
INTERNAL AUDIT DEPARTMENT

2004 ANNUAL REPORT

February 8, 2005

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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Internal Audit Department 2004 Annual Report

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February 8, 2005

Honorable Mayor and Members of the Anchorage Municipal Assembly:

Attached is the Office of Internal Audit (Internal Audit Department) 2004 Annual Report for your review and information.

This report includes background information on the audit profession, a summary of the 2004 internal audit activity and the portion of the Anchorage Municipal Code pertaining to the Internal Audit Department.

According to Anchorage Municipal Code 3.20.100, the primary focus of the Internal Audit Department is to provide the Anchorage Municipal Assembly and the Mayor with objective information to assist them in determining whether government operations are adequately controlled; whether the required high degree of public accountability is maintained over public funds; and to improve the efficiency and effectiveness of Municipal government. 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.

During 2004, the Internal Audit Department issued 14 audit reports and performed 19 special projects.

A handwritten signature in dark ink, appearing to read "P. Raiskums", is positioned above the printed name and title.

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, reviewing compliance with laws and regulations, assuring the efficiency and economy of operations, and evaluating the effectiveness in achieving program results.

The audit process includes an evaluation of internal controls, examination of financial and other data, review of management systems and programs, and recommendations for improvement.

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 accordance with generally accepted government auditing standards, except for the requirement of an external peer review. A peer review is not performed due to budget constraints.

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

Survey - Survey work consists of discussions with agency personnel, physical inspections, review of records, and sample tests of transactions. In addition, auditors obtain an understanding of internal controls significant to the audit objectives and consider whether specific internal control procedures have been properly designed and placed in operation.

Field Work - During field work, the auditor plans and defines audit objectives, reviews and evaluates extensive data, documents findings, and develops recommendations for corrective action.

Reporting - At the end of field work, the results of the audit are communicated to officials at various levels of government. 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 and is available to the public.

SCHEDULING OF AUDITS

The Director of Internal Audit prepares an annual audit plan at the beginning of each fiscal year, which is approved by the Municipal Audit Committee. Input is solicited from the Municipal Assembly, the Mayor, and Administration officials. 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 weak internal controls or known problems
- Safeguarding and management of Municipal assets
- Issues identified by the external auditors

DISTRIBUTION OF AUDIT REPORTS

Audit reports are distributed to the Mayor, each Municipal Assembly Member, the Municipal Manager, the Director of Management and Budget, 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. The Municipal 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. Municipality of Anchorage Website: <http://www.muni.org>
Internal Audit Department Website: <http://www.muni.org/audit>

STAFFING OF THE OFFICE OF INTERNAL AUDIT

Current staff members are:

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

The current department Director provides the Municipality with more than 40 years of auditing experience. The current audit staff provides the Municipality with a combined total of approximately 17 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).

Government Auditing Standards Section 3.45 requires that each auditor complete, every two years, at least 80 hours of continuing professional education that directly enhance the auditor's professional proficiency to perform audits. At least 24 of the 80 hours should be in subjects directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. At least 20 hours of the 80 should be completed in any one year of the two-year period. The courses taken by audit staff to fulfill this requirement help keep them up-to-date with the latest auditing techniques and aware of current audit issues.

INDEX OF 2004 AUDIT REPORTS

2004 AUDIT REPORTS

NUMBER	DATE	REPORT NAME	DEPARTMENT
2004-1	01/22/04	Special Assessments	Project Management & Engineering
2004-2	02/18/04	Special Assessments	Anchorage Water and Wastewater Utility
	02/19/04	2003 Annual Report	
2004-3	02/19/04	2003 Parts, Fuel and Lubricants Inventory	Public Transportation
2004-4	03/23/04	Premiera Blue Cross Blue Shield of Alaska Contract Administration	Employee Relations
2004-5	04/01/04	Municipal Payroll Review	Employee Relations
2004-6	04/05/04	2003 Parts, Tires and Lubricants Inventory, Fleet Maintenance, Facility and Fleet Maintenance	Maintenance and Operations
2004-7	04/15/04	Annual Municipal Procurement Card Review	Purchasing
2004-8	04/22/04	Engineering Overhead Rate Calculation	Municipal Light and Power
2004-9	06/30/04	Child Care Assistance Program	Health and Human Services
2004-10	07/13/04	Airport Management System	Merrill Field Airport
2004-11	09/21/04	Ward North Contract Compliance Follow-Up Audit, Risk Management Division	Municipal Manager
2004-12	11/04/04	Weatherization Assistance Program, Weatherization Section, Social Services Division	Health and Human Services
2004-13	11/10/04	Construction Contract Management	Project Management and Engineering
2004-14	12/14/04	Minor Rehabilitation Program, Community Development Division	Economic & Community Development

INDEX OF 2004 SPECIAL PROJECTS

2004 SPECIAL PROJECTS

DATE	SUBJECT NAME	DEPARTMENT
02/03/04	Lack of Cash Controls in Records, Benefits and Payroll Division	Employee Relations
02/18/04	RFP Claims Adjusting Services Contract, Risk Management	Municipal Manager
04/05/04	Police & Fire Retiree Participant Statements for the Months of October, November and December 2003	Police & Fire Retirement
04/15/04	Questionable Purchases Identified By the Efficiency Department	Efficiency
04/22/04	Engineering Overhead Rate Calculation	Municipal Light & Power
05/06/04	Proposed Travel Policy and Procedure Revision	Finance
06/09/04	2003 Procurement Card Rebate	Purchasing
06/21/04	Canine Unit Drug Verification	Anchorage Police
07/01/04	Weatherization Section Tool Inventory	Health & Human Services
07/08/04	Weatherization Section Material Inventory	Health & Human Services
07/23/04	Community Service Patrol	Health & Human Services
08/17/04	Municipal Policy and Procedures	Municipal Manager
08/25/04	Street Light Inventory	Operations & Maintenance
10/18/04	Inconsistent Directory Information	Municipal Manager
11/02/04	Accountability and Control of Anchorage Fire Department Drugs	Anchorage Fire
11/05/04	Health Care Costs	Municipal Manager
11/19/04	Vanpool Complaint	Public Transportation
11/19/04	Review of Bus Advertising Contract Payments	Public Transportation
12/07/04	Non-Represented Employee Salary Increase Cost Validation	Municipal Assembly

**EXECUTIVE SUMMARIES FROM
2004 AUDIT REPORTS**



Municipality of Anchorage

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Mayor Mark Begich

Office of the Internal Auditor

January 22, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-1

Special Assessments

Project Management and Engineering Department

As part of the 2003 Audit Plan, we have completed an audit of special assessments at the Project Management and Engineering Department. The objective of this audit was to determine whether the provisions of Municipal Policy and Procedure 46-2, Anchorage Municipal Code Title 19 - Special Assessments, and other related requirements were followed in the creation and processing of special assessments. As part of our audit, we judgmentally selected and reviewed seven road improvement districts that had either been opened or closed since January 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 August through October 2003. The audit was requested by the Administration.

Overall, we found that the special assessment process could be improved. Specifically, we found pending assessment liens were not recorded timely with the Anchorage District Recorders Office. Final assessments were also not submitted to the Assembly for approval in a timely manner. In addition, there was no comprehensive policy and procedure for improvement districts. We also found \$247,461 in chargeable costs were not borne by the benefitting property owners. Finally, Municipality of Anchorage Standard Specifications was not followed when Certificates of Compliance and Certificates of Completion were issued.



Mayor Mark Begich

Office of the Internal Auditor

February 18, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-2

Special Assessments

Anchorage Water and Wastewater Utility

As part of the 2003/2004 Audit Plan, we have completed an audit of special assessments at the Anchorage Water and Wastewater Utility. The objective of this audit was to determine whether the provisions of Municipal Policy and Procedure 46-2, Street Reconstruction and Subdivision Agreement Completion Through Road Improvement Districts; Anchorage Municipal Code Title 19, Special Assessments; and other related requirements were followed in the creation and processing of special assessments. As part of our audit, we judgmentally selected and reviewed four water improvement district/lateral improvement district projects that had either been opened or closed since January 2002. In addition, we judgmentally selected and reviewed 47 special assessment accounts receivable from January 2003 through October 2003 with credit balances. We also reviewed all special assessments accounts older than 20 years to determine why they had not been paid in full. 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 August through November 2003. The audit was requested by the Administration.

Overall, we found that the special assessment process could be improved. Specifically, we found significant delays in recording pending assessment liens and in submitting projects to the Assembly for approval of final assessments. In addition, Municipality of Anchorage Standard Specifications were not being followed when Certificates of Compliance and Certificates of Completion were issued. Moreover, there was no segregation of duties in the Special Assessments Section, and special assessment accounts with credit balances were not adequately managed. Further, the annual collection charge was not adequate to cover the administrative costs of the Special Assessments

Section. Also, the methodology used to calculate the annual fee was not in compliance with Anchorage Municipal Code 19.20.010 and 19.20.265 and the assumptions were not correct. Finally, we found there was no comprehensive policy and procedure for special assessment improvement districts.



Mayor Mark Begich

Office of the Internal Auditor

February 19, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-3

2003 Parts, Fuel and Lubricants Inventory

Public Transportation Department

As part of the 2003/2004 Audit Plan, we have observed the year-end inventory at the Public Transportation Department. The objective of this audit was to determine if the year-end physical inventory of parts, fuel and lubricants was reasonably accurate and adjustments were properly entered into the financial records. Specifically, we observed the year-end inventory, performed an inventory count based on random and judgmental samples, and verified that adjusting entries were accurately 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 January 2004.

The physical inventory resulted in a final inventory valuation of \$471,801.76. A net adjustment of \$6,504.11 was made to increase PeopleSoft financial records to the physical counts. 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.



Mayor Mark Begich

Office of the Internal Auditor

March 23, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-4

Premera Blue Cross Blue Shield of Alaska Contract Administration

Employee Relations Department

As part of the 2004 Audit Plan, we have completed a contract administration audit of the Premera Blue Cross Blue Shield of Alaska contract for healthcare coverage. The objective of this audit was to determine if the Premera Blue Cross Blue Shield of Alaska contract for healthcare was adequately administered and monitored to control healthcare costs. We were unable to audit contractor records and claims payments due to the lack of an audit clause in the contract. 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 2003 through February 2004. The audit was requested by the Administration.

The administration and monitoring of the Premera Blue Cross Blue Shield of Alaska contract need improvement to control healthcare costs. We found that Records, Benefits, and Payroll Division staff did not appear to monitor the contract to ensure the contractor was performing satisfactorily. In addition, we found the contract did not include several important contractual elements, such as performance guarantees and an audit provision. Moreover, a proposed amendment to the contract was not properly prepared. For example, while the proposed amendment was for \$35,013,562, the Municipal Assembly approved a memorandum to provide continuing healthcare coverage in the amount of \$34,878,782. We also found that Fund 735, Employee Benefit Agency, containing revenues and expenditures for the Premera Blue Cross Blue Shield of Alaska contract for healthcare coverage, was not monitored or reconciled during the year by Records, Benefits, and Payroll Division staff. A preliminary reconciliation for the end of 2003 by the Controller Division indicated

that there was a shortage of more than \$800,000 in the Fund. Finally, Records, Benefits, and Payroll Division personnel made six late payments to Premera Blue Cross Blue Shield of Alaska since 2002.



Office of the Internal Auditor

April 1, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-5

Municipal Payroll Review

Employee Relations Department

As part of the 2004 Audit Plan, we have completed an audit of Municipal payroll transactions. The objective of this audit was to determine whether payroll transactions were valid and were supported by properly authorized documentation. This audit included a review of payroll transactions from the pay period beginning December 29, 2002, and ending June 29, 2003. Specifically, we randomly selected 123 employee pay advices and verified their accuracy. We also verified dependent care contributions and reimbursements, health plan deductions, pay rates and regular hours worked. In addition, we haphazardly selected 149 leave slips to determine if the leave slip data was correctly entered into the PeopleSoft system. Finally, for selected pay periods, we reviewed overtime documentation at the Anchorage Police Department, Anchorage Water and Wastewater Utility, and Project Management and Engineering 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 performed during the period of September through December 2003. The audit was requested by the Administration.

Our testing of various payroll transactions identified several weaknesses. Specifically, we found that PeopleSoft, in some instances, incorrectly calculated Fair Labor Standards Act overtime pay rates resulting in overpayments to employees. In addition, we identified several errors affecting employees' pay balances such as incorrect injury leave payments and data input errors. Also, we found conflicting or inadequate supporting documentation for some of the payroll transactions we tested. Further, there was no assurance that dependent care contributions and deductions were

accurately calculated. The lack of an official Payroll Clerk's Manual and the lack of payroll training directly contributes to the payroll issues listed in this report. Finally, the Payroll function may be organizationally misplaced and PM&E needs to improve its payroll function.



Mayor Mark Begich

Office of the Internal Auditor

April 5, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-6

2003 Parts, Tires and Lubricants Inventory Fleet Maintenance Facility and Fleet Maintenance

Maintenance and Operations

As part of the 2004 Audit Plan, we have observed the year-end inventory at the Fleet Maintenance Section of the Facility and Fleet Maintenance Division, Maintenance and Operations Department. The objective of this audit was to determine if the year-end physical inventory of parts, tires, and lubricants was reasonably accurate and adjustments were properly entered into the financial records. Specifically, we observed the year-end inventory, performed inventory counts based on random and judgmental samples, and verified that adjusting entries were processed accurately.

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 2003 through January 2004.

Based on our inventory observation, it is our opinion that the physical inventory was reasonably accurate. However, we did find that controls could be improved for tracking the tire inventory. The physical inventory resulted in a final inventory valuation of \$378,728.77. The value of the inventory was based on a weighted average unit cost. A net adjustment of \$14,875.55 was made to increase the PeopleSoft records to the physical count.



Mayor Mark Begich

Office of the Internal Auditor

April 14, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-7

Annual Municipal Procurement Card Review

Purchasing Department

As part of the 2004 Audit Plan, we have completed the annual review of the Municipal Procurement Card Program. The objective of this audit was to determine if Procurement Card holders are adhering to Municipal policies and procedures regarding Procurement Card use. Our audit included a review of Procurement Card transactions from January through December 2003. Specifically, we reviewed purchase descriptions for selected transactions to ensure purchases were made in compliance with Municipal Policy and Procedure 48-16. In addition, we contacted various departments to clarify questionable purchases and to verify availability and accuracy of supporting documentation. Finally, we judgmentally selected 10 transactions to verify approval by authorized personnel. 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 through February 2004. The audit is required by Municipal Policy and Procedure 48-16, Section 7f(1).

Our audit revealed that most Procurement Card purchases were in compliance with Municipal Policy and Procedure 48-16. However, some employees did not always follow Procurement Card policies and procedures or made questionable purchases with their Procurement Cards. Violations of Municipal Policy and Procedure 48-16 include buying airline tickets with individual Procurement Cards, purchasing software without approval of the Information Technology Department, splitting purchases, and purchasing items from sources other than through the mandatory Annual Supply Contracts. Questionable purchases included items such as kitchen and food supplies, memberships in an online greeting card program, flowers, balloons, retirement plaques, patio furniture,

microwaves and donuts. Finally, we found that in one department documentation for Procurement Card purchases was not properly maintained.



Mayor Mark Begich

Office of the Internal Auditor

April 22, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-8

Engineering Overhead Rate Calculation

Municipal Light and Power

As part of the 2004 Audit Plan, we have completed an audit of the engineering overhead rate calculation at Municipal Light and Power. The objective of this audit was to arrive at an engineering overhead rate that was consistent with the capitalization policy of Municipal Light and Power and was representative of the administrative costs associated with capital-type work. Our analysis and computations included capital and administrative labor and benefits, utilities, office supplies, and communication costs for the Engineering Division during 2003. 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 first half of 2004. The audit was requested by the Administration.

Based on our analysis and computations, we recommend an engineering overhead rate of 36%. This is consistent with Municipal Light and Power's capitalization policy and is representative of the administrative costs associated with capital work. Our review of industry overhead rates revealed that general expenditures such as office supplies and communication and utility expenses are normally included in overhead rate calculations. Accordingly, we included these types of expenses in our methodology used to arrive at the recommended engineering overhead rate. Our calculations also included labor costs for employees who did not charge direct time to capital work orders but provided support to capital projects.



Mayor Mark Begich

Office of the Internal Auditor

June 30, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-9

Child Care Assistance Program

Department of Health and Human Services

As part of the 2004 Audit Plan, we have completed an audit of the Child Care Assistance Program at the Department of Health and Human Services. The objectives of this audit were to determine whether Child Care Assistance Program staff were complying with grant requirements, including determining client eligibility and maintaining required documentation in client files. Specifically, we randomly selected 100 client files from fiscal year beginning July 1, 2003, and verified that file documents complied with grant requirements. We also verified that file information matched entries in the Child Care Management Information System. In addition, we determined if confidentiality of client information complied with grant requirements. Finally, we verified that Child Care Assistance Program staff provided program information to interested families.

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 in April 2004.

Child Care Assistance Program staff did not always comply with the grant agreement. Specifically, client files were sometimes missing documents such as valid photo identifications, tax forms, and proof of income as required by the grant agreement. Child Care Assistance Program staff used forms other than state-approved forms to help determine family eligibility. Also, client files were not secured to ensure confidentiality. Finally, we found various errors affecting payments or client information.



Mayor Mark Begich

Office of the Internal Auditor

July 13, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-10

Airport Management System

Merrill Field Airport

As part of the 2004 Audit Plan, we have completed an audit of the Airport Management System at Merrill Field Airport. The objectives of this audit were to determine whether the Airport Management System database was accurate and proper controls had been implemented to ensure integrity of the data. Specifically, we judgementally selected and tested accounts receivable for completeness and accuracy, analyzed system processes and reviewed the adequacy of cash control procedures. 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 2004 through May 2004. The audit was requested by the Administration.

Although our testing found that improvements have been made to the Airport Management System, our testing did reveal some areas of concern. Specifically, we found that several processes in the Airport Management System could be improved such as automatic calculation functions and the processing of prepaid revenue. In addition, the monthly fee for direct access to a runway or taxiway was not correct and Merrill Field staff did not utilize established Airport Management System customer numbers when billing or collecting temporary fees. Moreover, Merrill Field staff had not performed a reconciliation of Airport Management System revenues with PeopleSoft records since about April 2003. A reconciliation of the Airport Management System is important because Merrill Field received nearly \$1.0 million in receipts in 2003. Finally, cash control procedures need improvement.



Mayor Mark Begich

Office of the Internal Auditor

September 21, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-11

Ward North Contract Compliance Follow-Up Audit Risk Management Division

Municipal Manager

As part of the 2004 Audit Plan, we have completed a follow-up contract compliance audit of the Municipality of Anchorage's professional adjusting services contract with Ward North America Holding, Inc. The objective of this audit was to follow-up on the audit findings and recommendations from Internal Audit Report 2003-11, Ward North Contract Compliance. As part of our audit, we randomly selected and reviewed 30 workers' compensation and liability claims opened between January and June of 2004 to determine whether the contract administrator had implemented the recommendations from the 2003-11 audit report. Additionally, we judgementally selected 10 claims opened prior to May 2002 that we reviewed from the previous audit to determine whether any action had been taken on these claims since the previous audit.

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 August 2004. The audit was requested by the Municipal Assembly.

Ward North America Holding, Inc. has made considerable progress in complying with the previous audit findings and recommendations. Our review found Ward North America Holding, Inc. had been actively managing all open claims. We also found all adjusters assigned to the Municipality's account now possess the required years of adjusting experience. Moreover, Ward North America Holding, Inc. has shown progress in setting proper reserves that were reflective of the ultimate probable costs of the claims. In addition, Ward North America Holding, Inc. has increased their

efforts to properly supervise their adjusters. Our review of the Modified Work Program revealed that the Mayor rescinded Policy and Procedure 40-12, Modified Work Program, on September 15, 2003. Finally, we found Risk Management had developed a formal policy and procedure of how sewer back-up and the resultant cleanup should be handled, although it has not yet been approved. However, we identified three findings that were similar to the findings we identified in the previous audit. Specifically, Ward North America Holding, Inc. did not identify subrogation interests for all claims we reviewed and had not taken any statements in regard to back-related injury claims. In addition, Risk Management had not included any time frames for performance in the contract.



Office of the Internal Auditor

November 4, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-12

Weatherization Assistance Program Weatherization Section Social Services Division

Health and Human Services

As part of the 2004 Audit Plan, we have completed an audit of the Weatherization Assistance Program, administered by the Health and Human Services Department, Weatherization Section. The objective of this audit was to determine if the Weatherization Section complied with grant requirements and if the Program was administered according to grant intent and goals. Our audit included an inventory count of Weatherization tools and materials. In addition, we did a comprehensive review of 41 Weatherization client files, selected both randomly and judgmentally from 2003 and 2004. Finally, we reviewed purchases, vendor contracts, and timesheets from 2003 and 2004.

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 2004.

The Weatherization Section did not always comply with the grant agreement and the Program was not always administered according to grant intent and goals. Specifically, we found the following:

- ▶ Program productivity was questionable when compared to other Weatherization Programs in Alaska.
- ▶ Clients were not always timely notified of their eligibility status as required by the grant.

- ▶ Eligibility information was not always updated when weatherization work was not completed within 180 days.
- ▶ Spending limits for materials and labor were exceeded without ensuring the required 50/50 match by the building owner.
- ▶ Program staff did not always properly record weatherization labor hours.
- ▶ Program staff made a number of excessive purchases resulting in fewer dollars being available to weatherize client homes.
- ▶ The Program's inventory system lacked sufficient controls.
- ▶ Materials were not well organized or adequately secured in the warehouse.
- ▶ The Program inventory did not include damaged, broken or unusable items (shrinkage) such as doors and windows, making it difficult to account for these items.
- ▶ The inventory system used to track tools had significant control and accountability problems.
- ▶ Program assets were incorrectly reported on the Municipality's fixed asset list as capitalized items, thus overstating the value of Municipal assets.



Mayor Mark Begich

Office of the Internal Auditor

November 10, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-13

Construction Contract Management

Project Management and Engineering Department

As part of the 2004 Audit Plan, we have completed an audit of construction contract management at the Project Management and Engineering Department. The objective of this audit was to determine whether construction contracts were properly administered to ensure that the specified work was performed within the approved price of the contract. Our review of construction contracts included a review of all nine construction projects, totaling nearly \$18.5 million, for 2003 and 2004 that were over \$500,000 and had at least one change order. From those nine projects, we identified 25 change orders which contained 213 individual change order items. We reviewed these individual change order items to ensure they were in compliance with Anchorage Municipal Code Title 7.15.070 Contract amendments–Permitted amendments.

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 October through November 2004. The audit was suggested by the Anchorage Transition Team's Subcommittee on Administration. The Transition Team stated Internal Audit “. . . has the opportunity to focus on audits of construction contracts, which may potentially pay for their department. The subcommittee's experience with construction contract audits suggests that cost recovery can amount to three to five times the cost of audits.” At the request of the Transition Team, Internal Audit placed a construction contract audit on the audit plan for 2004.

Our review of the construction contracts revealed they were properly administered and the work performed was within the approved price of the contracts. Our review identified only one instance

where the Project Management Division inadvertently paid \$1,580.63 for the removal and disposal of a sign which had already been paid for. In addition, when we brought this to the attention of the project manager, he stated he would deduct the cost of the duplicate sign charge from the contractor's next payment.



Mayor Mark Begich

Office of the Internal Auditor

December 14, 2004

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2004-14

Minor Rehabilitation Program Community Development Division

Economic and Community Development

As part of the 2004 Audit Plan, we have completed an audit of the Minor Rehabilitation Program that is administered by the Economic and Community Development, Community Development Division, and operated by the Health and Human Services, Weatherization Section. The objective of this audit was to determine if the Weatherization Section complied with the Program's intent and goals. Our audit included an inventory count of tools and materials. In addition, we reviewed four client files, selected judgmentally from 2003 and 2004. 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 2004.

The Program has not been efficiently administered. As a result, applicants may not be receiving Program services. Specifically, we found that the Community Development Division had not finalized and implemented a Memorandum of Understanding providing a general description of the responsibilities to be assumed by the Weatherization Section for administering the Program. In addition, written Program policies and procedures had not been finalized. Finally, the inventory process used to track materials had significant control and accountability problems and tool inventory records were not accurate.

ANCHORAGE MUNICIPAL CODE 3.20

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“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))”