

***INTERNAL AUDIT
ANNUAL REPORT OF AUDIT ACTIVITIES
FEBRUARY 11, 1993***

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February 1993

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 policy 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 1992 internal audit activity.



Peter Raiskums, CIA

Director, Internal Audit

INTERNAL AUDIT

ANNUAL REPORT OF AUDIT ACTIVITIES FOR 1992

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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 emphasis is on assisting management and the board of directors in the proper discharge of their duties. To accomplish this, they focus on accountability, internal controls and on improving management efficiency. Although we are employees of the Municipality, the Internal Audit Department operates with complete independence. The Municipal Code provides a framework that makes this independence possible.

External Auditors are not employees of the organization that they are auditing. The external auditor performs, under contract, an annual audit of the financial records of the Municipality and the Federal and State single audits. Their

emphasis is on the fairness of financial representations. The certified public accounting firm of KPMG Peat Marwick is currently the external auditor for the Municipality of Anchorage.

B. Audit Procedures

Work of the Internal Audit Department is performed in compliance with professional standards. Professional organizations that 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 action.

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 Chief Fiscal Officer and other organizations as appropriate.

Copies of reports are available to the public at the Internal Audit Department, Anchorage Trade Center, 619 East Ship Creek Avenue, Room 204, Anchorage, Alaska, telephone (907) 343-4438.

E. Staffing of the Internal Audit Department

E. Staffing of the Internal Audit Department

Five professional audit staff members and a part-time office associate work with the Director. All auditors have 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 assure 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 expanded 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;

Internal Audit
Annual Report of Audit Activities
February 11, 1993

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, finding, 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.
- J. This section shall not apply to the Anchorage Telephone Utility or its Board of Directors unless otherwise agreed by the Anchorage Telephone Utility. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S), AO 91-173(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 or 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.

- C. This section shall not apply to the Anchorage Telephone Utility or its Board of Directors unless otherwise agreed by the Anchorage Telephone Utility. (AO 77-359, am AO 79-27, AO 88-70(S), AO 91-173(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 subsection 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.
- B. This section shall not apply to the Anchorage Telephone Utility or its Board of Directors unless otherwise agreed by the Anchorage Telephone Utility. (Adapted from AO 77-359, am AO 79-27, AO 88-70(S), AO 91-173(S)).

INTERNAL AUDIT REPORTS

<i>REPORT #</i>	<i>DATE</i>	<i>SUBJECT</i>	<i>REQUESTED BY</i>
AR 92-01	02/07/92	1991 Parts Inventory Observation - ML&P	Audit Plan
AR 92-02	02/21/92	Cash Controls Parks & Recreation	Administration
AR 92-03	03/03/92	Day Care Assistance Health & Human Services	Audit Plan
AR 92-04	03/11/92	ATU Reimbursables	Audit Plan
AR 92-05	03/17/92	1991 Parts and Fuel Inventory - AWWU	Audit Plan
AR 92-06	03/17/92	LPO's and BPO's Purchasing	Audit Plan
AR 92-07	03/24/92	1991 General Government Year-End Inventories	Audit Plan
AR 92-08	03/24/92	Zoning Enforcement Health & Human Services	Assembly
AR 92-09	04/02/92	Cash Controls - Solid Waste	Audit Plan

AR 92-10	06/19/92	Weatherization Assistance Program - Health and Human Services	Administration
AR 92-11	08/27/92	Accounts Receivable Merrill Field	Audit Plan
AR 92-12	10/01/92	Supplemental Transportation Services - Health and Human Services	Assembly
AR 92-13	10/07/92	Material Control - AWWU	Audit Plan
AR 92-14	10/07/92	Purchase of Transmission Capability - ML&P	Administration
AR 92-15	11/17/92	Special Assessments Public Works	Audit Plan
AR 92-16	12/10/92	Material Control - ML&P	Audit Plan
AR 92-17	12/11/92	Vehicle Maintenance - ML&P	Audit Plan

1992 SPECIAL PROJECTS

DATE	SUBJECT	REQUESTED BY
03/16/92	1992 AAP Port Convention	Administration
07/09/92	Alaskan Aides Assistance Association Grant	Administration
09/24/92	Refunds and Write-offs for Ambulance Bills Involving Medicare Payments	Audit Plan

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*TOM FINK,
MAYOR*

February 20, 1992

Executive Summary

Internal Audit Report 92-02
Parks and Recreation Cash Controls

Honorable Mayor and Members of the Assembly:

We have completed an audit of Parks and Recreation Cash Controls.

Scope: Our audit objectives were to determine the adequacy of cash controls at Russian Jack and to determine if controls assigned to the Cash Management Section in the Treasury Division of the Finance Department were functioning effectively to identify deposit discrepancies.

Summary of Findings: Cash controls at Russian Jack required strengthening. In addition, procedures in Cash Management pertaining to deposit verification as outlined in Policy and Procedure (P&P) 24-1 were not adequate to ensure timely detection and reporting of cash losses. The combination of inadequate controls in both locations provided an environment for cash losses.

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



February 28, 1992

Executive Summary

Internal Audit Report 92-03
Day Care Assistance Program
Department of Health & Human Services

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Day Care Assistance Program at the Department of Health and Human Services.

Scope: Our audit objective was to determine whether the Day Care Assistance Program was being administered in accordance with State grant requirements. The audit period was July 1990 through September 1991.

Summary of Findings: The Day Care Assistance Program was not always in compliance with State grant requirements. Specifically: Parent eligibility was not always properly determined and documented; authorized hours of care were not always properly supported; documentation required for provider participation was not always adequate; rates charged to parents participating in the Day Care Assistance Program were sometimes greater than rates charged to the general public; and errors in provider billings were not always detected prior to reimbursement.

Evaluation of Management Comments: In general management comments were responsive to the findings and recommendation in the report.

Municipality of Anchorage



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TOM FINK,
MAYOR

March 11, 1992

Executive Summary

Internal Audit Report 92-04
Anchorage Telephone Utility
Reimbursable Workorders

Members of the Assembly, Members of the ATU Board of Directors and the ATU General Manager:

We have completed an audit of reimbursable workorders at the Anchorage Telephone Utility.

Scope: Our audit objectives were to determine whether ATU was properly reimbursed for maintenance and repair services and whether customer agreements were current.

Summary of Findings: ATU lacked controls to ensure that reimbursement was requested or received for maintenance and repair services provided to the customers resulting in the loss of revenue to the utility. However, customer agreements were found to be current.

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

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*TOM FINK,
MAYOR*

March 17, 1992

Executive Summary

Internal Audit Report 92-05
1991 Parts and Fuel Inventory Observation
Anchorage Water and Wastewater Utility

Honorable Mayor and Members of the Assembly:

We have completed an audit of the 1991 Parts and Fuel Inventory Observation at the Anchorage Water and Wastewater Utility.

Scope: Our audit objectives were to determine if the physical inventory count of parts and fuel was reasonably accurate and correcting adjustments were properly entered in the financial records.

Summary of Findings: All inventory items were not included in the inventory account. As a result, the inventory account was understated by approximately \$70,000. In addition, inventory items were not always individually counted and inventory records did not always contain a bin location.

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



March 17, 1992

Executive Summary

Internal Audit Report 92-06
Local Purchase Orders and
Blanket Purchase Orders

Honorable Mayor and Members of the Assembly:

We have completed an audit of Local Purchase Orders and Blanket Purchase Orders.

Scope: Our audit objective was to determine whether LPOs and BPOs were properly used in 1991. Specifically, we determined whether they were used to purchase unique and non-routine items within prescribed dollar limits, and were approved by authorized individuals.

Summary of Findings: In general, LPOs and BPOs were used properly to purchase unique and non-routine items. Purchases were sometimes split to circumvent the daily dollar limits of LPOs and BPOs. In addition, controls were not adequate to monitor daily dollar limits of BPOs. Further, BPOs were used to purchase routine items on a regular basis.

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



March 24, 1992

Executive Summary

Internal Audit Report 92-07
1991 General Government Year-End Inventories

Honorable Mayor and Members of the Assembly:

We have completed an audit of the 1991 General Government Year-End Inventories at the Transit Department and the Fleet Services Division of the Department of Property and Facility Management.

Scope: Our audit objective was to determine if the physical inventory balances of parts and fuel at the Transit Department and the Fleet Services Division of the Department of Property and Facility Management were reasonably accurate. The audit included tests of inventory counts and such other auditing procedures as we considered necessary in the circumstances.

Summary of Findings: Based on the results of the work performed, we found the physical inventory balances of parts and fuel at the Transit Department and at the Fleet Services Division of the Department of Property and Facility Management to be reasonably accurate. However, tires were not always properly controlled by Fleet Services.

Evaluation of Management Comments: Management comments were responsive to the audit finding and recommendation in this report.

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TOM FINK,
MAYOR

March 24, 1992

Executive Summary

Internal Audit Report 92-08
Zoning Enforcement

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Zoning Enforcement Section of the Public Works Department.

Scope: Our audit objective was to determine the adequacy of prioritization of complaints, timeliness of actions, and status and age of complaints.

Summary of Findings: Zoning Enforcement's prioritization system of complaints was not adequate and actions on complaints were not timely. In addition, the overall management of Zoning Enforcement required strengthening.

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

**Municipality
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*TOM FINK,
MAYOR*

April 2, 1992

Executive Summary

Internal Audit Report 92-09
Solid Waste Services Cash Controls

Honorable Mayor and Members of the Assembly:

We have completed an audit of Solid Waste Services Cash Controls.

Scope: Our audit objective was to evaluate the adequacy of cash controls at Solid Waste Services.

Summary of Findings: Cash controls at Solid Waste Services required strengthening. The requirements of Policy and Procedure 24-1, Collecting, Securing, Depositing, and Reporting Cash, were not always followed.

Evaluation of Management Comments: Management comments were responsive to the audit finding and recommendation in this report.

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TOM FINK,
MAYOR

June 19, 1992

Executive Summary

**Internal Audit Report 92-10
Weatherization Assistance Program**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Weatherization Assistance Program.

Scope: Our audit objective was to determine whether the Weatherization Assistance Program was being administered in accordance with the grant agreement. Specifically, we reviewed controls over materials, compliance with the grant agreement, and applicant eligibility.

Summary of Findings: The Weatherization Assistance Program overall was administered in accordance with the grant agreement and had accomplished the intent of the program. However, controls over materials required strengthening and documentation in client files was not always complete.

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

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OFFICE OF THE INTERNAL AUDITOR

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TOM FINK,
MAYOR

August 27, 1992

Executive Summary

**Internal Audit Report 92-11
Merrill Field - Accounts Receivable**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Weatherization Assistance Program.

Scope: Our audit objectives were to determine whether accounts receivable were established and maintained for all receivables and to determine whether accounts receivable were properly billed, aged, and collected.

Summary of Findings: Controls over accounts receivable at Merrill Field required strengthening. Specific areas with weaknesses included segregation of duties, supervisory review, database access, reconciliation, written procedures, delinquent notice, aging, and write-off procedures also required strengthening. In addition, Assembly approval was not always requested for leases known to be at less than fair market value and in other cases the market value of the property had not been certified as either fair market or below fair market.

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



September 30, 1992

Executive Summary

**Internal Audit Report 92-12
Supplemental Transportation System
Contract Compliance**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Supplemental Transportation System Contract.

Scope: Our audit objective was to evaluate whether Supplemental Transportation System services were in compliance with the contract. Specifically, we reviewed response times and vehicle and operator requirements.

Summary of Findings: Our audit tests revealed several areas not in compliance with contract requirements. Specifically, response times were not always met, the required number of vehicles were not always in service, vehicle daily maintenance reports and six month vehicle inspections were not always complete or on file, and required standards for vehicle operators were not always met or documented. However, we observed during the course of the audit that contract personnel made a conscientious effort to provide good services to the disabled and tried to meet their needs whenever possible.

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

**Municipality
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OFFICE OF THE INTERNAL AUDITOR

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TOM FINK,
MAYOR

October 7, 1992

Executive Summary

**Internal Audit Report 92-13
Material Control
Anchorage Water and Wastewater Utility**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Material Control at the Anchorage Water and Wastewater Utility.

Scope: Our audit objective was to determine the adequacy of controls over material including inventory levels, receipt and inspection, storage, and issue of warehouse items.

Summary of Findings: Our audit tests revealed controls over warehoused material required strengthening. Some inventory items were overstocked and the inventory control system for reordering was not being effectively utilized. In addition, control weaknesses were noted in segregation of duties, material receipt documentation, written procedures, accountability, inventory test counts, and the timely input of material issues to subsystem records.

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

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TOM FINK,
MAYOR

October 7, 1992

Executive Summary

**Internal Audit Report 92-14
Purchase of Transmission Capability
Municipal Light and Power**

Honorable Mayor and Members of the Assembly:

We have completed our second audit of invoiced costs for the construction of a transmission line associated with the Bradley Lake Hydroelectric Project for the Municipal Light and Power Utility (ML&P).

At the request of ML&P, we performed an audit of construction costs invoiced by Homer Electric Association to determine whether they were accurate and valid.

Summary of Findings: Our audit tests revealed that \$24,596 of the \$1,237,646 invoiced to ML&P was not appropriate. Accordingly, we recommend that ML&P decrease their share of the invoiced costs by \$24,596.



November 17, 1992

Executive Summary

**Internal Audit Report 92-15
Public Works Special Assessments**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Special Assessments at the Public Works Department.

Scope: Our audit objective was to determine whether special assessments were properly processed in accordance with the Anchorage Municipal Code (AMC).

Summary of Findings: Special assessments were not always properly processed in accordance with AMC provisions.

- a. Written operating procedures were lacking for special assessments.
- b. Special assessment bonds were not issued timely.
- c. Benefitting property owners were not always assessed the total cost of improvements.

Evaluation of Management Comments: Finance Department comments were responsive to the audit findings and recommendations in this report. However, Public Works Department comments were generally not responsive to three audit findings and recommendations in this report.

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TOM FINK,
MAYOR

December 10, 1992

Executive Summary

**Internal Audit Report 92-16
Material Control
Municipal Light and Power**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Material Control at the Municipal Light and Power Utility.

Scope: Our audit objective was to determine the adequacy of controls over material to include inventory levels, receipt and inspection, storage and issuance of warehouse items.

Summary of Findings: Controls over warehoused material required strengthening. The system for reordering stock items did not consider individual lead times, minimum safety levels or reorder quantities. In addition, the warehouse contained items with little demand, current balances were not always accurate, documentation was not maintained for test counts and inventory reconciliations were not timely.

Evaluation of Management Comments: Management comments were generally responsive to the audit findings and recommendations.



December 11, 1992

Executive Summary

**Internal Audit Report 92-17
Vehicle Maintenance
Municipal Light and Power**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Vehicle Maintenance at the Municipal Light and Power Utility.

Scope: Our audit objectives were to conduct a follow-up audit of Vehicle Maintenance to determine the status of parts and tools control deficiencies identified in prior Audit Report 91-10 and to determine the extent and effectiveness of management action taken in connection with deficiencies identified in that report.

Summary of Findings: Management action was generally effective in correcting the findings contained in prior Audit Report 91-10.

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TOM FINK,
MAYOR

December 29, 1992

Executive Summary

**Internal Audit Report 92-18
Anchorage Water and Wastewater Utility
Special Assessments Follow-up Audit**

Honorable Mayor and Members of the Assembly:

We have completed a follow-up audit of Special Assessments at the Anchorage Water and Wastewater Utility.

Scope: Our audit objective was to determine whether the deficiencies identified in Audit Report 91-15 had been corrected. The audit included tests of accounting records and such other procedures as we considered necessary in the circumstances.

Summary of Findings: Management action was effective in correcting the majority of the findings contained in prior Audit Report 91-15. However, additional action was still required in the following areas: procedures for foreclosed properties, aging of accounts receivable, cutoff time for deposits, and segregation of duties.