

INTERNAL AUDIT
ANNUAL REPORT FOR 1989

Peter Raiskums
Director, Internal Audit
P.O. Box 196650
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January 1989

ANNUAL REPORT OF AUDIT ACTIVITIES

Honorable Mayor and Members of the Assembly:

The primary focus of the Internal Audit Department was to assist the Mayor and the Assembly in improving the efficiency and effectiveness of municipal government within the constraints of the Municipal Code and public law. To accomplish this we performed audits to ensure the reliability and integrity of financial records; compliance with established policies and procedures; accountability and protection of Municipal assets; and the achievement of program results.

This Annual Report of Audit Activities includes background information on the audit profession and a summary of the 1989 internal audit activity.

A handwritten signature in dark ink, appearing to read "Peter Raiskums", with a stylized flourish at the end.

Peter Raiskums, CIA
Director, Internal Audit

INTERNAL AUDIT
ANNUAL REPORT FOR 1989

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INTRODUCTION

A. Definition of Auditing

An audit is a term used to describe procedures performed by an auditor in examining financial reports and reviewing compliance with laws and regulations, efficiency and economy of operations, and effectiveness in achieving program results.

An auditor evaluates internal controls, examines financial and other data, verifies and evaluates management systems and programs, and recommends improvements.

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

Internal Auditors are employees of the organization being audited. Their focus is on accountability and on improving management efficiency. Even though we are employees of the Municipality, the Internal Audit Department operates with complete independence. The Municipal Code provides a framework that makes possible this independence.

External Auditors are not employees of the organization which they are auditing. The external auditor performs, under contract, an annual audit of the financial records of the Municipality. This examination results in a written report that contains Municipal financial statements and the auditor's opinion as to the statements' conformity with generally accepted accounting principles. The CPA firm of Peat, Marwick, Main & Company is currently the external auditor of the Municipality of Anchorage.

B. Audit Procedures

Work of the Internal Audit Department is performed in compliance with professional standards.

*Professional organizations which provide guidance and standards include the Comptroller General of the United States, the U.S. Office of Management and Budget, the American Institute of Certified Public Accountants (AICPA), and the Institute of Internal Auditors (IIA).

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

Survey - To determine whether an area warrants a detailed examination. Survey work consists of discussions with agency personnel, physical inspections, reviews of records, and sample transaction tests.

Field Work - To review and evaluate extensive data, document findings, and develop recommendations for corrective actions.

Reporting - To compile and organize results of all survey and field work. Findings and recommendations are presented in a draft report, which is furnished to auditees for their review and response. The final report of audit includes the auditor's findings and recommendations, and management's response.

Follow-up - To determine whether management action was taken and whether the action corrected the deficiency.

C. Scheduling of Audits

An annual audit plan is prepared at the beginning of each fiscal year. Input is solicited from the Assembly, the Mayor, Administration officials, external auditors, and staff members. About 75% of available staff time is scheduled in advance. The audit plan is continually revised to accommodate requests from the Assembly and the Administration. Criteria for scheduling audits include the following:

- . Rotation of audit schedule among Municipal Departments;
- . Interest expressed by the Assembly or Administration;
- . Issues identified by the external auditors;
- . Issues identified as problem areas;
- . Potential for increasing revenues;
- . Potential for cost savings through more efficient, effective management;
- . Safeguarding and management of Municipal assets;

- . High risk of Municipal liability;
- . Suspected fraud or error.

D. Distribution of Audit Reports

Internal Audit reports are distributed to the Mayor, each Assembly Member, the respective Executive Manager, the respective Department Director, the Director of Management and Budget, and the Chief Fiscal Officer.

Copies of reports are available to the public at the Internal Audit Department, Municipal Hill Building, 632 West 6th Avenue, Room 312, Anchorage, Alaska; telephone (907) 343-4438.

E. Staffing of the Internal Audit Department

Four professional audit staff members and a part-time office associate work with the Director. All auditors have advanced academic degrees and/or professional certification, and extensive audit experience.

ANCHORAGE MUNICIPAL CODE

INTERNAL AUDITOR

3.20.100 Office of internal audit.

- 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 Anchorage;
 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. (Adapted from AO 77-359, am AO 79-27, AO 80-5, AO 88-70(S)).

3.20.110 Responsibilities of the Director of Internal Audit

- A. Each year, the Director of Internal Audit shall prepare and submit an annual audit plan to the Municipal Audit

Committee for review and comment. 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 3.20.100, and submit the revisions to the municipal audit committee.

- B. 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.
- C. The Director of Internal Audit shall have responsibility to conduct expended 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 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.
- D. Audits shall be conducted in accordance with generally accepted government auditing standards.
 - E. 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.
 - F. The Director of Internal Audit shall present conclusions, findings, and recommendations, along with verbatim responses from the administration, in a written audit report.
 - G. The written audit report shall be promptly presented simultaneously to the mayor and the Assembly.
 - H. Copies of final audit reports of the Office of Internal Audit shall be available for public inspection during regular business hours.
 - I. 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. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S)).

3.20.120 Responsibilities of the administration.

- 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 non-concurrence 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 77-359, am AO 79-27, AO 88-70(S)).

3.20.130 Access to municipal information.

- 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 3.90.020C of this code;
 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. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S)).

1989 INTERNAL AUDIT REPORTS

<u>REPORT NO.</u>	<u>DATE</u>	<u>SUBJECT</u>	<u>REQUESTED BY</u>
AR 89-01	01/10/89	Hotel/Motel Tax	Annual
AR 89-02	01/12/89	Personnel Computer Inventory ATU	ATU
AR 89-03	01/25/89	General Plant-Fixed Assets Equipment, AWWU	Internal Audit
AR 89-04	02/09/89	1988 Year-End Inventories	Annual
AR 89-05	04/13/89	Review of Exceptions to Municipal Policy/ Procedure for Time Card Authorization	Annual
AR 89-06	05/18/89	Employee Leave	Administration
AR 89-07	06/26/89	Medical & Dental Insurance	Assembly
AR 89-08	08/24/89	Anchorage Neighborhood Housing Services, Inc.	Administration
AR 89-09	08/31/89	Anchorage Historic Properties, Inc.	Assembly
AR 89-10	10/24/89	TORA Anchorage Roads and Drainage Service Area	Administration
AR 89-11	10/24/89	TORA 100th & Minnesota Interchange	Administration
AR 89-12	10/24/89	TORA Lake Otis Parkway Extension	Administration
AR 89-13	12/07/89	Reinventory of Residential Property Control	Assembly

1989 SPECIAL PROJECTS

<u>DATE</u>	<u>SUBJECT</u>	<u>REQUESTED BY</u>
12/28/89	Review of Savings Resulting From the ATU/MIS Consolidation	Assembly

Municipality of Anchorage



OFFICE OF THE INTERNAL AUDITOR

P.O. BOX 196650
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(907) 343-4438

TOM FINK,
MAYOR

January 10, 1989

EXECUTIVE SUMMARY

Internal Audit Report 89-01
Hotel-Motel Tax
Period July 1, 1988
through September 30, 1988

Honorable Mayor and Members of the Assembly:

We have completed a compliance audit of certain hotel-motel tax returns for the period July 1, 1988 through September 30, 1988.

Scope: Our audit objectives were to determine whether hotels were complying with AMC 12.20 and if hotels were accurately collecting and remitting tax.

Summary of Findings:

- a. Some hotels audited were not accurately collecting and remitting tax.
- b. Nonqualifying rental exemptions had been granted to certain individuals associated with State and Federal agencies, and to governmental agencies other than the State of Alaska and the United States Government.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Peter Raiskums, CIA
Director of Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

January 12, 1989

EXECUTIVE SUMMARY

Internal Audit Report 89-02
Personal Computer Inventory
Anchorage Telephone Utility

Honorable Mayor and Members of the Assembly:

We have completed an accountability audit of personal computers and related software inventory at the Anchorage Telephone Utility (ATU) as of September 30, 1988.

Scope: Our audit objective was to determine if all personal computers and related software at ATU were properly accounted for. The audit was requested by the General Manager, ATU.

Summary of Findings:

- a. Inventory records maintained by the personal computer coordinator were not accurate.
- b. Some computer software was not efficiently utilized.
- c. Personal computers were removed from ATU for home use.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Peter Raiskums, CIA
Director of Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

January 25, 1989

EXECUTIVE SUMMARY

Internal Audit Report 89-03
General Plant-Fixed Assets Equipment
Anchorage Water Utility

Honorable Mayor and Members of the Assembly:

We have completed a financial audit of the Anchorage Water Utility's general plant equipment accounts.

Scope: Our audit objectives were to evaluate internal controls and to determine the accuracy of property records.

Summary of Findings:

The internal controls were not totally adequate to ensure that all equipment additions and retirements were recorded in the proper amounts and accounts.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

A handwritten signature in dark ink, appearing to read 'Peter Raiskums', is written over a light blue grid background.

Peter Raiskums, CIA
Director of Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

February 9, 1989

Internal Audit Report 89-04 1988 Year-End Inventories

Introduction. The Municipality of Anchorage maintains inventories of parts and fuel at the Anchorage Telephone Utility, Municipal Light and Power, Anchorage Water and Wastewater Utility, Transit department, and Public Works department. The value of the inventories is based on weighted average unit cost. The inventories are counted during October through December and the financial records are adjusted to the physical counts. The Municipal Light and Power and the Anchorage Water and Wastewater Utility use the Municipal Financial Information System (FIS) inventory subsystem. The Anchorage Telephone Utility, Transit department, and Public Works department maintain their own inventory subsystems.

Scope. Our overall audit objectives were to determine if the physical inventory count of parts and fuel at the three utilities, Public Works department (Maintenance Support division), and Transit department were reasonably accurate, and correcting adjustments were input into the financial records. The audit was conducted in accordance with generally accepted government auditing standards and, accordingly, included such tests of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

Overall Evaluation. Based on the results of the work performed, it is our opinion that all inventory counts were reasonably accurate, and correcting adjustments were input into the financial records. See the attached appendix for statistical information regarding the inventories.

Peter Raiskums, CIA
Director of Internal Audit

Auditor in Charge:
James Stouffer, CIA, CPA

Municipality of Anchorage



OFFICE OF THE INTERNAL AUDITOR

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TOM FINK,
MAYOR

April 13, 1989

EXECUTIVE SUMMARY

Internal Audit Report 89-05
Review of Exceptions to
Municipal Policy/Procedure
for Time Card Authorization

Honorable Mayor and Members of the Assembly:

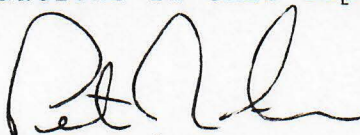
We have completed the annual audit of exceptions to Municipal time card authorization policy.

Scope: Our overall objectives were to determine whether all payroll groups that were not following the standard policies had been granted exception by the Chief Fiscal Officer and whether they had adequate compensating controls in place to justify continuation of the exception.

Summary of Findings:

- a. Source documents for payroll transactions were not always maintained by the payroll function at the Police Department.
- b. Regular and compensatory leave hours were not always correctly charged at the Police Department.
- c. Some employees at the Police Department were paid regular time when they did not work.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.


Peter Raiskums, CIA
Director of Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

May 18, 1989

EXECUTIVE SUMMARY

Report of Audit 89-06
Employee Leave

Honorable Mayor and Members of the Assembly:

We have completed an audit of the use and cash-in of annual leave. Following is the Executive Summary of the attached Report of Audit 89-06.

Scope. Our objectives were to determine whether use and cash-in of annual leave were in accordance with the terms of Anchorage Municipal Code and relevant bargaining agreements.

Summary of Findings:

- a. Municipal Code and applicable bargaining agreements contain no provision for enforcement of the mandatory 80 hour leave requirement.
- b. Documented reasons for emergency leave cash-in did not always meet the definition of "emergency" as set forth in the Anchorage Municipal Code.
- c. Employees were allowed to cash in annual leave upon demotion or transfer to a lower paying position without requesting emergency leave cash-in.

Evaluation of Management Comments: Management comments were generally responsive to the findings and recommendations in this report.

Peter Raiskums, CIA
Director, Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

June 26, 1989

EXECUTIVE SUMMARY

Internal Audit Report 89-07
Medical and Dental Insurance

Honorable Mayor and Members of the Assembly:

We have completed a management audit of the medical and dental insurance program.

Scope: Our audit objectives were to: review the overall management of the medical and dental insurance program; test the reasonableness of additions/payments and size of the incurred but not reported (IBNR) reserve account; review the management of the utilization review program; identify the method and criteria by which the insurance carrier was selected; and determine the accuracy of claims paid by Aetna.

Summary of Findings: The management of the medical and dental insurance program was contracted out to consultants and was not adequate. The IBNR reserve account balance was determined to be reasonable, however, a claims payable account duplicated IBNR by approximately \$1.5 million. Utilization review cost savings were questionable and contract compliance was not monitored. The evaluation and scoring process of the request for proposal (RFP) for the insurance carrier/administrator was partially based on subjective criteria. Claims paid by Aetna contained some errors. The Municipality did not provide names of dependents to Aetna for verification.

Evaluation of Management Comments: Management comments were generally not responsive to the intent of the audit findings and recommendations in this report.

Peter Raiskums, CIA
Director of Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

August 24, 1989

Executive Summary

Internal Audit Report 89-08
Anchorage Neighborhood Housing Services, Inc.

Honorable Mayor and Members of the Assembly:

We have completed a compliance audit of Anchorage Neighborhood Housing Services, Inc. (ANHS).

Scope: Our audit objectives were to determine whether only valid, allowable costs were charged to the grants; ANHS had complied with the terms of the grant agreements; and the Municipality had adequately monitored the grant agreements.

Summary of Findings:

- a. Some costs charged to the grants were not adequately supported.
- b. ANHS had not complied with all the terms of the grant agreements.
- c. The Municipality had not adequately monitored the two grant agreements with ANHS.

Evaluation of Management Comments: Management comments were generally responsive to the findings and recommendations in this report.

Peter Raiskums by [Signature]
Peter Raiskums
Director, Internal Audit

Municipality of Anchorage



OFFICE OF THE INTERNAL AUDITOR

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TOM FINK,
MAYOR

August 31, 1989

Executive Summary

Internal Audit Report #89-09
Anchorage Historic Properties, Inc. (AHPI)

Honorable Mayor and Members of the Assembly:

We have completed an audit of Anchorage Historic Properties, Inc. (AHPI).

Scope: Our audit objectives were to determine whether AHPI had complied with the legislative intent regarding the creation and funding of AHPI and the provisions of the grant agreement. This audit was requested by the Municipal Assembly.

Summary of Findings:

- a. AHPI had not complied with the legislative intent regarding the creation and funding of AHPI.
- b. AHPI had not complied with three of eight grant provisions reviewed and tested in our audit.
- c. The grant agreement wording was not adequate to provide for sufficient Municipal oversight and control.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

A handwritten signature in dark ink, appearing to read 'Peter Raiskums'.

Peter Raiskums, CIA
Director, Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

October 24, 1989

Executive Summary

Internal Audit Report 89-10
Transfer of Responsibilities Agreement
Anchorage Roads and Drainage Service Area

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Transfer of Responsibilities Agreement for the Anchorage Roads and Drainage Service Area.

Scope: Our audit objectives were to determine the adequacy of internal accounting controls to ensure that only valid, allowable costs were charged to the TORA funds, to test expenditures charged against the TORA funds for validity and reasonableness, and to determine whether the Municipality complied with the requirements of the TORA.

Summary of Findings:

- a. Our testing indicated that internal accounting controls were adequate to ensure that costs charged to the TORA funds were valid and reasonable.
- b. The Municipality had not complied with all the requirements of the TORA.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Peter Raiskums
Director, Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

October 24, 1989

Executive Summary

Internal Audit Report 89-11
Transfer of Responsibilities Agreement
100th and Minnesota Interchange

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Transfer of Responsibilities Agreement (TORA) for the 100th and Minnesota Interchange.

Scope: Our audit objectives were to determine the adequacy of internal accounting controls to ensure that only valid, allowable costs were charged to the TORA funds, to test expenditures charged against the TORA funds for validity and reasonableness, and to determine whether the Municipality complied with the requirements of the TORA.

Summary of Findings:

- a. Although internal accounting controls were generally satisfactory, our tests revealed that approximately \$869,000 of expenditures were questionable.
- b. The Municipality had not complied with all the requirements of the TORA.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Peter Raiskums
Director, Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

OFFICE OF THE INTERNAL AUDITOR

October 24, 1989

Executive Summary

Internal Audit Report 89-12
Transfer of Responsibilities Agreement
Lake Otis Parkway Expansion

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Transfer of Responsibilities Agreement (TORA) for the Lake Otis Parkway Expansion.

Scope: Our audit objectives were to determine the adequacy of internal accounting controls to ensure that only valid, allowable costs were charged to the TORA funds, to test expenditures charged against the TORA funds for validity and reasonableness, and to determine whether the Municipality complied with the requirements of the TORA.

Summary of Findings:

- a. Internal accounting controls were not enforced to ensure that all expenditures charged against the TORA funds were adequately supported to determine that expenditures were specifically for this TORA. Our tests revealed that approximately \$53,000 of expenditures were questionable.
- b. The Municipality had not complied with all the requirements of the TORA.

Evaluation of Management Comments: Management comments were generally responsive to the findings and recommendations in this report.

A handwritten signature in dark ink, appearing to read 'Peter Raiskums', is written over the printed name.

Peter Raiskums
Director, Internal Audit

Municipality of Anchorage



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TOM FINK,
MAYOR

December 7, 1989

Executive Summary

Internal Audit Report 89-13
Reinventory of Residential Property Contract

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Property Appraisal contract for the reinventory of residential property. This audit was requested by the Assembly.

Scope: The audit objectives were to determine the adequacy of compliance with contract requirements and whether the Property Appraisal Division was processing data generated by the contract in a timely manner.

Summary of Findings:

- a. The processing and input of data generated by the contract is on schedule.
- b. The contract administrator did not ensure all terms and conditions of the contract were complied with.
- c. The contract did not specify an acceptable error rate.

Evaluation of Management Comments: Management comments were responsive to the findings and recommendations in this report.

Peter Raiskums
Director, Internal Audit