

April 14, 2010

Internal Audit Report 2010-04
Girdwood Volunteer Fire Department Contract Compliance
Anchorage Fire Department

Introduction. Since 1998, the Municipality of Anchorage (Municipality) has contracted with Girdwood Volunteer Fire and Rescue, Incorporated (Contractor), a non-profit corporation, for providing emergency medical services (EMS) and fire protection services within the Girdwood Valley Service Area. The contract is administered by the Fire Chief of the Anchorage Fire Department (Administrator) or his designee. The contract has been amended several times, most recently in 2009. In 2009, the Municipality made direct payments of about \$603,000 to the Contractor to provide the services. According to Anchorage Municipal Code 27.30.020, *Girdwood Valley Service Area*, the Girdwood Valley Service Area Board of Supervisors (Board), consisting of five individuals, oversees fire protection, street construction and maintenance, solid waste collection, and parks and recreation for the area.



Objective and Scope. The objective of this audit was to determine whether the Contractor provided the services as required by the contract. Specifically, we reviewed the following areas for contract compliance: budgeting, expenditures, training, and response documentation.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of February 2010 through March 2010. This audit was requested by the Administration.

Overall Evaluation. The Contractor provided fire protection and emergency medical services as required by the contract. In addition, the Contractor complied with staff training and response documentation requirements. However, the Contractor did not maintain expenditure records in accordance with the contract. Moreover, the annual operating budget may not meet the contract's intent. Finally, the insurance clause in the contract required revision to clarify what insurance policies are required and who should provide them.

FINDINGS AND RECOMMENDATIONS

1. Expenditure Records Not Maintained in Accordance With the Contract.

- a. Finding.** The Contractor did not keep records of and account for expenditures as required by Section 5 of the contract. Instead, accounting records were maintained for the general fund regardless of funding source. In addition, the Contractor did not provide records of expenditures to the Administrator as required. Also, the consolidated annual summary of all operating expenses submitted to the Municipality included expenditures by the Contractor not segregated by funding source (donations, fund raising, etc.). Finally, the consolidated annual summary of all operating expenses did not segregate funding and expenses between EMS and fire services.

- b. **Recommendation.** The Contract Administrator should ensure that required records of expenditures are maintained in accordance with Section 5 of the contract, or revise the contract. In addition, the Contract Administrator should clarify the contract to segregate expenditures between EMS and fire services.
- c. **Management Comments.** Management stated, “Concurrence. AFD has already met with GFD [contractor] to discuss segregation of the accounting of funds by EMS and Fire and by funding source. In addition the contract will be amended to remove the requirement for the contractor to provide copies of all invoices.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Annual Operating Budget May Not Meet Contract’s Intent.**

- a. **Finding.** The annual operating budget submitted by the Contractor may not meet the contract’s intent. While an annual budget had been prepared with the assistance of the Contract Administrator and approved by the Board, the 2009 budget did not contain any specific line items for various budget categories and only contained total amounts for contract costs (\$384,800), a Road Manager (\$58,000) and Areawide EMS (\$150,000). Section 5.D of the contract states that the contractor will expend funds only in accordance with the budget approved by the Anchorage Assembly, indicating that the budget should contain more detail than a lump sum amount.

In addition, the budget included amounts for debt service, Intergovernmental Charges (IGC’s) from other departments (\$115,203), and IGC’s to other departments (\$27,560). These budget items were outside the Contractor’s responsibilities and did not represent contract costs. Finally, the budget for the Contractor was not submitted to the

the Anchorage Assembly for approval as required by Section 5.A of the contract, but was included in the Fire Department's annual budget for the Girdwood Volunteer Fire and Rescue, Incorporated.

- b. **Recommendation.** The Contract Administrator should reassess the provisions for the contract budget and revise the contract accordingly.
- c. **Management Comments.** Management stated, "Concurrence. The relationship of the annual budget approval process between the Girdwood Board of Supervisors and AFD does not follow what is written in the contract. AFD will amend the contract provisions."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **The Contract's Insurance Clause Requires Revision.**

- a. **Finding.** The insurance clause in the contract is not correct. The clause requires the Municipality to provide the various insurance policies with the Contractor bearing the cost. However, according to the Municipality's Risk Manager, the Municipality only provides the All Risk Property Policy with a \$100,000 per occurrence deductible and Workers' Compensation and Employer's Liability policy. The Contractor is currently purchasing other required insurance. An amendment to the insurance clause in the contract was worked on, but not processed and implemented.
- b. **Recommendation.** The Contract Administrator should revise the contract regarding the various required insurance policies to specify what insurance is required, who will provide the policies, and who will pay for them.

- c. **Management Comments.** Management stated, “Concurrence. In 2009, Insurance requirements were discussed in a series of meetings between the Chugiak and Girdwood Fire Departments, AFD, the MOA Risk Manager and the MOA Purchasing Director. The contract needs to be reviewed and amended to make sure the final agreed upon insurance requirements and payment allocation is reflected in the contract terms.”

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

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on March 25, 2010.

Audit Staff:
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