

INTERNAL AUDIT REPORT

2013-08

Chugiak Volunteer Fire Department –
Fiscal Internal Controls

Anchorage Fire Department

November 21, 2013

MUNICIPALITY OF ANCHORAGE
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Mayor Dan Sullivan

November 21, 2013

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2013-08, Chugiak Volunteer Fire Department – Fiscal Internal Controls, Anchorage Fire Department** for your review. A brief summary of the report is presented below.

At the request of the Municipal Audit Committee, we have completed an audit of the Chugiak Volunteer Fire Department fiscal internal controls. The objective of this audit was to determine whether Chugiak Volunteer Fire and Rescue Company, Incorporated, had proper fiscal internal controls. Specifically, we reviewed 2013 expenditures to determine if they were valid, supported by invoices from valid merchants, and were properly approved. In addition, we determined if the duties of check writing, approval, reconciliation and approval were properly segregated.

Fiscal controls at the Chugiak Volunteer Fire and Rescue Company required strengthening. Specifically, there was a lack of segregation of duties between purchasing, paying, reconciling and approving activities. We also found that bank and credit card statements were not reconciled in a timely manner. Debit and credit card transaction were not reviewed and approved by the Board of Supervisors. Credit card statements were not paid timely resulting in finance charges and late payment fees. Finally, the check authorization policy was not always followed.

There were six findings resulting from this audit. Management was responsive to the findings and recommendations.

Peter Raiskums, CIA, CFE, CGFM
Director, Internal Audit

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Internal Audit Report 2013-08
Chugiak Volunteer Fire Department – Fiscal Internal Controls
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Introduction. Since 2007, the Municipality of Anchorage (Municipality) has contracted with the Chugiak Volunteer Fire and Rescue Company, Incorporated (Contractor), a non-profit corporation, to provide fire protection, rescue, and emergency medical services within the Chugiak Fire Service Area. The contract is administered by the Fire Chief of the Anchorage Fire Department (Contract Administrator) or his designee. In 2012, the Municipality made direct payments of \$856,050 to the Contractor to provide services. There are currently two paid employees who are related to each other: an Administrative Officer, who is also the Fire Chief, and the Maintenance Manager. According to the Contractor's website, they provide fire protection, rescue, and EMS response to an area of approximately 50 square miles with a population of around 14,000. The Chugiak Fire Service Area Board of Supervisors (Board) consists of three individuals. The Board's duties and responsibilities include overseeing the provision of fire services in the Chugiak Fire Service Area, and preparing and submitting an annual budget to the municipal administration and Assembly for approval.

Objective and Scope. The objective of this audit was to determine whether the Contractor had proper fiscal internal controls. Specifically, we reviewed the Contractor's 2013 expenditures to determine if they were for valid purchases, supported by valid invoices, made to valid merchants, and were properly approved and reconciled in the financial system. In addition, we determined if the Contractor had adequate segregation of duties for expending funds.

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 August through September 2013. The audit was requested by the Municipality's Audit Committee.

Overall Evaluation. Fiscal controls over the Contractor’s funds required strengthening. Specifically, there was a lack of segregation of duties regarding controls over accounts payable. Moreover, the Contractor did not always reconcile bank statements and credit card statements in a timely manner. Furthermore, there was a lack of internal controls over purchases made with a debit card or credit card. In addition, the Contractor’s credit card account was not properly managed. Finally, the Contractor’s Check Authorization Policy was not always followed.

FINDINGS AND RECOMMENDATIONS

1. Lack of Segregation of Duties.

- a. Finding.** There was a lack of segregation of duties regarding controls over accounts payable. Specifically, we found one individual had authority over entering, printing and signing checks, approving check payments over \$5,000 but less than \$10,000, making payments using the debit card or credit card, and reconciling the bank and credit card statements. Adequate segregation of duties becomes critically important since some of the Contractor’s staff and volunteers are related to each other.
- b. Recommendation.** The Contract Administrator should work with the Board to ensure that key duties are segregated among different individuals.
- c. Management Comments.** Management stated “Concur. We will forward a copy of this report to the Chugiak Fire Service Area Board of Supervisors for consideration.”

The full text of the Chugiak Fire Service Area Board of Supervisors’ response is included as Attachment 1.

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

2. **Statement Reconciliations Not Always Done Timely.**

- a. **Finding.** The Contractor did not always reconcile bank statements and credit card statements in a timely manner. Specifically, we found that in 2013, one bank statement was reconciled 76 days after the statement period ended. Two other bank statements were reconciled 48 days and 46 days after the statement periods ended. During the same period, one credit card statement was reconciled 64 days after the statement period ended and another was reconciled 55 days after the statement period ended. Timely reconciliation of bank statements and credit card statements can help create strong fiscal internal controls by uncovering differences that may need further investigating, detecting errors on the part of the bank and/or the entity, and ensuring that account balances are accurate and reflect the true financial position of the entity.
- b. **Recommendation.** The Contract Administrator should work with the Board to ensure that the Contractor reconciles the bank statements and credit card statements in a timely manner.
- c. **Management Comments.** Management stated “Concur. We will forward a copy of this report to the Chugiak Fire Service Area Board of Supervisors for consideration.”
- The full text of the Chugiak Fire Service Area Board of Supervisors’ response is included as Attachment 1.
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Lack of Internal Controls Over Debit Card.**

- a. **Finding.** There was a lack of internal controls over purchases made with a debit card. Specifically, we found that four individuals were each given a debit card. Although more payments were made with the debit card than with checks, debit card transactions did not require approval, authorization or review, and were not always supported by proper documentation. In addition, debit card transactions were not provided to the Board for review. For example, in January 2013, a staff withdrew \$100 cash from an ATM. An invoice with a hand written note stating “vendor accepts cash only” was attached to the cash withdrawal slip. However, the vendor was never identified and “cash” was entered as the vendor in the Contractor’s financial system. In another case, staff used a debit card to pay \$1,955.73 to a vendor in May 2013. However, as of September 2013, the invoice for the purchase had still not been provided.

Debit cards carry a higher level of liability compared to credit cards. For example, unauthorized charges on a bank statement must be reported within 60 days of receiving the statement. If not, the losses could be unlimited. As a result, there was increased risk of misappropriation due to error, theft, and fraud.

- b. **Recommendation.** The Contract Administrator should work with the Board to consider eliminating the use of the debit card as a payment method. Until debit cards are eliminated the Board should review debit card transactions weekly.
- c. **Management Comments.** Management stated “Concur. We will forward a copy of this report to the Chugiak Fire Service Area Board of Supervisors for consideration.”

The full text of the Chugiak Fire Service Area Board of Supervisors’ response is included as Attachment 1.

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

4. **Lack of Internal Controls Over Credit Cards.**

- a. **Finding.** There was a lack of internal controls over purchases made with a credit card. Specifically, there were six individuals who had the credit card. We found that credit card transactions did not require approval, authorization or review, and were not always supported by proper documentation. In addition, credit card transactions were not provided to the Board for review. For example, a credit card was used to purchase \$250.27 of merchandise from two local supermarkets. The individual who made the purchase never provided the receipts and was later removed from the Contractor’s organization. The purchases were never properly identified. In another instance, we were not able to find invoices for three credit card purchases totalling \$1,244.25.
- b. **Recommendation.** The Contract Administrator should work with the Board to develop internal controls over credit cards, including Board review of credit card transactions weekly.
- c. **Management Comments.** Management stated “Concur. We will forward a copy of this report to the Chugiak Fire Service Area Board of Supervisors for consideration.”

The full text of the Chugiak Fire Service Area Board of Supervisors’ response is included as Attachment 1.

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

5. **Credit Card Account Not Properly Managed.**

- a. **Finding.** The Contractor’s credit card account was not properly managed. Specifically, we found that 4 of 7 credit card statements we reviewed included financial charges and late fees due to late payments or non-payments. As a result, during the statement period of January 2013 through July 2013, a total of \$214.81 in financial charges and late fees were incurred.
- b. **Recommendation.** The Contract Administrator should work with the Board to ensure the Contractor pays the credit card bills in a timely manner.
- c. **Management Comments.** Management stated “Concur. We will forward a copy of this report to the Chugiak Fire Service Area Board of Supervisors for consideration.”

The full text of the Chugiak Fire Service Area Board of Supervisors’ response is included as Attachment 1.

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

6. **Check Authorization Policy Not Always Followed.**

- a. **Finding.** The Contractor’s Check Authorization Policy was not always followed. The Contractor’s Check Authorization Policy required the Contractor to complete a check request form for any check written from the Chugiak Fire Service Area checking account, to receive the Chief’s approval for any check over the amount of \$5,000, and obtain approval from at least one member of the Board and the Chief for any check over \$10,000. The policy also required all checks to have two authorizing signatures. A copy of the check and an invoice/receipt must be turned into the Administrative

Officer to be filed with the approved check request. During our review, we found a \$17,000 payment was made without the check request form being approved by a Board member. In addition, a \$1,000 check was deposited and withdrawn the same day from the checking account using a check. However, a check request form was not completed and the check was signed by only one signer who was also the payee.

- b. **Recommendation.** The Contract Administrator should work with the Board to ensure that the Contractor complies with its Check Authorization Policy.

- c. **Management Comments.** Management stated “Concur. We will forward a copy of this report to the Chugiak Fire Service Area Board of Supervisors for consideration.”

The full text of the Chugiak Fire Service Area Board of Supervisors’ response is included as Attachment 1.

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

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

Audit Staff:
Scott Lee

Attachment 1

The Board of Supervisors of the Chugiak Volunteer Fire Department would like to thank Internal Audit for its examination of our internal financial controls. We requested this audit because the department finds itself in a unique situation. We only have two employees, a financial administrator and a vehicle maintenance manager. This past year, our financial administrator was elected Fire Chief. Normally the Fire Chief with the financial administrator provided the financial checks and balances. Under the current situation, the typical process of using several positions to serve as a check and balance has become challenging with so few people available. However, we believe we are rapidly solving those issues.

Our Board has increased our regular review of the budget, credit cards and checkbook. We are reviewing and changing policies. We also appreciate the additional insight into areas which may need greater internal financial controls.

1. **Lack of segregation of duties....** This is our main concern and was the impetus for our increased involvement. Currently, a member of the Board of Supervisors (BOS) reviews all checks. Additionally, a BOS member and the Chief must approve and sign check payments over \$5,000. We are also now contracting with an external accounting agency to provide additional controls.
2. **Statement reconciliation not done timely.....** Our Chief/administrator is also our most reliable daytime EMS responder. We are also challenged this year by the disruption of relocating to a transient office while our new fire station is being constructed. By far the majority of statements have been reconciled promptly; however we recognize the importance and will prioritize reconciliation. Our new accounting service provider will be responsible for reconciling statements within two weeks.
3. **Lack of internal controls over debit cards.....** The BOS and the Chief have decided to end the practice of using debit cards.
4. **Lack of internal controls over credit cards....** The BOS and the Chief have decided to reduce the number of credit cards given to key department members, will review guidelines for their use, and will have the external service provider reconcile charges. The credit card charges identified in the Audit were for department needs. However, the credit card users failed to follow department policies and keep receipts.
5. **Credit card account not properly managed....**The current credit card provider has not been crediting payments in a timely manner resulting in late fees. We are investigating changing our credit card vendor to the local bank where the department's accounts reside. The new accounting service provider will also ensure timely reconciliation and payments.
6. **Check Authorization policy not always followed....** The \$17,000 check was for multiple electrical projects done by a construction contractor. Each was individually approved but we neglected to get the appropriate signatures on one of the checks. For the other

Audit finding, a third party \$1,000 check was deposited and withdrawn the same day at the bank's discretion. The check was for the department's separate non-profit account and was deposited incorrectly. We were attempting to cash the check for immediate use. We agree with the importance of following authorization policy.

Sincerely,

Debbie Ossiander

Member Board of Supervisors

Chugiak Volunteer Fire Department