
INTERNAL AUDIT DEPARTMENT

2003 ANNUAL REPORT

February 19, 2004

MUNICIPALITY OF ANCHORAGE

Internal Audit Department
632 W 6th Avenue, Suite 600
P.O. Box 196650
Anchorage, Alaska 99519-6650
<http://www.muni.org/audit>



INTERNAL AUDIT DEPARTMENT

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Director

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Internal Audit Department 2003 Annual Report

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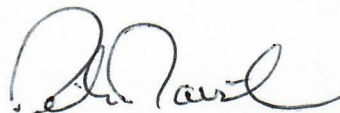
February 19, 2004

Honorable Mayor and Members of the Anchorage Municipal Assembly:

Attached is the Internal Audit Department 2003 Annual Report for your review and information.

This report includes background information on the audit profession, a summary of the 2003 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 Municipal 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 black ink, appearing to read "P. Raiskums", written in a cursive style.

Peter Raiskums, CIA, CFE
Director, Internal Audit

INTRODUCTION

INTRODUCTION

DEFINITION OF AUDITING

Audit is a term used to describe procedures performed by an auditor in examining financial records and reviewing compliance with laws and regulations, assuring the efficiency and economy of operations, and evaluating the 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 Municipality of Anchorage. Emphasis is on providing the Municipal Assembly and the Mayor with objective information to determine whether the required high degree of public accountability is maintained and to assist management personnel in improving the efficiency and effectiveness of government operations and activities. To accomplish this, the auditors focus on accountability, internal controls and 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 Municipality of Anchorage. External auditors perform, 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, LLP is currently the external auditor for the Municipality of Anchorage. The Budget and Legislative Office of the Municipal Assembly is the contract administrator for the external auditor.

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, 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 that is furnished to auditees for their review and response. The final audit report includes the auditor's findings, recommendations and management's responses.

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

SCHEDULING OF AUDITS

Internal Audit prepares an annual audit plan at the beginning of each fiscal year. Input is solicited from the Municipal Assembly, the Mayor, Administration officials, external auditors and staff members. The audit plan may also be revised during the year to accommodate requests from the Municipal Assembly and the Administration. Criteria for scheduling audits include the following:

- Requests by the Municipal Assembly and Administration
- Potential for cost savings through more efficient, effective management
- Potential for increasing revenues
- Areas with a high risk of loss or misappropriation
- Suspected fraud or error
- Areas identified with problems
- Safeguarding and management of Municipal assets
- Issues identified by the external auditors

DISTRIBUTION OF AUDIT REPORTS

Internal Audit reports are distributed to the Mayor, each Municipal Assembly Member, the Municipal Manager, the Office of Management and Budget Director, the Chief Fiscal Officer, the respective Department Director, and other Municipal personnel as appropriate.

Copies of reports are available to the public at the following locations:

1. Serial section of the Z J Loussac Public Library, 3600 Denali Street, Anchorage, Alaska
2. Municipality of Anchorage, Internal Audit Department, 632 West 6th Avenue, Suite 600, PO Box 196650, Anchorage, Alaska 99519-6650, telephone (907) 343-4438, fax (907) 343-4370, e-mail: raiskumspw@muni.org
3. Internal Audit's official Website: <http://www.muni.org/audit>

STAFFING OF THE INTERNAL AUDIT DEPARTMENT

Current staff members are:

Peter Raiskums, Director
Michael Chadwick, Principal Auditor
Ellen Luellen, Auditor
Birgit Arroyo, Auditor
Robbin Grubbs, Audit Technician

The current department Director provides the Municipality with more than 39 years of auditing experience. The current audit staff provides the Municipality with a combined total of approximately 14 years of auditing experience. Professional certifications held by department personnel include: Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Current Governmental Auditing Standards require that each auditor acquire 80 hours of continuing education every two years. At least 24 of the 80 hours are to be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. The courses taken by the audit staff to fulfill this requirement keep the auditors up-to-date with the latest auditing techniques and aware of current audit issues required by government auditing standards.

INDEX OF 2003 AUDIT REPORTS

2003 AUDIT REPORTS

NUMBER	DATE	REPORT NAME	DEPARTMENT
	01/13/03	2002 Annual Report	
2003-1	02/11/03	Municipal Procurement Card Program	Purchasing
2003-2	03/12/03	2002 Parts, Fuel and Lubricants Inventory	Public Transportation
2003-3	03/12/03	2002 Parts, Tires and Lubricants Inventory, Fleet Services	Maintenance & Operations
2003-4	04/01/03	Hiring Practices	Anchorage Police
2003-5	04/23/03	Municipal Payroll Review	Employee Relations
2003-6	06/17/03	Bradley Lake Operation and Maintenance Costs	Municipal Light and Power
2003-7	07/25/03	Management Audit of Municipal Swimming Pools, Aquatics Section	Cultural and Recreational Services
2003-8	08/07/03	Municipal Procurement Card Program	Purchasing
2003-9	08/29/03	Accounts Receivable	Finance
2003-10	09/30/03	Cash Handling Procedures, Customer Service Division	Public Transportation
2003-11	10/03/03	Ward North Contract Compliance, Risk Management	Municipal Manager
2003-12	10/30/03	Recycling Challenge Grant	Solid Waste Services

INDEX OF 2003 SPECIAL PROJECTS

2003 SPECIAL PROJECTS

DATE	SUBJECT NAME	DEPARTMENT
01/02/03	Police & Fire Retiree Participant Statements for November 2002	Police & Fire Retirement
03/13/03	Municipal Travel Totals 1996-2001	Office of Management and Budget
04/14/03	Police & Fire Retiree Participant Statements for December 2002	Police & Fire Retirement
04/22/03	Plumbers and Pipefitters Local 367 Contract Cost Validation	Municipal Assembly
04/24/03	Police & Fire Retiree Participant Statements for January, February and March 2003	Police & Fire Retirement
05/05/03	Machinists Local 1690 Contract Cost Validation	Employee Relations
05/29/03	Police & Fire Retiree Participant Statements for the Month of April 2003	Police & Fire Retirement
05/30/03	401K Financial Audit	Employee Relations
05/30/03	2002 Procurement Card Rebate	Purchasing
06/03/03	Procurement Card Allocation	Purchasing
06/19/03	2 nd Quarter Fiscal Year 2003 Pool Utility Charges	Cultural and Recreational Services
06/24/03	Review of Fund 719, Retirement Certificates of Participation Transactions (COP)	Municipal Assembly
07/31/03	Police & Fire Retiree Participant Statements for the Months of May and June 2003	Police & Fire Retirement
08/26/03	Police & Fire Retiree Participant Statements for the Month of July 2003	Police & Fire Retirement
09/29/03	Control and Disposition of APD Guns	Anchorage Police
10/14/03	Police & Fire Retiree Participant Statements for the Month of August 2003	Police & Fire Retirement
10/20/03	Sullivan Arena Contract Analysis	Cultural & Recreational Services

2003 SPECIAL PROJECTS

11/09/03	Ben Boeke/Dempsey Anderson Ice Arena Contract Analysis	Economic and Community Development
11/19/03	Egan Civic and Convention Center Contract Analysis	Economic and Community Development
11/24/03	New Electronic Time Card System	Employee Relations
12/04/03	Police & Fire Retiree Participant Statements for the Month of September 2003	Police & Fire Retirement
12/05/03	Complaint From REVL Communications	Traffic
12/05/03	Transit Bus Fares	Public Transportation

**EXECUTIVE SUMMARIES FROM
2003 AUDIT REPORTS**



OFFICE OF THE INTERNAL AUDITOR

February 11, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-1

Municipal Procurement Card Program

Purchasing Department

As part of the 2002 Audit Plan, we have completed an audit of the Municipal Procurement Card Program. The objective of this audit was to review procurement card purchases and supporting documentation to determine compliance with Municipal Policy and Procedure 48-16, MOA Procurement Cards. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, 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 September through November 2002. The audit is required by Municipal Policy and Procedure 48-16, Section 7f(1).

According to the Purchasing Department, the Procurement Card Program has been successful in reducing the number of purchase orders by 42 percent, the number of local purchase orders by 93 percent, and the number of vouchers by 55 percent¹. The Purchasing Department also stated that vendors no longer need to wait as long for the Municipality to process payments. Our audit disclosed that most Municipal departments complied with Municipal Policy and Procedure 48-16 regarding the Procurement Card Program. However, some department heads, as well as other employees, did not always follow procurement card procedures or made questionable purchases with their procurement cards. These purchases included items such as, retirement plaques, flowers, and

¹ According to the Purchasing Department, these reductions in high volume, low dollar activities has allowed them to redirect resources to higher value procurement activities.

balloons. In addition, the Procurement Card Program administrator was not always notified when employees terminated employment with the Municipality. Furthermore, two departments did not keep their procurement card files in a central location and other departments did not maintain complete, accurate, or readily available information regarding procurement card transactions. We also noted that, since January 2002, the Purchasing Department completed only one of three required quarterly program reviews. Finally, the Finance Department paid procurement card invoices using electronic funds transfer (EFT), costing \$20 per transaction, instead of using an automated clearing house (ACH), which costs \$0.08 per transaction.

Municipality of Anchorage



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Mark Begich , Mayor

OFFICE OF THE INTERNAL AUDITOR

March 12, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-2

2002 Parts, Fuel and Lubricants Inventory

Public Transportation Department

As part of the 2003 Audit Plan, we have observed the year-end inventory at the Public Transportation Department. The objective was to determine if the year-end physical inventory was reasonably accurate and adjustments were properly entered into the financial records. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during January 2003.

The physical inventory resulted in a final inventory valuation of \$471,284.92. A net adjustment of \$613.29 was made to increase the PeopleSoft financial records to the physical count. Based upon our inventory observation, it is our opinion that the physical inventory was reasonably accurate and the adjustments were properly entered into the financial records.

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Mark Begich , Mayor

OFFICE OF THE INTERNAL AUDITOR

March 12, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-3

2002 Parts, Tires and Lubricants Inventory

Fleet Maintenance Facility and Fleet Maintenance Maintenance and Operations

As part of the 2003 Audit Plan, we have observed the year-end inventory at Fleet Maintenance. The objective was to determine if the year-end physical inventory was reasonably accurate. Specifically, we performed random test counts and verified that adjusting entries were processed. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, 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 December 2002 through January 2003.

The physical inventory resulted in a final inventory valuation of \$332,655.51. The value of the inventory was based on a weighted average unit cost. A net adjustment of \$4,195.52 was made to increase the PeopleSoft records to the physical count. Based on our inventory observation, it is our opinion that the physical inventory was reasonably accurate.



OFFICE OF THE INTERNAL AUDITOR

April 1, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-4

Hiring Practices

Anchorage Police Department

As part of the 2003 Audit Plan, we have completed an audit of the hiring practices at the Anchorage Police Department. The objective of this audit was to review the recruiting and hiring practices for sworn police officers and dispatchers at the Anchorage Police Department. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was requested by the Municipal Assembly.

The recruiting, testing, and hiring processes at the Anchorage Police Department could be improved. We found continuous recruitment has impeded the hiring process and has led to a disorganized recruitment, testing, and hiring process. In addition, the Anchorage Police Department's recruitment function needs to be separate from its background investigation function and some administrative functions can be transferred to the Employee Relations Department.

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Mark Begich, Mayor

OFFICE OF THE INTERNAL AUDITOR

April 23, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-5

Municipal Payroll Review

Employee Relations Department

As part of the 2003 Audit Plan, we have completed an audit of Municipal payroll at the Employee Relations Department. The objective of this audit was to determine the error rate of payroll data entered into the Municipality's payroll system. This audit included a review of payroll transactions from the pay period beginning October 7, 2002, and ending October 20, 2002. The external audit firm, KPMG, performed a separate audit of the internal controls over payroll during the same period and addressed procedural and internal control issues.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit work was conducted from November to December 2002. This audit was requested by the Administration.

Although our testing found most of the payroll data in the PeopleSoft Human Resources Time and Labor module (PeopleSoft) was adequately supported, our testing did reveal some problems. Specifically, our test of randomly selected payroll transactions identified an overall error rate of approximately 6 percent. Two percent of these errors affected or could have affected an employee's pay or leave balances. For example, we identified three instances where time codes recorded on employee time sheets did not correspond with time codes recorded in PeopleSoft. As a result, employees may not have been properly paid. In addition, our testing identified inadequate supporting documentation for 4 percent of the payroll transactions we tested. For example, we identified eight leave requests that were either incomplete, inaccurate, or did not match the time sheet. As a result, management may not have appropriately controlled employee work schedules.

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Mark Begich, Mayor

OFFICE OF THE INTERNAL AUDITOR

June 17, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-6

Bradley Lake Operation and Maintenance Costs

Municipal Light and Power

As part of the 2003 Audit Plan, we have completed an audit of the Bradley Lake operation and maintenance costs at Municipal Light and Power. The objective of this audit was to determine whether the charges during 2002 to Municipal Light and Power for the operation and maintenance of the Bradley Lake Hydroelectric Project were in compliance with the operating agreements. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, 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 2003. The audit was requested by the Administration.

Generally, the expenditures allocated by Alaska Energy Authority in 2002 to the Bradley Lake Hydroelectric Project were in compliance with the operating agreements. However, we found that Alaska Energy Authority was not properly allocating the year-end surplus as required by the Power Sales Agreement, resulting in \$614,001 that should have been returned to the participating utilities. Municipal Light and Power's share is \$159,026.26. We also found that Alaska Energy Authority was not always enforcing the time limit on billing for services. In addition, we noted several instances where resources charged to the Project could have been used more efficiently by Homer Electric Association.

Municipality of Anchorage



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Mark Begich , Mayor

OFFICE OF THE INTERNAL AUDITOR

July 25, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-7

Management Audit of Municipal Swimming Pools Aquatics Section

Cultural and Recreational Services

As part of the 2003 Audit Plan, we have completed a management audit of the Anchorage Municipal Swimming Pools at the Aquatics section of Cultural and Recreational Services. The objective of this audit was to review the management of the Municipal swimming pools during calendar year 2002. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, 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 January 2003 through February 2003. The audit was requested by the Administration.

Management of Municipal swimming pools could be improved. Cash controls required improvement, staffing of pools was not always based on pool usage, discounted swimming fees were not authorized, and swimming lessons were discontinued at three swimming pools. In addition, Anchorage Municipal Code Title 7, Purchasing and Contracts and Professional Services, was not followed. Finally, management oversight over staff work schedules was not adequate.

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Mark Begich, Mayor

OFFICE OF THE INTERNAL AUDITOR

August 7, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-8

Municipal Procurement Card Program

Purchasing Department

As part of the 2003 Audit Plan, we have completed an audit of the Municipal Procurement Card Program. The objective of this audit was to determine if the procurement card purchases made by selected Agency Heads, Senior Executive Managers and the Mayor during the first quarter of 2003 complied with Municipality of Anchorage Policy and Procedure (P&P) 48-16 and if public funds were used appropriately. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during June 2003 and is required by P&P 48-16, Section 7f(4).

Most Municipal Agency Heads, Senior Executive Managers, and the Mayor complied with P&P 48-16 regarding the Procurement Card Program. However, some Senior Executive Managers did not always follow procurement card procedures and made questionable purchases with their procurement cards, such as flowers, meals, and computer hardware.

Municipality of Anchorage



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Mark Begich , Mayor

OFFICE OF THE INTERNAL AUDITOR

August 29, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-9

Accounts Receivable

Finance Department

As part of the 2002/2003 Audit Plan, we have completed an audit of Municipal accounts receivable. The objective of this audit was to determine the methodology, effectiveness, and accuracy of the Municipality's accounts receivable functions and systems. This audit was limited to general government and did not include enterprise activities. Our audit included a review of 35 judgmentally selected accounts receivable as of December 18, 2002. These accounts were selected based on age and dollar value. Our audit also included a review of 50 randomly selected Bills For Collection received by the Finance Department between May 13, 2002, and June 21, 2002.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was requested by the Assembly.

The Municipality's accounts receivable have not been managed effectively. Over the years, the custody of accounts receivable has been decentralized to various departments, the collection effort does not appear to have been effective, delinquent accounts have not always been sent to a collection agency, and accounts have not been written-off in a routine and timely manner. Additionally, departments have not aged accounts receivable to help identify problem customers; nor is there adequate follow-up on delinquent accounts to help determine why they have not been paid or sent to collections. Without adequate follow-up, invalid receivables distort the true value of the receivable balance. In addition, at the time of our audit work, Controller staff were unable to

provide the methodology used to calculate "Allowance for Uncollectibles" in the Comprehensive Annual Financial Report. Furthermore, significant delays in the billing process have contributed to untimely collection of past due accounts. Our review of the billing process revealed that it took an average of 42 days from the date of service until an invoice was generated. Finally, the Municipality's Investing for Results program did not have adequate performance measures, for the Finance Department, regarding accounts receivable. Some of the problems identified in this report could have been avoided if the Finance Department had implemented an accounts receivable policy and procedure when the PeopleSoft Financial system was fully functional.

Municipality of Anchorage



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Mark Begich, Mayor

OFFICE OF THE INTERNAL AUDITOR

September 30, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-10

Cash Handling Procedures Customer Service Division

Public Transportation Department

As part of the 2003 Audit Plan, we have completed an audit of cash handling procedures at the Customer Service Division of the Public Transportation Department. The objective of this audit was to determine whether cash handling procedures at Customer Service complied with Municipal Policy and Procedure 24-1, Collecting, Securing, Depositing and Reporting Cash, and are sound cash control procedures. Our audit included the following: A review of 64 TransitCheck transactions that were traced to reimbursement; an examination of 24 judgmentally selected Cashier Daily Summary Reports; the reconciliation of all adult, youth and reduced rate bus passes for June 2003 and the reconciliation of all day passes purchased in March 2003; and a review of cash handling training records.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit period was January through June 2003. The audit was performed during June through August 2003. The audit was requested by the Public Transportation Department.

Procedures and controls over cash, bus passes and tokens at the Customer Service Division did not always comply with the requirements of Municipal Policy and Procedure 24-1. Our audit revealed that sales transactions were not always processed through the register and void transactions were not properly approved by a supervisor. Also, unscheduled cash counts and reconciliations for each cashier were not conducted on a monthly basis. In addition, we found that all bus passes were not accounted for and cashier supervisors did not attend mandatory cash handling and reporting training

sessions annually. Finally, our audit revealed that Cashier Daily Summary reports were not accurately completed. As a result, an environment existed where undetected losses and misappropriations could occur.

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Mark Begich , Mayor

OFFICE OF THE INTERNAL AUDITOR

October 3, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-11

Ward North Contract Compliance Risk Management

Municipal Manager

As part of the 2003 Audit Plan, we have completed a contract compliance audit of the professional services contract between Ward North America Holding, Inc. and the Municipality of Anchorage. The objective of this audit was to determine whether Ward North America Holding, Inc. is complying with the contract requirements for claims adjusting services. As part of our audit, we reviewed 54 claims from May 2002 to May 2003. Specifically, these claims were randomly selected and reviewed for contract compliance and consisted of both open and closed workers' compensation and liability claims. A judgmental sample was also selected to review and verify the status of 31 open claims prior to May 2002.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, 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 May through August 2003. The audit was requested by the Administration.

Ward North America Holding, Inc. had not complied with many contract requirements for adjusting claims for the Municipality. In our opinion, there is potential for cost savings to the Municipality in workers' compensation, general and automobile liability claims if the contractor better managed claims in compliance with the contract. Specifically, our review found contract deliverables were not clear or measurable, open claims had not been properly managed, and adjusters did not have the required experience. In addition, reserves were not reflective of the ultimate probable cost of the claims, subrogation had not been adequately identified or pursued and adjusters had not been

consistently supervised. Finally, required back injury statements had not been taken; the Modified Work Program was not effectively coordinated; and the Municipality may be unnecessarily paying for the cleanup of sewer backups.

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Mark Begich , Mayor

OFFICE OF THE INTERNAL AUDITOR

October 30, 2003

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2003-12

Recycling Challenge Grant

Solid Waste Services

As part of the 2003 Audit Plan, we have completed a contract compliance audit of the Recycling Challenge Grant at Solid Waste Services. The objective of this audit was to determine whether the grant recipients, Green Star, Inc., and Alaskans for Litter Prevention and Recycling (ALPAR), have complied with the grant contract requirements, specifically, whether: (1) the required match has been met as specified by the grant contract, and (2) Municipal funds have been spent only for grant purposes. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, 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 month of September 2003. The audit was requested by the Administration.

Although Municipal grant funds were spent for grant purposes, we found that Green Star's in-kind contributions listed in the final project budget report were not adequately supported. We also found that Green Star may have overvalued its matching portion of the grant when it used a 208 percent overhead rate. As a result, reported expenditures may be in error and the "dollar-for-dollar" required match may be misreported. Moreover, we identified inconsistencies with Green Star's grant agreement and found that ALPAR's project budget report showing actual expenditures did not comply with the grant agreement. However, we found that ALPAR's expenditures were appropriately supported and the required "dollar-for-dollar" match was met.

ANCHORAGE MUNICIPAL CODE 3.20

ANCHORAGE MUNICIPAL CODE 3.20

“3.20.100 Office of internal audit established; staff.

- 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 the municipality.
 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.

(AO No. 77-359; AO No. 79-27; AO No. 80-5; AO No. 88-70(S))

Charter references: Independent audit, § 13.10.”

“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 Section 3.20.100, 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 A of this section, 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 a 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.

(AO No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S); AO No. 95-165(S-1), § 2, 10-3-95)”

“3.20.120 Responsibilities of administration when deficient conditions disclosed by audit.

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 nonconcurrence 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 No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S))”

“3.20.130 Access to municipal information by office of internal audit.

- 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 3.90.020;
 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.

(AO No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S))”