
INTERNAL AUDIT DEPARTMENT

2006 ANNUAL REPORT

January 9, 2007

MUNICIPALITY OF ANCHORAGE

Internal Audit Department

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INTERNAL AUDIT DEPARTMENT

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**Internal Audit Department
2006 Annual Report**

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January 9, 2007

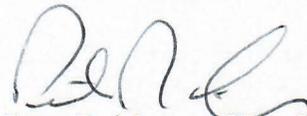
Honorable Mayor and Members of the Anchorage Municipal Assembly:

Attached is the Internal Audit Department 2006 Annual Report for your review and information.

This report includes background information on the audit profession, a summary of the 2006 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 2006, the Internal Audit Department issued 19 audit reports and performed 6 special projects.



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 determining whether the required high degree of public accountability is maintained and 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. The emphasis is on the fairness of financial representations. The Municipal Assembly is responsible for the annual independent financial audit, annual federal single audit and annual state single audit of all Municipal accounts. The annual audits are overseen by the Audit Committee. The certified public accounting firm of KPMG, LLP is currently the external auditor for the Municipality of Anchorage.

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 Director of Economic and Community Development, 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. 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
Birgit Arroyo, Senior Auditor
Marina Mazour, Senior Auditor
Robbin Grubbs, Audit Technician

The current department Director provides the Municipality with more than 46 years of auditing experience. The current audit staff provides the Municipality with a combined total of approximately 21 years of auditing experience. Professional certifications held by department personnel include: Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified Government Financial Manager (CGFM), and Certified Internal Controls Auditor (CICA).

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 2006 AUDIT REPORTS

2006 AUDIT REPORTS

NUMBER	DATE	REPORT NAME	DEPARTMENT
2006-1	01/05/06	Northeast Community Center	Economic & Community Development
	01/17/06	2005 Annual Report	
2006-2	01/26/06	Administration of Municipal Self-Insurance Plan	Employee Relations
2006-3	02/14/06	2005 Parts, Fuel and Lubricants Inventory	Public Transportation
2006-4	02/28/06	Auctioneer Contract	Purchasing
2006-5	03/01/06	2005 Grant Fund Utilization	Finance
2006-6	03/01/06	Accounts Payable	Finance
2006-7	03/13/06	2005 Parts, Tires and Lubricants Inventory	Maintenance and Operations
2006-8	03/27/06	Annual Municipal Procurement Card Review	Purchasing
2006-9	03/30/06	Anchorage Golf Course	Economic & Community Development
2006-10	04/18/06	2005 Community Right to Know	Anchorage Fire
2006-11	06/15/06	Anchorage Historic Properties, Inc.	Economic & Community Development
2006-12	07/11/06	Wildfire Mitigation	Anchorage Fire
2006-13	08/01/06	Developer Deposits	Project Management and Engineering
2006-14	08/02/06	Real Property Exemption, Property Appraisal Division	Finance
2006-15	11/09/06	Transfer of Responsibility Agreements	Finance
2006-16	11/15/06	Minor Repair Program Follow-up	Neighborhoods
2006-17	11/16/06	Weatherization Assistance Program Follow-up	Neighborhoods
2006-18	12/18/06	Spenard Recreation Center Cash Controls	Parks and Recreation
2006-19	12/20/06	Fairview Recreation Center Cash Controls	Parks and Recreation

INDEX OF 2006 SPECIAL PROJECTS

2006 SPECIAL PROJECTS

DATE	SUBJECT NAME	DEPARTMENT
01/19/06	PFR Medical Statements Review for 2005	Police & Fire Retirement
02/16/06	Appeal Filing Fees	Finance
05/12/06	Local 367, Plumbers and Pipefitters Contract Cost Validation	Municipal Assembly
07/13/06	2005 Procurement Card Rebate	Purchasing
08/31/06	2004 Municipal Travel	Finance
10/05/06	2005 Municipal Travel	Finance

**EXECUTIVE SUMMARIES FROM
2006 AUDIT REPORTS**



Mayor Mark Begich

Office of the Internal Auditor

January 5, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-1

Northeast Community Center

Office of Economic and Community Development

As part of the 2005 Audit Plan, we have completed a contract compliance audit of the grant contract between the Northeast Community Center and the Municipality of Anchorage. The objective of this audit was to determine whether the Northeast Community Center had complied with the grant contract requirements. Specifically, we determined whether grant funds were spent only for grant purposes; compared 2002, 2003, and 2004 expenditures and budgets; and reviewed Northeast Community Center operations, procedures and 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 the period of September through October 2005. The audit was requested by the Administration.

The Northeast Community Center has not complied with grant contract requirements. Specifically, salaries and benefits were paid with grant funds, which were not allowable expenses per the grant agreement, and equipment purchased with grant funds was not marked nor inventoried. Budget categories were exceeded by more than 10 percent without approval, and contracts over \$500 were let without three competitive bids. The unused portion of grant funds was not returned to the Municipality. In addition, a formal written contract had not been prepared between the Northeast Community Center and the Boys & Girls Club for the various programs offered at the Northeast Community Center. Further, required quarterly reports had not been submitted timely, did not contain all required information, and were not accurate. In conclusion, we found that the grant contract had not been properly administered, contributing to the many non-compliance areas identified by our audit. A review completed by Internal Audit in October 2000 identified two of the same issues.



Mayor Mark Begich

Office of the Internal Auditor

January 26, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-2

Administration of Municipal Self-Insurance Plan

Employee Relations Department

As part of the 2005 Audit Plan, we have completed an audit of the administration of the Municipal self-insurance plan. The objective of the audit was to determine whether the database used by Premera Blue Cross Blue Shield of Alaska to pay claims was accurate and contained only those employees who were currently enrolled in the Municipal health plan. Specifically, we determined whether employee files maintained by the Municipality contained all required documentation, if plan participants were assigned to the correct health plan, if dependent data was accurately reported to Premera Blue Cross Blue Shield of Alaska, and if claims were paid in accordance with the appropriate health plan. We statistically selected a random sample of 231 individuals from a total population of 7,569 employees, spouses, dependents and Police and Fire retirees to accomplish our audit tests.

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 2005. The audit was requested by the Administration.

The database used by Premera Blue Cross Blue Shield of Alaska to pay claims was generally accurate and contained employees who were enrolled in the Municipal health plan. However, employee files maintained by the Municipality did not always contain all required documentation. We also found three employees in the Premera Blue Cross Blue Shield of Alaska database who were no longer employed by the Municipality, resulting in an overcharge of premiums of \$10,071 as of the end of September 2005. In addition, employees were not required to re-certify their spouses and dependents after the initial enrollment in the health plan. Moreover, the monthly performance reports provided by Premera Blue Cross Blue Shield of Alaska were not computed correctly. Finally, payments had not been made timely to Premera Blue Cross Blue Shield of Alaska by the Municipality, which may result in late fees totaling about \$8,000 as of the end of September 2005.



Mayor Mark Begich

Office of the Internal Auditor

February 14, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-3

2005 Parts, Fuel and Lubricants Inventory

Public Transportation Department

As part of the 2005/2006 Audit Plan, we have observed the inventory of parts, fuel and lubricants at the Public Transportation Department. The objective of the 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 2006.

The physical inventory resulted in a final valuation of \$543,236.16. A net adjustment of \$13,578.85 was made to decrease PeopleSoft financial records to bring them in agreement with the physical count. Based on 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

February 28, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-4

Auctioneer Contract

Purchasing Department

As part of the 2006 Audit Plan, we have completed a contract compliance audit of the auctioneer contract between North Pacific Auctioneers Ltd. and the Purchasing Department. The objective of this audit was to determine whether the contract was properly administered and whether the contractor was complying with contract requirements. As part of the audit, we conducted a review of documentation required by the contract and maintained by the Contract Administrator. In addition, we judgmentally selected four auction reports to test and recalculated the auctioneer fees. Moreover, we conducted an on-site inspection of auctioneer facilities to ensure compliance with contract requirements. Finally, we tracked Municipal surplus items from department pick-up to auction sale.

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 2006. The audit was requested by the Administration.

Overall, the auctioneering contract was well administered and contract requirements were complied with. However, we found that some documentation required by the contract was not always submitted to the Contract Administrator.



Mayor Mark Begich

Office of the Internal Auditor

March 1, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-5

2005 Grant Fund Utilization

Finance Department

As part of the 2005/2006 Audit Plan, we have completed an audit of grant fund utilization. The objective of this audit was to determine whether State and Federal operating grant funds received by the Municipality during 2002 through 2005 have been used for the intended purpose. Specifically, we determined the grants that had been received, the stated purpose of each grant, the time of performance requirements, the amount of grant funds expended, if the funds were expended for the proper purpose and in the proper time frame, and if any grants had to be returned for lack of use. We judgementally sampled 20 operating grants with an unexpended balance of at least \$5,000.

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 September 2005. The audit was requested by the Administration.

Our review of grant funds indicated they were generally used for the intended purpose. However, we found there was no central oversight of grants to ensure all funds received were utilized during the grant period and requests for reimbursement were submitted timely for all work performed.



Mayor Mark Begich

Office of the Internal Auditor

March 1, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-6

Accounts Payable

Finance Department

As part of the 2005/2006 Audit Plan, we have completed an audit of accounts payable. The objective of this audit was to determine whether vendor payments were for valid Municipal purchases, supported by valid invoices, made to valid merchants, and were properly approved. Specifically, we selected a random sample of 158 accounts payable transactions at various Municipal agencies and examined the supporting documentation for validity. In addition, we reviewed a random sample of 29 refunds/reimbursements to determine if backup documentation was adequate and transactions were properly authorized. Finally, we reviewed applicable policies and procedures to determine if Municipal agencies were in compliance and if the policies mirrored current accounts payable practices.

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 2005 through January 2006. The audit was requested by the Administration.

Overall, selected accounts payable transactions were for valid purchases, supported by valid invoices, made to valid merchants, and were properly approved. However, 6 percent of the payments we tested were not supported by original invoices and 25 percent of the invoices were not paid within 30 days as required by Municipal Policy and Procedure 24-19, Processing Accounts Payable Documents in PeopleSoft.



Mayor Mark Begich

Office of the Internal Auditor

March 13, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-7

2005 Parts, Tires and Lubricants Inventory

Fleet Maintenance Facility and Fleet Maintenance Maintenance and Operations

As part of the 2006 Audit Plan, we have observed the inventory of parts, tires and lubricants at Fleet Maintenance. 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 2005 through January 2006.

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 \$352,962.68. The value of the inventory was based on a weighted average unit cost. A net adjustment of \$9,962.98 was made to decrease the PeopleSoft records to the physical count.



Mayor Mark Begich

Office of the Internal Auditor

March 27, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-8

Annual Municipal Procurement Card Review

Purchasing Department

As part of the 2006 Audit Plan, we have completed our annual review of the Municipal Procurement Card Program. The objective of this audit was to determine whether procurement card holders adhered to Municipal policies and procedures regarding procurement card use. Our audit included a review of all procurement card transactions from January through December 2005. Specifically, we reviewed purchase descriptions for selected transactions to ensure purchases complied with Municipal Policy and Procedure 48-16, MOA Procurement Card. In addition, we contacted various departments to clarify questionable purchases. Finally, we verified that the employee termination process regarding the closure of procurement card accounts worked as intended.

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 November through January 2006. The audit is required by Municipal Policy and Procedure 48-16, Section 7f(1).

The procurement card system continues to provide a cost effective method for paying for small purchases with a reasonable level of management controls. Most procurement card purchases reviewed complied with Municipal Policy and Procedure 48-16. However, our audit revealed some questionable purchases such as food for employees and birthday parties, retirement plaques, balloons, flowers for employee family members, water cooler rentals, and hand tools. We also found that some purchases were split to circumvent the maximum dollar limit per transaction.



Mayor Mark Begich

Office of the Internal Auditor

March 30, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-9

Anchorage Golf Course

Economic and Community Development

As part of the 2006 Audit Plan, we have completed an audit of the Anchorage Golf Course. The objective of this audit was to determine if Seibu Alaska, Inc. reported gross receipts during 2005 accurately for each revenue generating activity at the Anchorage Golf Course. Specifically, we reviewed the cash deposits and revenue recording process to determine if the transactions were properly updating the general ledger for the different activities. We focused on the revenue generated during the month of June and verified the source documents for transactions and adjustments that affected the revenue. In addition, from the revenue reported to the Municipality of Anchorage, we judgementally selected, for each activity during the year, the months with the highest revenue and compared the reported revenue with the revenue reported in the general ledger. Finally, after the verification of the monthly revenue, we verified the accuracy of the three percent (3%) rental fee paid quarterly to the Municipality.

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 February 2006. The audit was requested by the Administration.

Seibu Alaska, Inc. reported, with reasonable accuracy, gross receipts for each revenue generating activity at the Anchorage Golf Course. However, various items, such as employee meals and promotional items, were deducted from the total revenue reported to the Municipality when calculating the three percent (3%) rental fee.



Mayor Mark Begich

Office of the Internal Auditor

April 18, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-10

2005 Community Right to Know

Anchorage Fire Department

As part of the 2006 Audit Plan, we have completed an audit of the Community Right to Know (CRTK) Program at the Anchorage Fire Department. The objective of this audit was to determine the adequacy of procedures used to manage the Program and bill for services. Specifically, we reviewed CRTK reports, invoices, site plans, and historical records and conducted visits to local businesses and agencies to ascertain the status of the required placarding, floor plans, and hazardous materials. We also performed follow-up on the findings in Internal Audit Report 1997-08 dated March 27, 1997.

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 months of November and December 2005. The audit was requested by the Administration.

The CRTK files and records were in an unauditible condition and procedures used to manage the Program and bill for services were unsatisfactory. Specifically, we found that there was a lack of supervisory and management oversight over the Program. The Program was not actively administered and the CAMEO (Computer-Aided Management of Emergency Operations) data base had not been actively maintained. The process to bill businesses for the Program was haphazard and inadequate. Facility files were incomplete, not organized, and some CRTK files did not have site/floor plans on file. In addition, Anchorage Municipal Code requirements for placards and Certificates of Compliance were not followed, and CRTK fees collected were not always used for Program operations. Finally, we found that Anchorage Municipal Code 16.110 does not contain procedures or requirements for administering the Program.



Mayor Mark Begich

Office of the Internal Auditor

June 15, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-11

Anchorage Historic Properties, Inc.

Office of Economic and Community Development

As part of the 2006 Audit Plan, we have completed a review of the financial records of Anchorage Historic Properties, Inc. The objective of this audit was to review the financial activity during the period January 1, 2004, through May 31, 2006, and to verify the amount of funds on hand at May 31, 2006. Due to the limited scope, we did not perform an audit in accordance with generally accepted government auditing standards. Data was subjected to only limited tests for completeness and accuracy. The audit was performed during the period of May through June 2006. The audit was requested by the Administration.

Based on our limited tests of data provided, we were not made aware of any material errors or omissions to the financial records examined. We did identify \$250,000 that is still in an escrow account for the purchase of the 4th Avenue Theatre. Specifically, we identified the following ending balances as of May 31, 2006:

● Operating Account:	\$43,786.63
● Oscar Anderson Museum Account #1:	\$1,627.60
● Oscar Anderson Museum Account #2:	\$22,572.47
● Investment Fund:	\$90,211.06



Mayor Mark Begich

Office of the Internal Auditor

July 11, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-12

Wildfire Mitigation

Anchorage Fire Department

As part of the 2006 Audit Plan, we have completed a review of wildfire mitigation at the Anchorage Fire Department. The objective of this review was to provide information concerning the Anchorage Fire Department's wildfire mitigation efforts resulting from the Federal Funding received since 2001. This review was performed during the period of April through May 2006. The review was requested by the Municipal Assembly.

Since 2001, the Anchorage Fire Department has received \$14,573,000 in Federal appropriations. Of the \$14.6 million received, about \$3.5 million remains unspent. According to the Anchorage Fire Department's Wildfire Mitigation Office, these funds have been used to provide 1,155 Firewise home assessments, resulting in the treatment of 301 homes. In addition, since 2001 about 1,533 acres have been treated. Since 2001, the Office has spent over \$11,000,000 related to various suppression and mitigation activities. Funds have been spent on activities such as tree removal reimbursements, brush clearing, hazardous tree removal, wildfire mapping and modeling, helicopter service, fire station remodel for the Wildfire Mitigation Office, a brush rig, a Polaris ATV, five F-350 pickup trucks, personal protective equipment, and a mini pumper.

The funds received by the Anchorage Fire Department were direct appropriations from the Federal government with few, if any, reporting requirements or detailed stipulations on how the money was to be spent. Funding for the first year focused on wildfire suppression. After the first year, the funding focused more on mitigating the threat of wildfire though hazardous tree removal, especially those trees affected by the spruce bark beetle. However, we found that the line between wildfire suppression activities and wildfire mitigation activities was often blurred.



Mayor Mark Begich

Office of the Internal Auditor

August 1, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-13

Developer Deposits

Project Management and Engineering

As part of the 2006 Audit Plan, we have completed an audit of developer deposits at Project Management and Engineering's Private Development Division. The objective of this audit was to determine whether developer deposits were properly collected and maintained in compliance with Anchorage Municipal Code 24.20.040, *Payment of fees; deposits*. Specifically, we reviewed the pertinent sections in the code. We also determined the process for collecting and maintaining developer deposits through interviews with appropriate staff and through review of project files. Finally, we evaluated whether the Private Development Division's internal policies and procedures, that recently became effective, adequately addressed developer deposits.

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 June 2006. The audit was requested by the Administration.

Overall, developer deposits were properly collected in accordance with Anchorage Municipal Code 24.20.040. However, Anchorage Municipal Code 24.20.040 does not clearly state how developer deposits should be used.



Mayor Mark Begich

Office of the Internal Auditor

August 2, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-14

Real Property Exemption

Property Appraisal Division Finance Department

As part of the 2006 Audit Plan, we have completed an audit of real property exemptions at the Property Appraisal Division, Finance Department. The objective of this audit was to determine if real property tax exemptions were being properly administered. Our audit included evaluating the process for granting exemptions, reviewing files for documentation to support the exemptions, and testing selected exemptions for compliance with statutory requirements. Our audit did not include residential exemptions since they were recently implemented. Our audit concentrated on the following exemptions: community purpose, senior citizen/disabled veteran, charitable, veteran's organizations, fire protection system (sprinkler), religious, native, and regional housing authority.

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 February through April 2006. The audit was requested by the Administration.

Overall, the majority of exemptions granted by the Property Appraisal Division were properly administered. However, the administration of some of the exemptions could be improved. Specifically, we found that not all of the exemptions were reviewed on an annual basis and some exemption files contained insufficient documentation to support the decision to grant an exemption. In addition, a Computer Assisted Mass Appraisal (CAMA) report listed several exemption categories that were not supported by the Anchorage Municipal Code or Alaska State Law. Moreover, the Property Appraisal Division did not always assess a value for exempted property, making it impossible to analyze the impact of exemptions on the distribution of the tax burden. Finally, approvals for late filings for the Senior Citizen/Disabled Veteran Property Tax Exemption Program were not in compliance with the Anchorage Municipal Code.



Mayor Mark Begich

Office of the Internal Auditor

November 9, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-15

Transfer of Responsibility Agreements

Finance Department

As part of the 2006 Audit Plan, we have completed an audit of Transfer of Responsibility Agreements (TORAs). The objective of this audit was to determine whether TORAs were properly administered. Specifically, we reviewed all 24 currently active TORA files to ensure they contained the appropriate documentation and verified that TORAs were properly set up in the PeopleSoft financial reporting system. In addition, we determined if the TORA expenditures met the intent of the agreement. Finally, we selected a sample of five TORAs to determine if the TORA award amounts covered the actual costs the Municipality incurred.

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 June through August 2006. The audit was requested by the Administration.

Overall, we found that TORAs have been properly administered and, for the majority of TORAs, the transfer payments covered the expenditures incurred by the Municipality. However, our review revealed that the Municipality may have subsidized two TORAs by at least \$1,000,000 in 2005. Also, we found that two departments did not track actual costs associated with TORAs through separate project numbers.



Mayor Mark Begich

Office of the Internal Auditor

November 15, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-16

Minor Repair Program Follow-up

Department of Neighborhoods

As part of the 2006 Audit Plan, we have completed a follow-up audit of the Minor Repair Program that is administered by the Department of Neighborhoods. The objective of this audit was to determine whether the deficiencies related to the administration of the Minor Repair Program identified in our prior Internal Audit Report 2004-14 had been corrected. Our audit included an evaluation of the Minor Repair Program's efficiency, policies and procedures, material and tool inventories.

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 July through August 2006. The audit was requested by the Municipal Assembly.

The Department of Neighborhoods has made significant improvements in the administration of the Program. However, the materials inventory system needs strengthening and most tools and equipment had not been entered in the Municipal fixed asset records. Our audit report in 2004 addressed five findings. In our follow-up audit, we found that all but one finding from the prior audit have been corrected.



Mayor Mark Begich

Office of the Internal Auditor

November 16, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-17

Weatherization Assistance Program Follow-up

Department of Neighborhoods

As part of the 2006 Audit Plan, we have completed a follow-up audit of the Weatherization Assistance Program that is administered by the Department of Neighborhoods. The objective of this audit was to determine whether the deficiencies identified in our prior Internal Audit Report 2004-12 related to the administration of the Weatherization Assistance Program had been corrected. Our audit included an inventory of all materials and selected tools and a review of 74 client files.

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 July through August 2006. The audit was requested by the Municipal Assembly.

The Department of Neighborhoods has made improvements in administering the Weatherization Assistance Program since it was transferred from the Health and Human Services Department on April 1, 2005. However, there are still areas that need to be improved. Nine of the eleven findings were implemented, one finding was partially implemented, and one finding was not implemented by the Department of Neighborhoods. The audit also disclosed that some assets were not recorded in the Municipal fixed asset records.



Mayor Mark Begich

Office of the Internal Auditor

December 18, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-18

Spenard Recreation Center Cash Controls

Parks and Recreation Department

As part of the 2006 Audit Plan, we have completed a cash control audit at the Spenard Recreation Center. The objective of this audit was to determine if the Center had proper cash controls in place and if these controls were in compliance with applicable Municipal Policies and Procedures. Our audit included a surprise cash count and a review of cash controls. In addition, we judgmentally selected a sample of cash receipts and reviewed the backup documentation for compliance and accuracy. Moreover, we haphazardly selected a sample of room rental permits and traced them to payments. Also, we tested if the 2006 permits were accounted for in the Center's records. Finally, we conducted a review of all current instructor files to determine if the Center had properly accounted for class revenue.

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 September 2006. The audit was requested by the Administration.

Cash controls at the Spenard Recreation Center needed improvement. Our review revealed that cash control procedures were not always in compliance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing, and Reporting Cash*, and Municipal Policy and Procedure 24-21, *Customer Setup, Billing and Managing PeopleSoft Accounts Receivable*. In addition, the Center did not have adequate controls for the collection of the concession sales surcharge and for the class revenue. Moreover, payments to class instructors were not substantiated by appropriate supporting documentation. Finally, we found that the Treasury Division did not enforce the daily cash deposit requirement in accordance with Municipal Policy and Procedure 24-1.



Mayor Mark Begich

Office of the Internal Auditor

December 20, 2006

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

Internal Audit Report 2006-19

Fairview Recreation Center Cash Controls

Parks and Recreation Department

As part of the 2006 Audit Plan, we have completed a cash control audit at the Fairview Recreation Center. The objective of this audit was to determine if the Center had proper cash controls in place and if these controls were in compliance with applicable Municipal Policies and Procedures. Our audit included a surprise cash count and a review of cash controls. In addition, we judgmentally selected a sample of cash receipts and reviewed the backup documentation for compliance and accuracy. Finally, we haphazardly selected a sample of room rental permits and traced them to payments.

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 September 2006. The audit was requested by the Administration.

Cash controls at the Fairview Recreation Center were generally satisfactory and in compliance with Municipal Policies and Procedures. However, controls over room rentals at the Center needed improvement. Our review revealed that fee waivers for room rentals were not properly authorized. In addition, room rental permits were not always properly completed and the Center lacked adequate controls for the collection of the concession sales surcharge.

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))”