

INTERNAL AUDIT REPORT

2021-01

Transfer of Responsibility Agreements

Municipal Manager

April 14, 2021

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Municipality of Anchorage

Austin Quinn-Davidson
Acting Mayor

Internal Audit

April 14, 2021

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2021-01, Transfer of Responsibility Agreements, Municipal Manager**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of Transfer of Responsibility Agreements. The objective of this audit was to determine whether Transfer of Responsibility Agreements requiring an exchange of funds from the State of Alaska to the Municipality of Anchorage to cover ongoing costs were properly administered. To accomplish our objective, we reviewed a sample of the active Transfer of Responsibility Agreement files to ensure that they contained the appropriate documentation and to determine if the Transfer of Responsibility Agreements were properly set up in SAP. In addition, we determined if Transfer of Responsibility Agreement expenditures were accurately tracked to ensure that Transfer of Responsibility Agreement award amounts covered the actual costs incurred by the Municipality of Anchorage.

Our audit revealed that the administration of some Transfer of Responsibility Agreements could be improved. Specifically, some Transfer of Responsibility Agreement costs were not properly tracked for Transfer of Responsibility Agreements that specified fixed payments to the Municipality of Anchorage. In addition, Transfer of Responsibility Agreements were not clearly defined within the Municipality of Anchorage. As a result, it would be difficult to identify with certainty how many Transfer of Responsibility Agreement exist within the Municipality of Anchorage.

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

Michael Chadwick, CIA, CICA
Director, Internal Audit



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Introduction.

Both the Municipality of Anchorage (Municipality) and the State of Alaska (State) are responsible for designing, building, and maintaining various projects within their respective jurisdictions. For example, the State of Alaska Department of Transportation and Public Facilities (DOT&PF) is responsible for some Rights-of-Way (ROW) and transportation facilities within the boundaries of the Municipality, and to the extent that DOT&PF has a responsibility to administer Federal Highway Administration funds for projects within the boundaries of the Municipality, these jurisdictions can overlap. Usual areas of overlap include: Funding, Transfers of Responsibilities, Intergovernmental and Public Review, and Construction Management.

Because of these overlaps, the State and Municipality may mutually decide to transfer or exchange all or part of the responsibility to design, construct, operate and/or maintain a facility or project. To document any transfer of funds and/or reallocation of responsibilities between the State and Municipality, the parties enter into a Transfer of Responsibilities Agreement (TORA). Currently, the State and Municipality have at least 41 open agreements involving an ongoing exchange of operation or maintenance responsibilities for various projects, programs, facilities, or properties throughout the Municipality. Five of these agreements include an exchange of funds from the State to the Municipality to cover ongoing costs and are designated as TORAs. Examples include the Eagle River Street Maintenance program, Anchorage Traffic Control System Operation and Maintenance program (including street lights that connect to the traffic control system), and Anchorage Metropolitan Area Transportation Solutions (AMATS) Traffic Counts TORAs.

Objective and Scope.

The objective of this audit was to determine whether TORAs requiring an exchange of funds from the State to the Municipality to cover ongoing costs were properly administered. Specifically, we reviewed a sample of the active TORA files to ensure that they contained the appropriate documentation and to determine if the TORAs were properly set up in SAP. In addition, we determined if TORA expenditures were accurately tracked to ensure that TORA award amounts covered the actual costs incurred by the Municipality.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of July through December 2020. The audit was requested by the Administration.

Overall Evaluation. The administration of some TORAs could be improved. Specifically, some TORA costs were not properly tracked for TORAs that specified fixed payments to the Municipality. In addition, TORAs were not clearly defined within the Municipality. As a result, it would be difficult to identify with certainty how many TORAs exist within the Municipality.

FINDINGS AND RECOMMENDATIONS

1. Some TORA Costs Not Properly Tracked.

- a. **Finding.** Some TORA costs were not properly tracked for TORAs that specified fixed payments to the Municipality. However, costs we reviewed which were directly reimbursable according to the terms of the TORA were tracked by the respective departments to document the State reimbursement. For example, during the period covering February through September of 2020, the Traffic Department tracked a total

of \$884,902 in expenses consisting of personnel services, professional services, and indirect overhead for the AMATS Traffic Counts TORA.

In contrast, the Office of Public Works Administration (Public Works Administration) did not track some actual costs associated with the Anchorage Traffic Signal System TORA. These costs included items such as the ongoing electricity costs associated with operating traffic signals and connected street lights, as well as internal labor, material, and contracted costs associated with the system's ongoing operations and maintenance. According to Public Works Administration staff, all these costs were tracked through separate project numbers in the Municipality's previous financial system (PeopleSoft). However, with the transition to the new financial system (SAP) only some of these costs could now be tracked through separate internal order numbers, but they still did not track them.

For example, Public Works Administration staff stated that expenses such as electricity costs could only be estimated by expending significant effort to research over 260 individual electric meters that were each generating separate monthly billings for traffic signals and street lights, but which were not assigned to corresponding internal order numbers in SAP. In addition, according to Public Works Administration staff some of the internal order numbers which were set up in SAP were not working correctly or assigned to the correct SAP funding source.

As a result, we were unable to determine if the \$2,149,819 TORA revenue received from the State in 2020 was sufficient to cover the actual costs incurred by the Municipality for executing work covered by this TORA. According to Public Works Administration staff, funding obtained from the State through the Anchorage Traffic Signal System TORA was simply added as line items to the operating budgets of the respective departments, and incurred costs to the Municipality were assumed to be covered. Without the appropriate cost tracking mechanisms, it is difficult to quantify these project expenditures accurately or efficiently. In addition, cost estimates for the

Anchorage Traffic Signal System maintenance and operation activities may not be realistic, potentially resulting in a funding shortfall to the Municipality. For example, as reported in Internal Audit Report 2019-09, the Municipality was paying for some street lights which illuminated the State's ROW. Finally, if the Municipality attempts to renegotiate the terms of the Anchorage Traffic Signal System TORA with the State, it would be difficult or impossible without accurate historical cost records.

- b. **Recommendation.** The Municipal Manager should require all Departments to track actual expenditures related to TORAs to determine if expenditures exceed revenues available from the TORA.
- c. **Management Comments.** Management concurred and stated, "Some of the cost tracking mechanisms for the Traffic Signal TORA did not work properly after conversion to the SAP system. Cost tracking features (internal orders) have been repaired and/or re-established to restore the cost tracking activities previously operational in the Peoplesoft program. Contractual repairs and utility costs have been coded to the internal orders. Labor costs will require some additional activity coding of employee timecards but will soon be functional. Once complete, compiling costs for the Traffic Signal TORA will be re-established to provide base line expenditures."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **TORAs Not Clearly Identified.**

- a. **Finding.** Transfer of Responsibility Agreements were not clearly defined within the Municipality. As a result, it would be difficult to identify with certainty how many TORAs exist within the Municipality. When we asked various municipal departments for their TORAs, we received a mix of documents ranging from contracts, agreements, memorandums of understanding, and TORAs. For example, the Project Management

and Engineering Department had compiled three large binders that contained 98 active and closed/expired documents identified as TORAs. However, when we reviewed these binders, we found that only 20 were specifically designated as TORAs within the documents themselves. Most of the remaining documents were explicitly referred to by titles other than TORAs, such as memoranda, memoranda of agreement, memoranda of understanding, maintenance agreements, grant agreements, intergovernmental agreements, and letters of mutual agreement. In addition, no one could verify that there were no other TORAs existing outside of these binders. Also, as there was no clear understanding of what was and was not a TORA by some staff throughout the Municipality, it was difficult for management to establish coordinated oversight and policy for all TORAs.

b. **Recommendation.** The Municipal Manager should:

- 1) Develop and communicate a clearly stated definition of a TORA.
- 2) Develop and implement a centralized system for cataloging all active TORAs within the Municipality.

c. **Management Comments.** Management concurred and stated, "Departments under the Municipal Manager will coordinate with State agencies to define what conditions must be met to be defined as a TORA. This should narrow the scope of what truly defines a TORA.

"Currently each Department maintains a file for their own TORA agreements. The Municipal Manager has signature authority for the Municipality regarding all TORAs. Departments under the Municipal Manager, with TORAs, will coordinate with Municipal Manager's office to establish a central library for signed TORAs."

- 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 1, 2021.

Audit Staff:
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