

INTERNAL AUDIT REPORT

2022-11

Alaska Permanent Capital Management Company
Contract

Finance Department

December 15, 2022

MUNICIPALITY OF ANCHORAGE
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MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

December 15, 2022

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2022-11, Alaska Permanent Capital Management Company Contract, Finance Department**. A summary of the report is presented below.

As requested by the Mayor, we have completed an audit of the Alaska Permanent Capital Management Company Contract. The objectives of this audit were to determine if the Alaska Permanent Capital Management Company's contract went through proper approval processes according to applicable Anchorage Municipal Code, if internal controls can be enhanced to ensure transparency, and if payments were made according to contract requirements. To accomplish our objectives, we reviewed the documents used to report the contract's procurement. We also reviewed payment authorizations and support for the 2022 fee calculations and determined if a sampling of fees paid to Alaska Permanent Capital Management Company were calculated correctly and payments were made according to contract terms. Finally, we reviewed reports and Investment Advisory Commission meeting minutes regarding the contract and the Alaska Permanent Capital Management Company to determine if internal controls were sufficient to ensure transparency.

Based on our audit objectives, we had no findings to report. We determined that the contract was properly approved, was reported to the Anchorage Municipal Assembly and the Investment Advisory Commission, and fees were correctly calculated and paid.

There were no findings or recommendations in connection with this audit.

Michael Chadwick, CIA, CICA
Director, Internal Audit



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Introduction. The Municipality of Anchorage's (Municipality) Public Finance and Investments Division, Finance Department, "... is responsible for managing the daily operations of the Municipality's portfolios of trusted and unrestricted assets." Anchorage Municipal Code (AMC) section 6.50.030, *Investment guidelines for Municipal Funds*, defines the Municipal Cash Pool as "... that portion of the Portfolio that is invested by external managers and represents the Duration/Risk Portfolio investment objective of this part of the Code." Moreover, AMC subsection 6.50.030B., *Management of Municipal Funds*, authorizes the Municipality's Chief Fiscal Officer to obtain services that "... are reasonably prudent and necessary to manage and invest all Municipal Funds." In 2007, an external consultant conducted a competitive selection process with the participation of Municipal staff and the Municipality's Investment Advisory Commission. That process resulted in the awarding of contracts to three investment management firms to each respectively manage the Municipality's Strategic Reserve Portfolio, Contingency Reserve Portfolio, and Working Capital Portfolio.

Since May 2007, Alaska Permanent Capital Management Company (APCMC) has been managing the Municipality's Working Capital Portfolio, a very short duration and highly liquid portfolio intended as an investment vehicle for the Municipality's operating funds. Since that time, the contract has been amended five times. Alaska Permanent Capital Management Company's fee is calculated and paid each month at the annualized rate of .06 of 1% (.0006), based "... on the average net asset value of assets held at the end of each day. . . ." The fee is paid before the investment earnings are recorded in the Municipality's financial system. The investment earnings are then reported on the Municipality's Annual Comprehensive Financial Report as required by the Governmental Accounting Standards Board's Statement Number 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. From January 2022 to August 2022, the Municipality paid APCMC \$76,107.

Objective and Scope. The objectives of this audit were to determine if APCMC's contract went through proper approval processes according to applicable AMC, if internal controls can be enhanced to ensure transparency, and if payments were made according to contract requirements. To accomplish our objectives, we reviewed the documents used to report the contract's procurement. We also reviewed payment authorizations and support for the 2022 fee calculations and determined if a sampling of fees paid to APCMC were calculated correctly and payments were made according to contract terms. Finally, we reviewed reports and Investment Advisory Commission meeting minutes regarding the contract and APCMC to determine if internal controls were sufficient to ensure transparency.

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 requested by the Administration.

Overall Evaluation. Based on our audit objectives, we had no findings to report. We determined that the contract was properly approved, was reported to the Anchorage Municipal Assembly (Assembly) and the Investment Advisory Commission, and fees were correctly calculated and paid. Specifically, APCMC's contract went through proper approval processes required by AMC 6.50.030. Anchorage Municipal Code subsection 6.50.030B. directs the Chief Fiscal Officer to obtain services that "... are reasonably prudent and necessary to manage and invest all Municipal Funds" and to solicit input from the Investment Advisory Commission prior to the selection of any service providers. Furthermore, once a contract is entered into, AMC subsection 6.50.030B. requires the Chief Fiscal Officer to report the contract to the Assembly within 90 days. On August 13, 2007, the Chief Fiscal Officer released Assembly Information Memorandum (AIM) 82-2007 to report the contract to the Assembly. The AIM was dated for inclusion on the August 28, 2007, Assembly meeting agenda. However, the AIM was included on the September 11, 2007, Assembly meeting agenda. To further ensure transparency, APCMC's performance has been reported annually to the Assembly as required by AMC subsection 6.50.030H., *Reporting*, and Policy and Procedure 24-11, *Investments*, and reported quarterly beginning

in 2018. In addition, the Investment Advisory Commission is briefed each quarter regarding APCMC's performance. Finally, fees paid to APCMC were calculated correctly and payments were made according to contract terms. Although this contract has no end date, the Municipality can terminate the contract at any time upon 30 days' notice in writing.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on November 29, 2022.

Audit Staff:
Scott Lee