Agreement resulting in lost interest to the Municipality.

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



# Municipality of Anchorage



OFFICE OF THE INTERNAL AUDITOR

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*TOM FINK,  
MAYOR*

March 7, 1994

## Executive Summary

### Internal Audit Report 94-08 Controls Over Municipal Cash Receipt Forms

Honorable Mayor and Members of the Assembly:

We have completed an audit of Municipal Cash Receipt forms.

**Scope:** Our audit objective was to determine if Cash Receipt forms were properly controlled and accounted for during the period January 1993 through September 1993.

**Summary of Findings:** Cash Receipt forms were properly safeguarded. However, Cash Receipt forms were not always properly accounted for. Specifically, the Cash Receipt Control Log was not reconciled to Financial Information System (FIS) reports and the FIS reports were not always accurate.

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

# Municipality of Anchorage



OFFICE OF THE INTERNAL AUDITOR

P.O. BOX 196650  
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(907) 343-4438

*TOM FINK,  
MAYOR*

April 1, 1994

## **Executive Summary**

### **Internal Audit Report 94-09 Utility Bill Payment Procedures Anchorage Water and Wastewater Utility Solid Waste Services**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Anchorage Water and Wastewater Utility (AWWU) and Solid Waste Services (SWS) utility bill payment procedures.

**Scope:** Our audit objective was to evaluate procedures used to process utility bills from Chugach Electric Association, Enstar Natural Gas Company, Matanuska Electric Association, Matanuska Telephone Association, Anchorage Refuse, and Eagle River Refuse. Specifically, we reviewed procedures and records in the Accounts Payable Section for verifying and paying the utility bills. We also reviewed procedures at SWS and AWWU for verifying the accuracy of the various utility bills as well as controlling service connections and disconnections. The audit period was January through September 1993. The audit was requested by the Administration.

**Summary of Findings:** The Accounts Payable Section procedures for processing non-municipal owned utility bills for payment were effective in ensuring timely payment. Procedures at SWS for verifying the accuracy of monthly utility bills and for initiating new services were proper. However, the procedures for verifying the accuracy of monthly bills and for controlling new service connections at AWWU required strengthening.

**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*

May 23, 1994

## Executive Summary

### Internal Audit Report 94-10 Customer Deposits Municipal Light and Power Utility

Honorable Mayor and Members of the Assembly:

We have completed an audit of the customer deposits at the Municipal Light and Power Utility (ML&P).

**Scope:** Our audit objective was to determine the adequacy of controls over the receipt, maintenance, and refund of customer deposits. The audit included test of accounting records and such other procedures as we considered necessary in the circumstances. The audit period was January 1, 1993 through December 31, 1993.

**Summary of Findings:** Controls over the receipt, maintenance, and refund of customer deposits required strengthening. Specifically, some deposits requested were higher than the amount allowed by regulatory requirements; controls over deposit waivers required strengthening; customer deposits were not always refunded when required; ML&P's deposit policy needed to be revised; refund checks were not properly safeguarded; ML&P was not authorized by the AMC to issue refund checks; and customer deposits were not properly classified on the financial records.

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

# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

July 5, 1994

## **Executive Summary**

### **Internal Audit Report 94-11 Finance Department Accounts Payable Section**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Accounts Payable Section of the Finance Department.

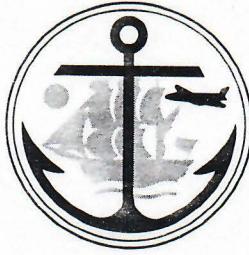
**Scope:** Our audit objectives were to determine the adequacy of policy and procedures and controls to ensure that payments were properly authorized and paid in a timely manner. Accordingly, the audit included test of accounting records and other such auditing procedures as we considered necessary in the circumstances. The audit period was from January 1994 through April 1994. The audit was requested by the Assembly.

**Summary of Findings:** Current policy and procedures used in the Accounts Payable Section required management attention. Vendor invoices were not being paid in a timely manner, there was no system in place to track workload, functions were being performed that did not pertain to payment of vendor invoices, and late charges were not paid to vendors.

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



# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

August 8, 1994

## **Executive Summary**

### **Internal Audit Report 94-12 Department of Health and Human Services Community Health Services Division**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Community Health Services Division of the Department of Health and Human Services.

**Scope:** Our audit objective was to perform a management audit of five of the seven Community Health Services programs. Specifically, we reviewed the funding and program purpose, analyzed the fees, and reviewed billing for the following programs in the Community Health Services Division: Disease Prevention and Control; Family Planning Clinic; Sexually Transmitted Disease Clinic; Women, Infants & Children Special Supplemental Food; and Maternal Child Health. The audit included tests of accounting records and such other procedures as we considered necessary in the circumstances. The audit period was April 1994 through June 1994. The audit was requested by the Administration.

**Summary of Findings:** Program purposes were met by all the programs except the Family Planning Clinic which provided services to patients who did not meet the low income guidelines. The Community Health Services Division lacked a central administrative office for patient registration, appointment check in, and income/insurance determination. Further, an adequate system to ensure that fees for services were both assessed and collected was lacking for all programs charging fees, resulting in lost revenue to the Municipality. In addition, the Division lacked a standard fee schedule.

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



# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

August 26, 1994

## **Executive Summary**

### **Internal Audit Report 94-13 Port of Anchorage Port Vehicle/Heavy Equipment Program**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Port of Anchorage (Port) Vehicle/Heavy Equipment Program.

**Scope:** Our audit objective was to evaluate the vehicle/heavy equipment program at the Port to include a review of the process for purchasing, maintaining, using and disposing of vehicles/heavy equipment. The audit included tests of accounting records and such other procedures as we considered necessary in the circumstances. The audit period was January 1, 1993 through April 30, 1994. The audit was requested by the Port of Anchorage.

**Summary of Findings:** Overall, the Port's vehicle/heavy equipment program was effectively administered to support Port operations. However, vehicle service records did not include all repairs and maintenance performed. In addition, fuel usage was not adequately monitored and fuel costs were not tracked by vehicle.

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

# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

September 1, 1994

## **Executive Summary**

### **Internal Audit Report 94-14 Finance Department Credit Memos**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Credit Memos in the Finance Department.

**Scope:** Our audit objective was to perform a review of the procedures being followed for Credit Memos throughout the Municipality. The audit included test of accounting records and such other procedures as we considered necessary in the circumstances. The audit period was January 1994 through June 1994.

**Summary of Findings:** Procedures were not in place to verify Credit Memos were properly authorized prior to the processing of the Credit Memo Request. In addition, current Municipal procedures for the use of MARS had not been finalized and distributed to Municipal agencies.

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



# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

September 21, 1994

## **Executive Summary**

### **Internal Audit Report 94-15 Contract Administration Municipal Light & Power**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Contract Administration at the Municipal Light & Power Utility (ML&P).

**Scope:** Our audit objective was to determine whether contracts were properly administered by ML&P. Specifically, we evaluated the adequacy of contract monitoring and the propriety of payments. Three contracts were reviewed; two were administered by the Operations Division and one was administered by the Engineering Division.

**Summary of Findings:** Contract administration required improvement. Specifically, there were no written procedures for contract administration; contract files did not contain sufficient documentation; and contract requirements were not always met.

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



# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

November 21, 1994

## **Executive Summary**

### **Internal Audit Report 94-16 Non-Standard Payroll Procedures**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Non-Standard Payroll Procedures at the Anchorage Fire Department, Anchorage Police Department, Municipal Light & Power Utility, Transit Department, Fleet Services Division, Facility Maintenance Division and Street Maintenance Division.

**Scope:** Our audit objectives were to determine whether the seven organizations that were not following standard payroll procedures had been granted an exception by the Chief Fiscal Officer and whether the approved compensation controls were being followed. The audit included tests of payroll records and such other procedures as we considered necessary in the circumstances. The audit period was January 1994 through June 1994.

**Summary of Findings:** All organizations audited had been granted an exception to the standard payroll procedures. The approved compensating controls were generally being followed to control time cards and payroll transactions by most of the organizations. However, leave forms and time cards were not always properly completed and exception procedures should be reviewed and evaluated to determine the necessary adjustments to ensure they are current.

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

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INTERNAL AUDIT REPORT 94-17  
December 7, 1994

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CLASSIFIED  
Anchorage Police Department

MUNICIPALITY OF ANCHORAGE  
P.O. Box 196650  
Anchorage, Alaska  
99519-6650



OFFICE OF INTERNAL AUDIT  
Peter Raiskums, CIA  
Director  
(907) 343-4438



# Municipality of Anchorage



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Telephone: (907) 343-4438

*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

December 12, 1994

## **Executive Summary**

### **Internal Audit Report 94-18 Industrial Park Leases and Preferential Use Agreements Port of Anchorage**

Honorable Mayor and Members of the Assembly:

We have completed an audit of industrial park leases (leases) and preferential use agreements (PUAs) at the Port of Anchorage (Port).

**Scope:** Our audit objective was to determine whether leases and PUAs were properly administered by the Port. Specifically, we determined current lease and PUA provisions, evaluated whether leases and PUAs were monitored, and ascertained the timeliness of payments. Eleven leases and 2 PUAs were reviewed. The audit was requested by the Port.

**Summary of Findings:** Port personnel were not always aware of current lease/PUA provisions. Monitoring of leases and PUAs required improvement.

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

**Overall Management Comment:** Management stated, "The Port of Anchorage's capabilities to accomplish its PUA/Industrial Park leases contract administration responsibilities have been significantly strengthened as a result of this Internal Audit. Of particular note, the assigned auditor's work performance every step of the way was very professional and meticulous. Again, the Port appreciates the usage of the Internal Audit process and looks forward to utilizing these requested services in the future."



# Municipality of Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

December 30, 1994

## Executive Summary

### Internal Audit Report 94-19 Geolar vs. HEA - Settlement Costs Municipal Light and Power Utility

Honorable Mayor and Members of the Assembly:

At the request of ML&P, we have completed an audit of the final invoice for construction of the transmission line from Bradley Lake Junction to Soldotna.

**Scope:** Our audit objective was to determine whether the final invoice was proper and in accordance with the agreement. The final invoice totaled \$681,279.95 of which \$112,719.83 was ML&P's share.

**Summary of Findings:** Based on our review of the documentation supporting the final invoice from HEA, applicable accounting standards and contract terms, and consultation with KPMG, Peat Marwick, we have concluded that the \$681,279.95 is not a shared cost of construction of the Bradley Lake transmission line. Accordingly, it is our opinion that ML&P is not required to pay the \$112,719.83 invoiced by HEA.

The letter from HEA invoicing the final construction costs implied that the settlement with Geolar was composed of reimbursement to the bonding company, increased costs of performance, interest and other costs. However, we found that this was only an allocation that HEA prepared of the entire court settlement amount of \$1,150,000. The actual settlement agreement did not indicate the settlement was for reimbursement of any specific cost category, consequently it can not be attributed to any of the categories indicated in the letter. As a result, generally accepted accounting principles do not permit capitalization of these costs as part of plant.

## **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 assure 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 a 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, findings, 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.
- J. This section shall not apply to the Anchorage Telephone Utility or its Board of Directors unless otherwise agreed by the Anchorage Telephone Utility. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S), AO 91-173(S)).

**3.20.120 Responsibilities of the administration.**

- A. The administration shall:
  - 1. plan or implement corrective action in response to reported deficient conditions 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 of 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.
- C. This section shall not apply to the Anchorage Telephone Utility or its Board of Directors unless otherwise agreed by the Anchorage Telephone Utility. (AO 77-359, am AO 79-27, AO 88-70(S), AO 91-173(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 subsection 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.
- B.** This section shall not apply to the Anchorage Telephone Utility or its Board of Directors unless otherwise agreed by the Anchorage Telephone Utility. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S), AO 91-173(S)).