

**INTERNAL AUDIT DEPARTMENT
ANNUAL REPORT OF AUDIT ACTIVITIES
FEBRUARY 9, 1994**

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February 1994

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 Anchorage 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 1993 internal audit activity.

A handwritten signature in black ink, appearing to read "Peter Raiskums". The signature is fluid and cursive, with the first and last names being the most prominent parts.

Peter Raiskums, CIA
Director, Internal Audit

INTRODUCTION

INTRODUCTION

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. 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 they 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.

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 responses.

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

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.

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 appropriate Municipal personnel.

Copies of reports are available to the public at the Internal Audit Department, City Hall, 632 W. 6th Avenue, Suite 300, Anchorage, Alaska, telephone (907) 343-4438.

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.

INDEX OF 1993 AUDIT REPORTS

1993 INTERNAL AUDIT REPORTS

REPORT #	DATE	SUBJECT	RESP. DEPT	INITIATED BY
AR 93-01	01/11/93	Animal Control Center	H&HS	Assembly
AR 93-02	01/18/93	Water Quality	H&HS	Administration
AR 93-03	02/02/93	1992 Parts and Fuel Inventory	ML&P	Routine
AR 93-04	02/02/93	1992 Parts and Fuel Inventory	AWWU	Routine
AR 93-05	02/26/93	1992 General Government Year-End Inventories	Various	Routine
AR 93-06	04/21/93	Operating Revenues	Port	Schedule
AR 93-07	05/10/93	Recreation Centers	H&HS	Assembly
AR 93-08	05/14/93	Customer Deposits	AWWU	Schedule
AR 93-09	05/14/93	Alaska Aviation Heritage Museum	CRS	Assembly
AR 93-10	06/17/93	Alaska Association of the Deaf	H&HS	Administration
AR 93-11	08/24/93	Anchorage Economic Development Corporation	Municipal Manager	Administration
AR 93-12	09/14/93	Non-Standard Payroll	Various	Schedule

INDEX OF 1993 SPECIAL PROJECTS

1993 SPECIAL PROJECTS

DATE	SUBJECT	INITIATED BY
05/03/93	Municipal Vehicle Study	Assembly
05/11/93	Alaska Auction Company Contract	Administration
06/03/93	City Hall Telephone Lease/Purchase	Assembly
09/16/93	Bond Covenant Compliance/ML&P	Administration

EXECUTIVE SUMMARIES

**Municipality
of
Anchorage**



OFFICE OF THE INTERNAL AUDITOR

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

TOM FINK,
MAYOR

January 8, 1993

Executive Summary

**Internal Audit Report 93-01
Animal Control Center**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Animal Control Center Contract.

Scope: Our audit objectives were to review the adequacy of contract monitoring by the Health and Human Services Department and to determine whether the Contractor, T.L.C., Inc., was in compliance with selected contract requirements.

Summary of Findings: Contract monitoring by the Health and Human Services Department required strengthening, the contract wording required clarification and the Contractor was not always in compliance with contract requirements.

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

**Municipality
of
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*TOM FINK,
MAYOR*

OFFICE OF THE INTERNAL AUDITOR

January 18, 1993

Executive Summary

**Internal Audit Report 93-02
Water Quality Contracts
Department of Health and Human Services**

Honorable Mayor and Members of the Assembly:

We have completed an audit of water quality contracts at the Department of Health and Human Services.

Scope: The objective of the audit was to determine whether the Environmental Services Division was adequately monitoring water quality contracts. The audit included tests of accounting records and such other procedures as considered necessary in the circumstances. The audit was requested by the Administration.

Summary of Findings: Based on the results of the work performed, it is our opinion that the Environmental Services Division adequately monitored water quality contracts.



February 2, 1993

Executive Summary

**Internal Audit Report 93-03
1992 Parts and Fuel Inventory
Municipal Light and Power Utility**

Honorable Mayor and Members of the Assembly:

We observed the inventory process of parts and fuel at the Municipal Light and Power Utility.

Scope: Our overall objectives were to determine if the physical inventory of parts and fuel was reasonably accurate and correcting adjustments were properly input into the financial records. The audit included tests of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

Summary of Findings: Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate, and correcting adjustments were properly input into the financial records.



February 2, 1993

Executive Summary

**Internal Audit Report 93-04
1992 Parts and Fuel Inventory
Anchorage Water and Wastewater Utility**

Honorable Mayor and Members of the Assembly:

We observed the inventory process of parts and fuel at the Anchorage Water and Wastewater Utility.

Scope: Our overall objectives were to determine if the physical inventory of parts and fuel was reasonably accurate and correcting adjustments were properly input into the financial records. The audit included tests of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

Summary of Findings: Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate, and correcting adjustments were properly input into the financial records.



February 24, 1993

Executive Summary

**Internal Audit Report 93-05
1992 General Government
Year-End Inventories**

Honorable Mayor and Members of the Assembly:

We observed the inventory process of parts and fuel for General Government.

Scope: Our overall objectives were to determine if the physical inventory of parts and fuel at the Transit Department and the Fleet Services Division of the Department of Property and Facility Management were reasonably accurate and correcting adjustments were properly input into the financial records. The audit included tests of inventory counts, accounting records, and such other auditing procedures as we considered necessary in the circumstances.

Summary of Findings: Based on the results of the work performed, it is our opinion that 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 were reasonably accurate, and correcting adjustments were properly input into the financial records.

**Municipality
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OFFICE OF THE INTERNAL AUDITOR

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TOM FINK,
MAYOR

April 22, 1993

Executive Summary

**Internal Audit Report 93-06
Operating Revenues
Port of Anchorage**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Port of Anchorage Operating Revenues.

Scope: Our audit objective was to determine whether revenues were accurately computed, accounted for, and collected. The audit included test of accounting records and such other procedures as we considered necessary in the circumstances.

Summary of Findings: Operating revenues were accurately computed, accounted for and collected. However, portions of the tariff were not current and there was a lack of segregation of duties in revenue collection activities. There were no written procedures for processing delinquent accounts and penalty charges were not billed on delinquent accounts receivable balances. In addition, monthly invoices only contained current charges.

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



May 10, 1993

Executive Summary

**Internal Audit Report 93-07
Recreation Centers
Cultural and Recreational Services**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Fairview and Spenard Recreation Centers.

Scope: Our audit objective was to evaluate the procedures and controls over revenue at the Fairview and Spenard Recreation Centers. The audit period was January through December 1992.

Summary of Findings: Procedures and controls over revenue required strengthening.

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



May 12, 1993

Executive Summary

**Internal Audit Report 93-08
Customer Deposits
Anchorage Water and Wastewater**

Honorable Mayor and Members of the Assembly:

We have completed an audit of customer deposits at the Anchorage Water and Wastewater Customer Service Division.

Scope: Our audit objective was to determine the adequacy of controls over the receipt, maintenance, and refund of customer deposits. The audit included tests of accounting records and such other procedures as we considered necessary in the circumstances.

Summary of Findings: Controls over the receipt, maintenance, and refund of customer deposits required strengthening.

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



May 14, 1993

Executive Summary

**Internal Audit Report 93-09
Alaska Aviation Heritage Museum**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Alaska Aviation Heritage Museum (Museum).

Scope: Our audit objectives were to review the financial position of the Museum and determine whether the grant funds received by the Museum were spent as required by the grant agreements. The audit period was November 1991 through March 1993.

Summary of Findings: The Museum's primary sources of income for 1992 were grants and donations. Even with these revenue sources, the Museum was not able to meet current operating expenses in 1992. In addition, our audit disclosed \$18,979 of questioned costs.

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



June 17, 1993

Executive Summary

**Internal Audit Report 93-10
Alaska Association of the Deaf
Health and Human Services**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Alaska Association of the Deaf.

Scope: Our audit objective was to determine whether expenditures were in compliance with the grant agreement and Federal Community Development Block Grant requirements. The audit included tests of accounting records and such other procedures as we considered necessary under the circumstances. The audit period was November 1992 through February 1993. Reimbursements to AAD for grant expenditures had only been made for November 1992 through January 1993.

Summary of Findings: Expenditures were not always in compliance with grant and Federal requirements. We identified questioned costs totalling \$2,204.38 out of a total of \$13,744 grant expenditures. In addition, income verification was not properly performed, the financial management system was not in compliance with grant requirements, and the total grant award did not agree with the approved grant budget.

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



August 24, 1993

Executive Summary

**Internal Audit Report 93-11
Anchorage Economic Development Corporation**

Honorable Mayor and Members of the Assembly:

We have completed an audit of the Anchorage Economic Development Corporation (AEDC).

Scope: Our audit objective was to perform a review of AEDC's use of Municipal funds for 1991, 1992 and first quarter 1993. Specifically, we reviewed salary costs (including bonuses), travel costs, professional services costs and contracts with Assembly members and Administration members. We also reviewed the accomplishments reported in 1992.

Summary of Findings: Municipal funds were used by AEDC in accordance with the contract provisions. Schedules showing salary costs, travel costs and professional services costs are presented in Attachment A to this report. Assemblyman Campbell was the only Municipal official doing business with AEDC through contracts with both Pacific Rim Aviation Consultants and Marine Management Services. These contracts were generally paid with State of Alaska funds. Further, workload/accomplishment data was reported to the Municipality as required. However, the intent of some of the reporting requirements needed clarification.

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



September 13, 1993

Executive Summary

**Internal Audit Report 93-12
Non-Standard Payroll Procedures**

Honorable Mayor and Members of the Assembly:

We have completed an audit of Non-Standard Payroll Procedures.

Scope: Our audit objectives were to determine whether the seven organizations that were not following standard payroll procedures had been granted an exception by the Chief Fiscal Officer and whether the approved compensating controls were being followed. The audit included tests of payroll records and such other procedures as we considered necessary in the circumstances. The audit period was January 1, 1992 through December 31, 1992.

Summary of Findings: All organizations audited had been granted an exception to the standard payroll procedures. The approved compensating controls were generally being followed to control time cards and payroll transactions by most of the organizations. However, leave forms and time cards were not always properly completed.

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

ANCHORAGE MUNICIPAL CODE 3.20

ANCHORAGE MUNICIPAL CODE 3.20

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;
 - 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 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.
- 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)).