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# INTERNAL AUDIT DEPARTMENT

## 2017 ANNUAL REPORT

December 27, 2017

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MUNICIPALITY OF ANCHORAGE  
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# Internal Audit Department 2017 Annual Report

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 27, 2017

Honorable Mayor and Members of the Assembly:

Attached is the Internal Audit Department 2017 Annual Report for your review and information.

This report includes background information on the audit profession, a summary of the 2017 internal audit activity and the portion of the Anchorage Municipal Code pertaining to the Internal Audit Department.

According to Anchorage Municipal Code 3.20.100, the primary focus of the Internal Audit Department is to provide the Assembly and the Mayor with objective information to assist them in determining whether government operations are adequately controlled; whether the required high degree of public accountability is maintained over public funds; and to improve the efficiency and effectiveness of Municipal government. To accomplish this, we perform audits to ensure the reliability and integrity of financial records, compliance with established policies and procedures, accountability and protection of Municipal assets and achievement of program results.

During 2017, the Internal Audit Department issued 12 Municipal audit reports, 3 Anchorage School District audit reports, and 2 sunset audit reports. In addition, the Internal Audit Department performed 21 Municipal special projects and 2 Anchorage School District special projects.

Michael Chadwick, CIA, CICA  
Director, Internal Audit

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## **INTRODUCTION**

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# INTRODUCTION

## DEFINITION OF AUDITING

Audit is a term used to describe procedures performed by an auditor in examining financial records, reviewing compliance with laws and regulations, assuring the efficiency and economy of operations, and evaluating the effectiveness in achieving program results.

The audit process includes an evaluation of internal controls, examination of financial and other data, review of management systems and programs, and recommendations for improvement.

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

**Internal Auditors** are employees of the Municipality of Anchorage. Emphasis is on determining whether the required high degree of public accountability is maintained and improving the efficiency and effectiveness of government operations and activities. To accomplish this, the auditors focus on accountability, internal controls and improving management efficiency. Although internal auditors are Municipal employees, the Municipal Code provides a framework for them to operate with complete independence.

**External Auditors** are not employees of the Municipality of Anchorage. External auditors perform, under contract, an annual audit of the financial records of the Municipality and the federal and state single audits. The emphasis is on the fairness of financial representations. The Municipal Assembly is responsible for the annual independent financial audit, annual federal single audit and annual state single audit of all Municipal accounts. The annual audits are overseen by the Municipal Audit Committee. The certified public accounting firm of BDO USA, LLP is currently the external auditor for the Municipality of Anchorage.

## AUDIT PROCEDURES

The Internal Audit Department performs audits in accordance with generally accepted government auditing standards, except for the requirement of an external peer review. A peer review is not performed due to budget constraints.

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

**Survey** - Survey work consists of discussions with agency personnel, physical inspections, review of records, and sample tests of transactions. In addition, auditors obtain an understanding of internal controls significant to the audit objectives and consider whether specific internal control procedures have been properly designed and placed in operation.

**Field Work** - During field work, the auditor plans and defines audit objectives, reviews and evaluates extensive data, documents findings, and develops recommendations for corrective action.

**Reporting** - At the end of field work, the results of the audit are communicated to officials at various levels of government. Findings and recommendations are presented in a draft report that is furnished to auditees for their review and response. The final audit report includes the auditor's findings and recommendations and management's responses.

## **SCHEDULING OF AUDITS**

The Director of Internal Audit prepares an annual audit plan at the beginning of each fiscal year, which is approved by the Municipal Audit Committee. Input is solicited from the Municipal Assembly, the Mayor, and Administration officials. The audit plan may also be revised during the year to accommodate requests from the Municipal Assembly and the Administration. Criteria for scheduling audits include the following:

- Requests by the Municipal Assembly and Administration
- Potential for cost savings through more efficient, effective management
- Potential for increasing revenues
- Areas with a high risk of loss or misappropriation
- Suspected fraud or error
- Areas identified with weak internal controls or known problems
- Safeguarding and management of Municipal assets
- Issues identified by the external auditors

In addition, audits of the Anchorage School District are requested and authorized by the Anchorage School Board Finance Committee.

## **DISTRIBUTION OF AUDIT REPORTS**

Municipal audit reports are distributed to the Mayor, each Municipal Assembly Member, and other appropriate Municipal personnel. Anchorage School District audit reports are distributed to the Anchorage School District.

Copies of reports are available to the public at the following locations:

1. Serial section of the Z J Loussac Public Library, 3600 Denali Street, Anchorage, Alaska
2. The Municipal Internal Audit Department, 632 West 6th Avenue, Suite 600, PO Box 196650, Anchorage, Alaska 99519-6650, telephone (907) 343-4438, fax (907) 343-4370, e-mail: [chadwickmb@muni.org](mailto:chadwickmb@muni.org)
3. Internal Audit Department Website: [http://www.muni.org/departments/internal\\_audit](http://www.muni.org/departments/internal_audit)

## **STAFFING OF THE INTERNAL AUDIT DEPARTMENT**

Current staff members are:

Michael Chadwick, Director  
Scott Lee, Principal Auditor  
Dechen Dechen, Senior Auditor  
Dawn Brown, Anchorage School District Auditor  
Jennifer Strickland, Audit Technician

The current department Director provides the Municipality with more than 22 years of auditing experience. The current audit staff provides the Municipality with a combined total of more than 17 years of auditing experience. Professional certifications held by department personnel include: Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), and Certified Internal Controls Auditor (CICA).

Government Auditing Standards Section 3.76 requires that each auditor complete, every two years, at least 80 hours of continuing professional education that directly enhance the auditor's professional proficiency to perform audits. At least 24 of the 80 hours should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. At least 20 hours of the 80 should be completed in each year of the two-year period. The courses taken by audit staff to fulfill this requirement help keep them up-to-date with the latest auditing techniques and current audit issues.

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## **INDEX OF 2017 MUNICIPAL AUDIT REPORTS**

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## 2017 MUNICIPAL AUDIT REPORTS

NUMBER	DATE	REPORT NAME	DEPARTMENT
	01/12/17	2016 Annual Report	Assembly
2017-01	01/11/17	Anchorage Public Library Cash Controls	Library
2017-02	01/11/17	Anchorage Senior Activity Center: Contract Administration	Health and Human Services
2017-03	01/11/17	Anchorage Senior Activity Center: Contract Compliance	Health and Human Services
2017-04	03/09/17	Police and Fire Retiree Medical Trust 2-Year Review	Employee Relations
2017-05	03/23/17	Chugiak-Eagle River Senior Center: Contract Compliance	Health and Human Services
2017-06	04/06/17	2016 Parts, Gravel, Recycled Asphalt, Fuel and Chemicals Inventory	Anchorage Water and Wastewater Utility
2017-07	07/27/17	Annual Municipal Procurement Card Review	Purchasing
2017-08	09/14/17	Municipal Leases Follow-Up	Real Estate
2017-09	10/12/17	Bradley Lake Operation and Maintenance Costs	Municipal Light and Power
2017-10	10/12/17	Library Donations	Library
2017-11	10/12/17	Preferential Use Agreements	Port
2017-12	12/07/17	Cash Control Procedures	Solid Waste Services

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## **INDEX OF 2017 SCHOOL DISTRICT AUDIT REPORTS**

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## 2017 SCHOOL DISTRICT AUDIT REPORTS

<b>NUMBER</b>	<b>DATE</b>	<b>REPORT NAME</b>
ASD 2017-01	01/11/17	Health Insurance Internal Service Fund
ASD 2017-02	06/01/17	Cash Collections at Elementary Schools
ASD 2017-03	09/08/17	Decentralized Student Activities

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## **INDEX OF 2017 SUNSET AUDIT REPORTS**

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## 2017 SUNSET AUDIT REPORTS

<b>NUMBER</b>	<b>DATE</b>	<b>COMMISSION/BOARD</b>	<b>DEPARTMENT</b>
2017-S1	08/09/17	Public Safety Advisory Commission	Anchorage Fire Department
2017-S2	08/09/17	Watershed and Natural Resources Advisory Commission	Planning

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## **INDEX OF 2017 MUNICIPAL SPECIAL PROJECTS**

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## 2017 MUNICIPAL SPECIAL PROJECTS

DATE	SUBJECT	RECIPIENT
01/27/17	Building Safety Survey Fourth Quarter Results: 10/01/16 – 12/31/16	Assembly
02/10/17	Follow-up Study to Internal Audit Report 2016-05	Assembly
02/24/17	Integrated Disbursement and Information System and PeopleSoft Reconciliation	Administration
02/27/17	International Brotherhood of Electrical Workers Local 1547	Assembly
03/02/17	Plumbers and Pipefitters, Local 367 Cost Validation	Assembly
03/15/17	Federation of Community Councils, Inc.	Assembly
04/10/17	Fund 181 Transaction History	Assembly
05/22/17	Review of Selected Cash Handling Procedures at the Department of Health and Human Services	Administration
06/06/17	Teamsters Local 959 Contract Cost Validation	Assembly
06/26/17	2016/2017 Procurement Card Rebate	Administration
06/27/17	IAFF Contract Cost Validation	Assembly
08/01/17	Anchorage Fire Department Executive Pay Adjustments	Assembly
08/01/17	Anchorage Police Department Executive Pay Adjustments	Assembly
08/14/17	SAP Role Mapping	Administration
08/15/17	Plumbers and Pipefitters, Local 367 Cost Validation – Administrative Agreement	Assembly
10/03/17	Anchorage Municipal Employees Association, Inc. Administrative Agreement Cost Validation	Assembly

## 2017 MUNICIPAL SPECIAL PROJECTS

<b>DATE</b>	<b>SUBJECT</b>	<b>RECIPIENT</b>
10/18/17	Review of Awarding Process for Enterprise Resource Planning Software and Implementation for the Municipality of Anchorage	Assembly
10/26/17	2016 Municipal Travel	Assembly
11/28/17	IBEW-Technicians Contract Cost Validation	Assembly
12/12/17	APDEA Contract Cost Validation	Assembly
12/19/17	Dome Repair Plan	Assembly

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**INDEX OF 2017 SCHOOL DISTRICT  
SPECIAL PROJECTS**

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## 2017 SCHOOL DISTRICT SPECIAL PROJECTS

<b>DATE</b>	<b>SUBJECT</b>
03/31/17	Special Education Scoping Review
09/05/17	Pro-Rate Study

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**EXECUTIVE SUMMARIES FROM  
2017 MUNICIPAL AUDIT REPORTS**

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January 11, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-01, Anchorage Public Library Cash Controls, Anchorage Public Library**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the Anchorage Public Library Cash Controls. The objective of this audit was to determine whether the Anchorage Public Library had proper cash controls in place, and if these controls were in compliance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. To accomplish our objective, we performed surprise cash counts, verified if deposits were made timely, and reviewed Cashier Daily Summary Reports and other cash documents for completeness. We also reviewed controls over the Anchorage Public Library's keys and safes. In addition, we determined if the Anchorage Public Library's staff were in compliance with the cashier and supervisor training requirements of Policy and Procedure 24-1.

Our audit revealed that cash controls at the Anchorage Public Library require improvement. Specifically, cash deposits were not reconciled with paid fines and fees as recorded in the SirsiDynix Symphony, an integrated library system. In addition, Anchorage Public Library staff had not processed nor deposited cash payments collected at the Anchorage Public Library's self-service machines. Moreover, the Anchorage Public Library's cash handling practices did not always comply with Policy and Procedure 24-1. Finally, there was a lack of cash controls over revenues collected from the Anchorage Public Library's JAMEX vending machines for copiers and printers and revenues collected from the Z.J. Loussac Library's coin change machines.

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

January 11, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-02, Anchorage Senior Activity Center: Contract Administration, Department of Health and Human Services**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the Anchorage Senior Activity Center: Contract Administration at the Department of Health and Human Services. The objective of this audit was to determine whether the contract was administered effectively. To accomplish our objective, we reviewed the last four quarterly reports submitted by Anchorage-Age Center, Inc. to the Department of Health and Human Services from October 1, 2015, to September 30, 2016, as well as other reports required by the contract. We also evaluated other contractual clauses.

Our audit revealed that the administration and monitoring of the contract needs improvement. Specifically, some of the contractual goals and objectives appeared obsolete, unattainable, unreasonable, ambiguous, and difficult to measure. In addition, contractual requirements regarding subcontractor approval and facility space rental approval appeared ambiguous and unreasonable.

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

January 11, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-03, Anchorage Senior Activity Center: Contract Compliance, Department of Health and Human Services**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the Anchorage Senior Activity Center: Contract Compliance at the Department of Health and Human Services. The objective of this audit was to determine whether Anchorage-Age Center, Inc. complied with the contract requirements. To accomplish our objective, we reviewed the last four quarterly reports submitted by Anchorage-Age Center, Inc. to the Department of Health and Human Services from October 1, 2015, to September 30, 2016, as well as other reports required by the contract. We also evaluated other contractual clauses.

Our audit revealed that Anchorage-Age Center, Inc. had not complied with some of the contract's requirements. Specifically, our review of the last four quarterly reports revealed that Anchorage-Age Center, Inc.'s reported performance was not measured against contractual goals and objectives. In addition, quarterly reports submitted by Anchorage-Age Center, Inc. to the Contract Administrator needed improvement. Furthermore, Anchorage-Age Center, Inc. did not comply with all of the yearly and monthly reporting requirements stipulated in the contract. Finally, contractual requirements regarding fixed asset reporting, subcontractor approval, and space rental approval were not met.

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

March 9, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-04, Police and Fire Retiree Medical Trust 2-Year Review, Employee Relations Department**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the Police and Fire Retiree Medical Trust 2-Year Review of the Employee Relations Department. The objective of this audit was to perform the fourth two-year review of the administrative costs and enrollment and payment records for members purchasing health insurance through the Municipality of Anchorage, as required by Anchorage Municipal Code 3.87.070.B. Specifically, we evaluated trust administration costs incurred from January 2015 to September 2016, and reviewed enrollment and payment records.

Our audit revealed that Retiree Medical Funding Program for Police Officers and Firefighters operations generally complied with Anchorage Municipal Code 3.87. Specifically, enrollment and payment records were found to be accurate for members purchasing health insurance through the Municipality of Anchorage. In addition, administrative costs charged to Fund 713, Police and Fire Retirees Medical Expendable Trust, from January 2015 through September 2016, generally appeared reasonable. However, we found that the Municipality of Anchorage's Employee Relations Department did not bill the Police and Fire Retiree Medical Trust the excess 2015 salary and benefits paid by the Municipality of Anchorage for the trust program administrator position. In addition, an agreement to provide for full payroll and employee benefit services for Retiree Medical Funding Program for Police Officers and Firefighters staff was not entered into between the Board and the Municipality of Anchorage. Finally, the organizational placement of the trust program administrator and administrative assistant needs to be clarified, as recommended in previous Internal Audit reports.

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

March 23, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-05, Chugiak-Eagle River Senior Center: Contract Compliance, Department of Health and Human Services**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed a Contract Compliance audit of the Chugiak-Eagle River Senior Center. The objective of this audit was to determine whether Chugiak Senior Citizens, Inc. complied with the contract requirements to operate the Chugiak-Eagle River Senior Center. To accomplish our objective, we reviewed the monthly reports submitted by Chugiak Senior Citizens, Inc. to the Department of Health and Human Services from November 1, 2015, to October 30, 2016, as well as other reports required by the contract. We also reviewed other supporting documentation and evaluated other contractual clauses.

Based on our review, we determined that Chugiak Senior Citizens, Inc. has generally complied with the current contract. However, our review of the last 12 monthly reports revealed that the Chugiak Senior Citizens, Inc.'s reported performance was not measured against contractual goals and objectives. In addition, Chugiak Senior Citizens, Inc. did not comply with some of the financial information reporting requirements.

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

April 6, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-06, 2016 Parts, Gravel, Recycled Asphalt, Fuel and Chemicals Inventory, 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 the 2016 Parts, Gravel, Recycled Asphalt, Fuel and Chemicals Inventory. The objective of this audit was to determine the accuracy of Anchorage Water and Wastewater Utility's inventory records for parts, gravel, recycled asphalt, fuel and chemicals. Specifically, we performed inventory counts based on random and judgmental samples at the King Street Operations and Maintenance Warehouse. We also inventoried chemicals at Anchorage Water and Wastewater Utility's Eklutna and Ship Creek Water Treatment Plants and Anchorage Water and Wastewater Utility's Asplund and Eagle River Wastewater Treatment Plants. In addition, we inventoried fuel stored at Anchorage Water and Wastewater Utility's King Street, Arctic Boulevard, and Eklutna facilities. Moreover, we verified that adjusting entries were processed accurately. Finally, we reviewed Anchorage Water and Wastewater Utility's inventory procedures.

Based on our test counts, our audit revealed that the inventory records for the King Street Operations and Maintenance Warehouse were reasonably accurate. In addition, inventory records for chemicals at Anchorage Water and Wastewater Utility's Eklutna, Ship Creek, Asplund, and Eagle River facilities were reasonably accurate. However, the gravel and recycled asphalt inventory process needs clarification.

There was one finding in connection with this audit. Management was responsive to the finding and recommendation.

July 27, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-07, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed an audit of the Procurement Card program. The objective of this audit was to determine whether employees adhered to Municipal policies and procedures regarding Procurement Card use. Our audit included a review of purchases made from January 1, 2016, to December 31, 2016. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with Policy and Procedure 48-16, Policy and Procedure 24-23, and the Procurement Card Guide.

Based on our review, it is our opinion that, overall, most employees adhered to Municipal policies and procedures regarding the use of Procurement Cards. However, transactions were sometimes split to circumvent the cardholder's single transaction limit. In addition, our review of calendar year 2016 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases include flu vaccinations, food and related items for employee training and lunch meetings, appliances for staff use, a gift for employees, art work for a Christmas card, Christmas cards, and premium satellite television subscriptions.

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

September 14, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-08, Municipal Leases Follow-Up, Real Estate Department**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed a follow-up audit of Municipal Leases. The objective of this follow-up audit was to determine the effectiveness of corrective actions taken by the Real Estate Department on the deficiencies contained in Internal Audit Report 2015-01. To accomplish our objective, we reviewed lease and payment tracking information at the Real Estate Department. We also reviewed selected lease agreements to verify if they were current, properly documented, and maintained. In addition, we reviewed and determined if lessees were in compliance with the insurance requirements of the leases. Moreover, we determined whether lease payments were made in accordance with the lease terms and properly handled. Finally, we determined if the Real Estate Department staff had been provided training and developed policies and procedures.

Per our review, management corrected and significantly improved most of the issues identified in Internal Audit Report 2015-01. Our follow-up audit revealed that action taken by the Real Estate Department was effective for eight of the ten deficiencies, partially effective for one deficiency, and not effective for the remaining deficiency. We found that some further management action is still required. Specifically, the Real Estate Department did not always enforce the insurance requirements for leases and did not always have adequate support for insurance coverage.

There were ten follow-up findings in connection with this audit. Two of these follow-up findings each had a recommendation. Management was responsive to the findings and recommendations.

October 12, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-09, Bradley Lake Operation and Maintenance Costs, Municipal Light and Power**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed an audit of the Bradley Lake Operation and Maintenance Costs. The objective of this audit was to determine whether the charges by the Homer Electric Association during calendar year 2016 to Municipal Light and Power for the operation and maintenance of the Bradley Lake Hydroelectric Project complied with the applicable agreements. To accomplish our objective, our audit included a review of all charges to the Alaska Energy Authority by the Chugach Electric Association and the Homer Electric Association from January 1, 2016, to December 31, 2016.

Our audit revealed that the operation and maintenance expenditures made by the Homer Electric Association in fiscal year 2016 to the Bradley Lake Hydroelectric Project were in compliance with applicable agreements. However, hourly charges for flights using a Cessna airplane were charged to the Bradley Lake Hydroelectric Project, but many of the flights did not occur. Also, our review of Bradley Lake Hydroelectric Project expenditures revealed some questionable operation and maintenance expenditures. Finally, the Chugach Electric Association submitted their invoices to the Alaska Energy Authority from 2 to 27 days late because the Alaska Energy Authority did not enforce the time limit for billing of services.

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

October 12, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-10, Library Donations, Anchorage Public Library**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed an audit of the Anchorage Public Library Donations. The objective of this audit was to determine whether donations to the Anchorage Public Library were properly accounted for and used for their intended purpose. To accomplish our objective, we reviewed donation information at the Anchorage Public Library, interviewed Anchorage Public Library staff, and reviewed current policy and procedures.

Our audit revealed that the Anchorage Public Library has not always properly accounted for donations made for specific purposes. For example, donations made to the Anchorage Public Library were not recorded on a log when they were received by Anchorage Public Library staff. In addition, there was no written agreement between the Municipality of Anchorage and the Anchorage Library Foundation authorizing the Municipality of Anchorage to provide employee labor and resources to support the Anchorage Library Foundation's donation activities and Municipal employees sometimes ordered materials for the Friends of the Library using donation funds. Finally, over \$14,000 in donated funds had not been appropriated at the time of this audit and there was a lack of segregation of duties regarding controls over the processing of donations received for the Anchorage Library Foundation.

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

October 12, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-11, Preferential Use Agreements, Port of Anchorage**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed an audit of the Preferential Use Agreements. The objective of this audit was to determine the accuracy of reports submitted by Totem Ocean Trailer Express, Inc. and Matson Navigation Company of Alaska, LLC for the purpose of billing for wharfage charges. To accomplish the audit objective, we reviewed tonnage reports submitted between January 2016 through May 2017 by Totem Ocean Trailer Express, Inc. and Matson Navigation Company of Alaska, LLC. We also selected and reviewed Totem Ocean Trailer Express, Inc.'s dunnage report and compared the information to the support provided to determine if the cargo qualified as dunnage under the Terminal Tariff. We were not able to verify Matson Navigation Company of Alaska, LLC's reported dunnage since Matson Navigation Company of Alaska, LLC did not provide the supporting document without us signing a non-disclosure agreement. We did not sign the non-disclosure agreement since it could impair our ability to report potential findings accurately.

Our audit revealed that reports submitted by Matson Navigation Company of Alaska, LLC and Totem Ocean Trailer Express, Inc., for purposes of billing wharfage charges, were not always accurate. Specifically, Matson Navigation Company of Alaska, LLC did not pay wharfage on nonrevenue cargo. In addition, Totem Ocean Trailer Express, Inc. did not report Alaskans for Litter Prevention and Recycling loads and company business cargo on its tonnage reports submitted to the Port of Anchorage.

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

December 7, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-12, Cash Control Procedures, Solid Waste Services**. A brief summary of the report is presented below.

In accordance with the 2017 Audit Plan, we have completed an audit of the Solid Waste Services Cash Control Procedures. The objective of this audit was to determine whether adequate controls were in place over cash and credit card transactions at the Anchorage Regional Landfill, transfer stations, and the Solid Waste Services' Customer Service Call Center, and if these controls were in compliance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. To accomplish our objective, we performed surprise cash counts at the various facilities and reconciled selected 2016 and 2017 Solid Waste Services' deposits with the deposits recorded in PeopleSoft. We also reviewed cash receipt documents submitted to the Treasury Division for completeness and reviewed Solid Waste Services' accounts receivable procedures.

Our audit revealed that cash controls at Solid Waste Services could be improved. We found that cash handling practices did not always comply with the requirements of Policy and Procedure 24-1. In addition, Solid Waste Services' accounts receivable need to be better managed, and rates were not always approved by the Assembly. Finally, Treasury Division staff did not provide formal cash handling training in 2016 and 2017 to Solid Waste Services supervisors and cashiers.

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

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**EXECUTIVE SUMMARIES FROM  
2017 SCHOOL DISTRICT AUDIT REPORTS**

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January 11, 2017

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2017-01; Health Insurance Internal Service Fund; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Health Insurance Internal Service Fund. The objective of this audit was to determine the causes for significant variances and if processes were in place to accurately report activity fund balances for the Health Insurance Internal Service Fund. We reviewed Health Insurance Internal Service Fund activity for fiscal year 2015-16.

Our review found that the Health Insurance Internal Service Fund balance was not consistently monitored and accurately reported to the Anchorage School Board.

There was one finding in connection with this audit. Management was responsive to the finding and recommendations.

June 1, 2017

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2017-02; Cash Collections at Elementary Schools; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Cash Collections at Elementary Schools. The objective of this audit was to determine the adequacy of controls over funds collected at elementary schools and elementary charter schools for student activities and classroom fees, and whether receipts were properly recorded in the Integrated Financial and Administrative Solution system. To achieve our objective, we conducted surprise cash counts at elementary schools and elementary charter schools and surveyed school staff on current practices. We also evaluated compliance with Anchorage School District policies and procedures and evaluated the effectiveness of internal controls. In addition, we judgmentally selected receipt transactions and 186 deposit packages totaling \$239,080 from 11 judgmentally selected elementary schools and elementary charter schools and a department to determine whether fund sources were documented and accounted for properly. The scope of our review consisted of receipt transactions processed during the period of July 1, 2015, through September 30, 2016, and did not include student nutrition receipts or online payments.

Overall, cash controls at the elementary schools and elementary charter schools need improvement. Our review revealed that cash handling practices at the elementary schools and elementary charter schools did not always comply with the Integrated Financial and Administrative Solution Cash Handling User Guide requirements. In addition, funds were not always deposited on a weekly basis and, at one school, manual receipts were not always documented in deposit packages. Moreover, funds from non-Anchorage School District accounts were stored in some elementary schools' and elementary charter schools' safes, and checks were not always endorsed upon receipt. Finally, we identified instances where cash receipts were withheld to reimburse staff.

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

September 8, 2017

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2017-03, Decentralized Student Activities, Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Decentralized Student Activities. The objective of this audit was to determine if decentralized student activity funds were consistently and effectively managed and controlled throughout the District according to its policies and procedures. To achieve our objective, we judgmentally selected cash receipts and deposits to ensure funds were deposited and accounted for properly. We also reviewed disbursements and account adjustments to determine if they were properly supported. In addition, we reviewed money used to provide change (change funds), raffle ticket activity, and evaluated the effectiveness of internal controls. The scope of our review consisted of decentralized transactions for cash receipts and disbursements processed from January 1, 2016, through February 28, 2017. For the review of change funds we went back to July 1, 2015, to ensure we had an accurate understanding of when change funds were established.

Improvements are needed to better account for decentralized student activity funds. Specifically, cash and checks deposited at the bank did not always match what was collected by schools, cash was not always deposited timely, and raffle ticket activity and sales in calendar year 2016 were not documented and were not in a condition to be audited at one high school. Moreover, some schools did not account for change funds properly, cash receipt numbers were not always accounted for in Datateam Activities Accounting Pro or manual receipts were not on file, and disbursements were not always properly documented and executed as required by the Student Activity Funds Accounting Manual. In addition, three purchase quotes were not obtained for disbursements made to vendors who had a conflict of interest waiver on file, adjustments in Datateam Activities Accounting Pro were not always documented by signed fund transfer forms or adjustment journals as required by the Student Activity Funds Accounting Manual, and gaps in check numbers existed at four schools. Finally, a donation and some purchases were not properly approved, a process control weakness existed for entering timely receipts into Datateam Activities Accounting Pro, and additional guidance is needed in the Student Activity Funds Accounting Manual to address the receipt of large volume transactions.

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

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**EXECUTIVE SUMMARIES FROM  
2017 SUNSET AUDIT REPORTS**

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August 9, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present **Sunset Audit Report 2017-S1, Public Safety Advisory Commission, Anchorage Fire Department**, for your review. A brief summary of the report is presented below.

In accordance with Assembly Ordinance Number 2011-64(S-1), Section 14, we have performed a sunset audit of the Public Safety Advisory Commission. The objective of this audit was to provide information to the Mayor and Assembly to assist them in determining if the Public Safety Advisory Commission should be reauthorized. Our audit included a review of meeting minutes, resolutions and agendas, and member authorization and participation.

Based on our review of meeting minutes, resolutions, and attendance records, we recommend that the Public Safety Advisory Commission be reauthorized. The Public Safety Advisory Commission is fully staffed. However, the terms for three Public Safety Advisory Commission members expired on October 14, 2016, but these members continue to serve on the Public Safety Advisory Commission.

The Public Safety Advisory Commission will sunset on October 14, 2017, unless reauthorized by the Assembly.

August 9, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present **Sunset Audit Report 2017-S2, Watershed and Natural Resources Advisory Commission, Planning Department**, for your review. A brief summary of the report is presented below.

In accordance with Assembly Ordinance Number 2011-64(S-1), Section 14, we have performed a sunset audit of the Watershed and Natural Resources Advisory Commission. The objective of this audit was to provide information to the Mayor and Assembly to assist them in determining if the Watershed and Natural Resources Advisory Commission should be reauthorized. Our audit included a review of meeting minutes, resolutions and agendas, and member authorization and participation.

Based on our review of meeting minutes, resolutions, and attendance records, we recommend that the Watershed and Natural Resources Advisory Commission be reauthorized. The Watershed and Natural Resources Advisory Commission is staffed with eight of the required nine members. However, the terms for three Watershed and Natural Resources Advisory Commission members expired on October 14, 2016, but these members continue to serve on the Watershed and Natural Resources Advisory Commission.

The Watershed and Natural Resources Advisory Commission will sunset on October 14, 2017, unless reauthorized by the Assembly.

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**ANCHORAGE MUNICIPAL CODE 3.20**

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## ANCHORAGE MUNICIPAL CODE 3.20

### **“3.20.100 Office of internal audit established; staff.**

- 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 the municipality.
  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.

(AO No. 77-359; AO No. 79-27; AO No. 80-5; AO No. 88-70(S))

**Charter reference:** Independent audit, § 13.10.”

**“3.20.110 Responsibilities of the director of internal audit.**

A. No later than January 31 of each year, the director of internal audit shall:

1. Prepare a draft annual audit plan;
2. Submit the draft plan to municipal audit committee members for review and comment; and
3. Finalize the plan and submit it to the municipal audit committee for final review and endorsement.

The audit plan shall be the official list of audits to be conducted by internal audit during the year. 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 section 3.20.100, and promptly submit the revisions to municipal audit committee members for review and comment and then to the mayor and assembly for approval. Except for audits such as cash and inventory audits where, based on the professional judgment of the director of internal audit, prior notification may hinder the effectiveness of the audit, no audit to be added to the annual audit plan as a revision may commence until the audit plan is revised and approved per this subsection.

B. In addition to those audits contained in the annual audit plan outlined in subsection A of this section, audits may also be undertaken at the direction of the mayor or a majority of the assembly. The mayor will notify the assembly through an assembly information memorandum (AIM) or other appropriate means prior to commencement of such audits.

C. 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.

D. 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.
- E. Audits shall be conducted in accordance with generally accepted government auditing standards.
- F. 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.
- G. The director of internal audit shall present conclusions, findings and recommendations, along with verbatim responses from the administration, in a written audit report.
- H. The written audit report shall be promptly presented simultaneously to the mayor and the assembly.
- I. Copies of final audit reports of the office of internal audit shall be available for public inspection during regular business hours.
- J. 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.

(AO No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S); AO No. 95-165(S-1), § 2, 10-3-95; AO No. 2015-23(S), § 4, 3-24-15)”

**“3.20.120 Responsibilities of administration when deficient conditions disclosed by audit.**

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 nonconcurrence 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.

(AO No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S); AO No. 2015-23(S), § 5, 3-24-15)”

**“3.20.130 Access to municipal information by office of internal audit.**

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 3.90.020;
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.

(AO No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S); AO No. 2015-23(S), § 6, 3-24-15)”