
INTERNAL AUDIT DEPARTMENT

1996 ANNUAL REPORT

MUNICIPALITY OF ANCHORAGE
Office of Internal Audit
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Anchorage, Alaska
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Internal Audit Department

1996 Annual Report

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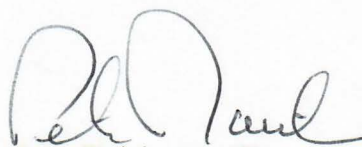
January 24, 1997

Honorable Mayor and Members of the Assembly:

Attached is the 1996 Annual Report for your review and information.

This report includes background information on the audit profession, a summary of the 1996 internal audit activity and the portion of the Anchorage Municipal Code pertaining to the Internal Audit Department.

The primary focus of the Internal Audit Department is to assist the Mayor and the Assembly to ensure that proper accountability is maintained over public funds and to improve the efficiency and effectiveness of Municipal government within the constraints of the Anchorage Municipal Code. To accomplish this, we perform 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.

A handwritten signature in dark ink, appearing to read "Peter Raiskums". The signature is fluid and cursive, with the first name being more prominent.

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 Assembly in the proper discharge of their duties. To accomplish this, they focus on accountability, internal controls and on improving management efficiency. Although internal auditors are Municipal employees, the Municipal Code provides a framework for them to operate with complete independence.

External Auditors are not employees of the organization being audited. 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

The Internal Audit Department performs audits in compliance with professional standards. Professional organizations that provide guidance and standards include the Comptroller General of the United States, the United States 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, review of records, and sample tests of transactions.

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 may be 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
- Areas identified with problems
- 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 Municipal Manager, Operations 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, fax (907) 343-4370.

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 1996 AUDIT REPORTS

1996 AUDIT REPORTS

NUMBER	DATE	REPORT NAME	DEPARTMENT
96-01	01-12-96	Bradley Lake Dispatch Agreement	ML&P
96-02	02-29-96	Parts and Fuel Inventory	AWWU
96-03	03-29-96	Parts and Fuel Inventory	P&FM - Fleet Services
96-04	04-24-96	1995 Parts and Fuel Inventory	ML&P
96-05	05-06-96	1995 Parts and Fuel Inventory	PTD
96-06	06-13-96	Business Personal Property Tax	Property Appraisal Division
96-07	07-03-96	Alaska Aviation Heritage Museum	MM
96-08	08-02-96	Cash Control Procedures	APA
96-09	09-13-96	Municipal Travel	FD
96-10	10-09-96	Cash Control Procedures	Transportation Inspection Office
96-11	10-17-96	Chugiak Senior Center	HHS

INDEX OF 1996 SPECIAL PROJECTS

1996 SPECIAL PROJECTS

DATE	SUBJECT NAME	DEPARTMENT
01-10-96	Review of the Right-of-Way Permit Counter	PW
04-08-96	Paint & Sign Shop Inventory	PW
08-14-96	Bradley Lake Construction Fund	MLP
09-10-96	JTPA Desk Reviews	HHS
09-16-96	Audit of 401(k) Plan Trustee Statements	ER
10-22-96	Merrill Field Landfill Leachate Collection Project	MF
12-96	City Hall Building Lease	P&FM
1996	Fixed Asset Inventory (On-Going)	General Government

EXECUTIVE SUMMARIES



January 12, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-01

Bradley Lake Dispatch Agreement

Municipal Light and Power

At the request of Municipal Light and Power and the Bradley Lake Project Management Committee, we performed a review of the charges for Chugach Electric Association, Inc. dispatch services for fiscal year 1995. The objective of this audit was to determine whether the costs billed to the participating utilities were in compliance with the Bradley Lake Dispatch Agreement. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of accounting records and other such auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of August through December 1995.

Costs billed to the participating utilities for Chugach Electric Association dispatch services were not always in compliance with the Bradley Lake Dispatch Agreement. Based on our audit procedures and analysis, we question \$72,777 of the \$131,722.24 billed costs for fiscal year 1995.

Management comments were responsive to the audit findings and recommendations.



February 29, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-02

Parts and Fuel Inventory

Anchorage Water & Wastewater Utility

We observed the inventory process of parts and fuel at the Anchorage Water and Wastewater Utility. The objectives of this audit were to determine if the physical inventory count of parts and fuel was reasonably accurate and correcting adjustments were properly entered into the financial records. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of inventory counts, accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of September through October 1995 and adjusting entries were verified during February 1996.

Total inventory at Anchorage Water and Wastewater Utility was recorded at \$761,811. This included the value of the warehouse inventory, fuel, gravel, recycled asphalt and chemicals. The value of the warehouse inventory was based on a weighted average unit cost and the physical inventory performed in September 1995. Fuel, gravel, recycled asphalt and chemical inventories were measured in October 1995 and valued at the most recent invoice price. Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate, and correcting adjustments were properly entered into the financial records.



OFFICE OF THE INTERNAL AUDITOR

March 29, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-03

Parts and Fuel Inventory

Fleet Services Division

Department of Property & Facility Management

The objectives of this audit were to determine if the physical inventory count of parts and fuel was reasonably accurate and proper adjustments were made to the financial records. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of inventory counts, accounting records and such other auditing procedures as we considered necessary in the circumstances. Specifically, we observed the physical inventory, performed random test counts and verified the adjusting entries.

Total inventory at the Department of Property and Facility Management, Fleet Services Division, was recorded at \$442,661. The value of the inventory was based on weighted average unit cost. Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate and proper adjusting entries were made.



OFFICE OF THE INTERNAL AUDITOR

April 24, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-04

1995 Parts and Fuel Inventory

Municipal Light and Power

The objectives of this audit were to determine if the physical inventory of parts and fuel was reasonably accurate and correcting adjustments were properly entered in the financial records. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of inventory counts, accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of November through December 1995 and adjusting entries were verified during February 1996.

Total inventory at ML&P was recorded at \$3,576,127 which included parts and fuel. The value of the warehouse inventory was based on a weighted average unit cost and the physical inventory was performed in November 1995. Fuel inventory was measured in December 1995 and valued at book cost. Based on the results of our review, we found the inventory to be fairly stated in all material respects. However, inventory counts were not always accurate and the procedures for issuing and returning inventory items were not always followed, resulting in discrepancies between the amount of inventory on hand and the perpetual records.



OFFICE OF THE INTERNAL AUDITOR

May 6, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-05

1995 Parts and Fuel Inventory

Public Transportation Department

We observed the inventory process of parts and fuel at the Public Transportation Department. The objectives of this audit were to determine if the physical inventory counts of parts and fuel at the Public Transportation Department were reasonably accurate and proper adjustments were made to the financial records. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of inventory counts, accounting records and such other auditing procedures as we considered necessary in the circumstances. Specifically, we observed the physical inventory, performed random test counts, and verified adjusting entries.

The parts and fuel inventory was recorded at \$416,349 for the Public Transportation Department as of December 31, 1995. The value of the inventory was based on a weighted average unit cost. Based on the results of the work performed, it is our opinion that the physical inventory was reasonably accurate and proper adjusting entries were made.

Management comments were responsive to the audit findings and recommendations.



OFFICE OF THE INTERNAL AUDITOR

June 13, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-06

Business Personal Property Tax

Property Appraisal Division

At the request of the Chief Fiscal Officer, we have completed an audit of Business Personal Property Tax at the Property Appraisal Division. The objectives of this audit were to determine whether procedures were effective in ensuring that Business Personal Property tax returns were filed as required and whether the returns were accurate. We also reviewed a complaint filed by a citizen which addressed these same two issues. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of October 1995 through February 1996.

The Personal/Business Property Section did not have adequate procedures in place to ensure that all individuals/business filed business personal property tax returns as required. The Section also did not have adequate procedures to ensure that the returns that were filed were always accurate.

Based on our audit tests and review of business personal property tax records, we estimate that between 25% to 35% of businesses operating in Anchorage may not be filing a business personal property return. However, in our opinion, the tax impact may be closer to 5% to 10% due to the nature of the businesses that are not filing. Further, in our opinion, the reported inventory and business equipment may be understated by 5% to 10%.

Management comments were responsive to the audit findings and recommendations.



OFFICE OF THE INTERNAL AUDITOR

July 3, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-07

Alaska Aviation Heritage Museum

At the request of the Administration, we have completed an audit of the Alaska Aviation Heritage Museum (Museum). The objective of this audit was to assess the financial condition of the Museum. To accomplish this, we relied on the financial data provided to us by the Museum staff and did not perform further audit tests to validate the data.

Due to the condition of the Museum's financial records and the inability of the Museum personnel to provide us with some information, our analysis was limited. However, we were able to assemble enough information to conclude that the Museum is not financially sound. It appears that the Museum has been able to continue operations only by deferring its debt obligations and by receiving public contributions. The near-term financial health of the Museum now appears to be critical due to accumulated debt and decreased revenue, particularly gate receipts. In addition, the Museum's payroll increased from 1993 to 1996, even while debt obligations continued to grow. Payroll now consumes over 60% of the Museum's annual expenditures.



August 2, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-08

Cash Control Procedures

Anchorage Parking Authority

At the request of the Administration, we have completed an audit of Cash Control Procedures at the Anchorage Parking Authority. The objective of this audit was to determine the adequacy of cash control procedures. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April through May 1996.

Cash control procedures required strengthening in some areas. Specifically, written cash handling procedures were not adequate, physical security required strengthening, payments were not always processed through a cash register, payments were not always deposited in a timely manner, supervisory cash counts were not performed periodically, daily supervisory and reconciliation procedures were not complete, and there was no formal training program for cashiers. Our audit did not disclose any instances of misconduct or irregularities.

Management comments were responsive to the audit findings and recommendations.



OFFICE OF THE INTERNAL AUDITOR

September 13, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-09

Municipal Travel

At the request of the Assembly, we have completed an audit of Municipal Travel. The objective of this audit was to determine whether Municipal travel was conducted and administered in compliance with Municipal Policy and Procedures. We randomly selected 62 out of 457 trips completed between January 1, 1995 and February 29, 1996, and reviewed supporting documentation to determine compliance with Municipal Policy and Procedures. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April through May 1996.

Municipal travel was properly conducted. All trips reviewed were for official business and were properly approved. However, we did find some noncompliance with the administrative requirements set forth in Municipal Policy and Procedures. We also noted two other areas that required clarification to facilitate compliance with Municipal Policy and Procedures.

Management comments were responsive to the audit findings and recommendations.



OFFICE OF THE INTERNAL AUDITOR

October 9, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-10

Cash Control Procedures

Transportation Inspection Office

At the request of the Administration, we have completed an audit of Cash Control Procedures at the Transportation Inspection Office. The objective of this audit was to determine the adequacy of cash control procedures. Specifically, we assessed compliance with Municipal policy and procedures and evaluated physical safeguards. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of records and such other auditing procedures as we considered necessary in the circumstances. The audit period was January through June 1996. The audit was performed during July 1996.

Cash control procedures were generally adequate. However, we found several instances of noncompliance with Municipal policy and procedure requirements.

Management comments were responsive to the audit findings and recommendations.



October 17, 1996

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 96-11

Chugiak Senior Center

Health and Human Services

At the request of the Assembly, we have completed an audit of the Chugiak Senior Center. The objective of this audit was to determine whether Chugiak Senior Citizens, Inc. was in compliance with the terms of the Management Agreement for the Chugiak Senior Center with the Municipality of Anchorage for the period January 1, 1996, to June 30, 1996. We also evaluated the Management Agreement for completeness and clarity. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of June through July 1996.

Chugiak Senior Citizens, Inc. was not in compliance with all of the terms of the Management Agreement for the Chugiak Senior Center. Specifically, we found non-compliance for 8 (62%) of the 13 requirements tested. The contract administrator had also identified non-compliance with the Management Agreement in the past and has worked with Chugiak Senior Citizens, Inc. to correct the deficiencies. However, non-compliance continues to be a problem. Requirements in the Management Agreement have even been revised in some cases to help facilitate compliance. In addition, the Management Agreement contained several areas that were unclear and incomplete. Further, the relationship between the Municipality of Anchorage and Chugiak Senior Citizens, Inc.

was not well defined. The Municipality of Anchorage has allowed Chugiak Senior Citizens, Inc. to use Municipal land and facilities in return for their management of the Senior Center without well defined roles and expectations of performance. All revenue collected for rent and services has been retained by Chugiak Senior Citizens, Inc. for their use in operating the Senior Center as well as funding the corporation. Although the facilities and programs have expanded, it does not appear that the method for managing them has changed. Per the audited financial statements for Chugiak Senior Citizens, Inc. expenditures have exceeded revenues over the last three years. In addition, funds required by the prior Management Agreement to be deposited into a reserve account to be used solely for the Apartment Complex have been used for unrelated costs.

Management comments were responsive to the audit findings and recommendations.

ANCHORAGE MUNICIPAL CODE 3.20

ANCHORAGE MUNICIPAL CODE 3.20

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. No later than January 31 of each year, the Director of Internal Audit shall:
1. Prepare a draft annual audit plan;

2. Submit the draft plan to Municipal Audit Committee members for review and comment; and
3. Finalize the plan and submit it to the Municipal Audit Committee for final review and endorsement.

The audit plan shall be the official list of audits to be conducted by Internal Audit during the year. 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 3.20.110, and promptly submit the revisions to Municipal Audit Committee members for review and comment and then to the Mayor and Assembly for approval. **Except for audits such as cash and inventory audits where, based on the professional judgment of the Director of Internal Audit, prior notification may hinder the effectiveness of the audit, no audit to be added to the annual audit plan as a revision may commence until the audit plan is revised and approved per this subsection.**

- B. In addition to those audits contained in the annual audit plan outlined in subsection 3.20.110 A., audits may also be undertaken at the direction of the Mayor or a majority of the Assembly. The Mayor will notify the Assembly through an Assembly Information Memorandum (AIM) or other appropriate means **prior to commencement of such audits.**
- C. 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.
- D. 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.
- E. Audits shall be conducted in accordance with generally accepted government auditing standards.
- F. 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.
- G. The Director of Internal Audit shall present conclusions, findings, and recommendations, along with verbatim responses from the administration, in a written audit report.
- H. The written audit report shall be promptly presented simultaneously to the Mayor and the Assembly.
- I. Copies of final audit reports of the Office of Internal Audit shall be available for public inspection during regular business hours.
- J. 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.
- K. 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)).