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# INTERNAL AUDIT DEPARTMENT

## 2007 ANNUAL REPORT

January 15, 2008

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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 2007 Annual Report

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# Municipality of Anchorage

P.O. Box 196650 • Anchorage, Alaska 99519-6650 • Telephone: (907) 343-4438 • Fax: (907) 343-4370 <http://www.muni.org>

*Mayor Mark Begich*

## Office of the Internal Auditor

January 15, 2008


Honorable Mayor and Members of the Anchorage Municipal Assembly:

Attached is the Internal Audit Department 2007 Annual Report for your review and information.

This report includes background information on the audit profession, a summary of the 2007 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 2007, the Internal Audit Department issued 12 audit reports and performed 15 special projects.

  
Peter Raiskums, CIA, CFE  
Director, Internal Audit

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## INTRODUCTION

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## **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 the Office of Management and Budget, the Chief Fiscal Officer, the Director of the Office 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](mailto: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  
Marina Mazour, Senior Auditor  
Scott Lee, Senior 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 more than 19 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.

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## **INDEX OF 2007 AUDIT REPORTS**

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<b>2007 AUDIT REPORTS</b>			
<b>NUMBER</b>	<b>DATE</b>	<b>REPORT NAME</b>	<b>DEPARTMENT</b>
2007-1	01/04/07	2006 Payroll	Finance
	01/09/07	2006 Annual Report	
2007-2	02/01/07	2006 Parts, Tires and Lubricants Inventory	Maintenance and Operations
2007-3	03/01/07	2006 Procurement Card Program	Purchasing
2007-4	03/15/07	Employee Incentive Program	Employee Relations
2007-5	05/02/07	Ground Lease Agreement with Seibu Alaska, Inc.	Heritage Land Bank
2007-6	05/08/07	2006 Parts, Fuel and Lubricants Inventory	Public Transportation
2007-7	06/07/07	Front Counter Cash Controls	Anchorage Police
2007-8	06/12/07	Business Personal Property Tax, Property Appraisal Division	Finance
2007-9	08/14/07	Anchorage Convention and Visitors Bureau	Economic and Community Development
2007-10	09/13/07	Contract Compliance, NovaPro Risk Solutions, LP	Risk Management
2007-11	11/01/07	Fixed Asset Accountability	Anchorage Fire
2007-12	11/29/07	Cash Controls	Health and Human Services



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## **INDEX OF 2007 SPECIAL PROJECTS**

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## 2007 SPECIAL PROJECTS

DATE	SUBJECT NAME	DEPARTMENT
01/17/07	2006 AWWU Chemicals and Fuel Inventory	Anchorage Water & Wastewater
01/31/07	PFR Medical Statements Review for 2006	Police and Fire Retirement
02/13/07	Funding for Chugiak Volunteer Fire & Rescue Inc.	Municipal Assembly
02/27/07	Contributions and Donations	Municipal Assembly
04/05/07	Dumpster Inventory Controls	Maintenance & Operations
04/10/07	Commercial Property Appraisal Best Practices	Mayor's Office
07/05/07	2006 Procurement Card Rebate	Purchasing
08/09/07	Federation of Community Councils	Municipal Assembly
08/16/07	Municipal Overtime Analysis: 2002-2006	Municipal Manager
09/25/07	Teamsters Local 959 Contract Cost Validation	Municipal Assembly
10/22/07	Private Development Projects	Project Management and Engineering
11/09/07	Cell Phone/Blackberry Controls	Information Technology
11/19/07	Payroll Overtime	Anchorage Fire
11/28/07	Metro Drug Unit, Review of Cash and Expenditures	Anchorage Police
12/24/07	Vehicle Rental Rates	Maintenance and Operations

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**EXECUTIVE SUMMARIES FROM  
2007 AUDIT REPORTS**

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*Mayor Mark Begich*

## Office of the Internal Auditor

January 4, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### Internal Audit Report 2007-1

#### 2006 Payroll

#### Finance Department

As part of the 2006 Audit Plan, we have completed an audit of 2006 Payroll. The objective of this audit was to determine whether payroll transactions were valid and supported by properly authorized documentation. Our audit included a review of payroll transactions for all general government primary payroll specialists, including employees of the Payroll Department, for the time period of January through October 2006. Specifically, we selected all pay overrides, overtime, and leave for payroll specialists to determine if they were properly supported and documented. In addition, we selected one payroll cycle for the Parks and Recreation Department and two payroll cycles for selected employees of the Maintenance and Operations Department to determine if payroll transactions were accurate, were based on appropriate supporting documentation, and complied with applicable policies and procedures. Finally, we reviewed deductions for all Municipal employees participating in the dependent care program and compared them to supporting documentation and enrollment forms.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of September through November 2006. The audit was requested by the Administration.

Overall, payroll transactions tested were valid and adequately supported. In addition, the Payroll Clerk Manual has been finalized. However, the Public Transportation Department had not used Overtime Request forms to approve overtime. Also, employee time records were not always signed and approved by supervisors prior to submission for compensation at the Maintenance and Operations Department.





*Mayor Mark Begich*

## Office of the Internal Auditor

February 1, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-2**

#### **2006 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, haphazard, 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 2006 through January 2007.

Based on our inventory observation, it is our opinion that the physical inventory was reasonably accurate. The physical inventory resulted in a final inventory valuation of \$333,575.18. The value of the inventory was based on a weighted average unit cost. A net adjustment of \$11,987.86 was made to increase the PeopleSoft records to the physical count.





*Mayor Mark Begich*

## Office of the Internal Auditor

March 1, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-3**

### **2006 Procurement Card Program**

### **Purchasing Department**

As part of the 2006/2007 Audit Plan, we have completed an audit of the Procurement Card Program for 2006. 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 purchases made from January 1, 2006, to December 14, 2006. Specifically, we reviewed purchases for selected transactions to ensure compliance with Municipal Policy and Procedure 48-16. In addition, we reviewed supporting documentation for selected transactions at various departments. Finally, we verified the process of closing Procurement Card accounts for terminated employees.

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 2006 through January 2007. 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 of 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, we found that some purchases were split to circumvent the maximum single transaction limit. Moreover, some of the purchases appeared questionable, such as food, water coolers and water, flowers, coffee and coffee-related items, and retirement plaques. In addition, our review of Procurement Card purchases revealed a variety of questionable donations for non-Municipal agencies.





*Mayor Mark Begich*

## Office of the Internal Auditor

March 15, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-4**

### **Employee Incentive Program**

### **Employee Relations**

As part of the 2007 Audit Plan, we have completed an audit of the Employee Incentive Program. The objective of this audit was to determine if appropriate controls were in place to appropriately account for gift cards and logo clothing purchased by the Employee Incentive Committee. This audit did not include a review of cash awards given to Municipal employees. Our audit included a review of the Employee Incentive Committee budget and related expenditures. In addition, we conducted a surprise inventory of gift cards and reconciled gift cards purchased since 2003 to gift cards awarded to employees.

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 2006 through January 2007. The audit was requested by the Employee Relations Department.

The Employee Incentive Committee had not established appropriate controls to properly account for gift cards and logo clothing. Specifically, the responsibilities for purchasing, awarding, and tracking of gift cards were not segregated, and gift cards awarded to employees were not always supported by the "Nomination for Award" form. Also, gift card purchases could not be fully reconciled to gift cards that were awarded to Municipal employees, and the Employee Incentive Committee did not maintain records for shirts purchased and who had received them as part of the award program. Additionally, gift card purchases were not properly accounted for in the correct Municipal account, and some purchases were not related to the Employee Incentive Program. Moreover, although Municipal Policy and Procedure 40-8 clearly specifies the duties of the Committee executive secretary, these duties were haphazardly performed. Finally, contrary to Municipal Policy and Procedure 40-8, various departments throughout the Municipality have established their own employee incentive programs.





# Municipality of Anchorage

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*Mayor Mark Begich*

## Office of the Internal Auditor

May 2, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-5**

#### **Ground Lease Agreement with Seibu Alaska, Inc.**

##### **Heritage Land Bank**

As part of the 2007 Audit Plan, we have completed an audit of the Ground Lease Agreement between Seibu Alaska, Inc. and the Municipality of Anchorage. The objective of this audit was to determine if monthly payments made by Seibu Alaska, Inc. to the State and the Municipality of Anchorage were accurate from January 2000 through December 2006. Specifically, we verified the revenue reported by Seibu Alaska, Inc. for 14 selected months from January 2000 through December 2006. This verification included a review of general ledger detail as well as point-of-sale data. After verifying monthly revenue, we recalculated the payments made to the State and the Municipality of Anchorage to verify their accuracy.

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 2007. The audit was requested by the Administration.

Our tests of provided data revealed that rental payments made by Seibu Alaska, Inc. to the State and the Municipality of Anchorage were reasonably accurate and were based on point-of-sale transactions. From January 2000 through December 2006, the State received about \$387,977 in rental payments and the Municipality of Anchorage received \$62,097 in rental payments. In addition, monthly payments were based on all required revenue sources. These revenue sources included: Daylodge Food, Seven Glaciers Restaurant, Shop At The Top, Lift Tickets, Season Passes, Glacier Express, Ski School, Rental/Repair, Alaska Paragliding, Ascending Path, and telecommunication subleases. Finally, we were able to reconcile, within a reasonable amount, revenue found on the general ledger reports to revenues provided in the point-of-sales reports.

Internal Audit Department - 2007 Annual Report

January 15, 2008

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***Community, Security, Prosperity***



## Office of the Internal Auditor

May 8, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-6**

#### **2006 Parts, Fuel and Lubricants Inventory**

#### **Public Transportation Department**

As part of the 2007 Audit Plan, we have observed the inventory of parts, fuel and lubricants 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 2007.

The physical inventory resulted in a final valuation of \$642,190.03. A net adjustment of \$40,577.04 was made to increase PeopleSoft financial records to bring them in agreement with the physical count. Department personnel indicated that they are researching the differences between PeopleSoft financial records and GEMS records. Based on our inventory observation, it is our opinion that the physical inventory was reasonably accurate.





# Municipality of Anchorage

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Mayor Mark Begich

## Office of the Internal Auditor

June 7, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-7**

### **Front Counter Cash Controls**

### **Anchorage Police Department**

As part of the 2007 Audit Plan, we have completed a front counter cash control audit at the Anchorage Police Department. The objective of this audit was to determine whether adequate cash controls were in place over cash receipts and the traffic citations processed by the Anchorage Police Department, Records Section, and to ensure all funds received were deposited properly. Specifically, we judgmentally selected a sample of thirty-nine Cashier Daily Summary Reports and tested them for compliance and accuracy. Our audit also included a review of cashiers' training records and unscheduled cash counts. Furthermore, we researched and observed how payments were processed in the Records Section.

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 February 2007. The audit was requested by the Administration.

Cash controls at the Anchorage Police Department's Records Section require strengthening. Cash deposits were not reconciled with citations paid as recorded in the Alaska Public Safety Information Network (APSIN) system; and cash collection duties were not adequately segregated. Our review also revealed that cash control procedures were not always in compliance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. In addition, an excessive number of Records Section clerks performed cashiering duties. Finally, Anchorage Police Department accounts receivable have not been managed effectively.





*Mayor Mark Begich*

## Office of the Internal Auditor

June 12, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-8**

### **Business Personal Property Tax**

### **Property Appraisal Division Finance Department**

As part of the 2006 Audit Plan, we have completed an audit of business personal property tax at the Personal Property Section, Property Appraisal Division, Finance Department. The objective of this audit was to determine if business personal property returns were properly processed and audited, and if taxable businesses were identified. Specifically, we reviewed the Personal Property Section's audit function. We determined if a sample of businesses were included in the Section's database. We also selected a sample of businesses to determine if tax returns had been timely filed and if late filing penalties had been properly applied, if applicable. Furthermore, we evaluated the process for granting personal property exemptions, reviewed files for documentation to support the exemptions, and tested selected exemptions for compliance with statutory requirements. In addition, we reviewed the Personal Property Section's policies and procedures manual to determine if the Section complied with its internal procedures. This audit did not include mobile homes.

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 2006 through January 2007. The audit was requested by the Administration.

Generally, business personal property returns were properly processed. In addition, taxable businesses were being identified. However, the audit function was based more on cursory reviews than audits substantiated by appropriate documentation. In addition, the Personal Property Section's policy and procedures manual was outdated. Finally, staff training needed improvement, and the Anchorage Municipal Code did not authorize personal property exemptions for a community purpose.



# Municipality of Anchorage

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*Mayor Mark Begich*

## Office of the Internal Auditor

August 14, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-9**

#### **Anchorage Convention and Visitors Bureau**

#### **Economic and Community Development**

As part of the 2007 Audit Plan, we have completed an audit of the contract between the Municipality of Anchorage and the Anchorage Convention and Visitors Bureau. The objective of this audit was to determine whether the Anchorage Convention and Visitors Bureau was in compliance with the Contract requirements. Our audit included a review of 2006 and 2007 quarterly reports, financial statements and judgmentally selected expenditures. We also evaluated the performance measures contained in Appendix A of 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 April through May 2007. The audit was requested by the Administration.

Overall, Anchorage Convention and Visitors Bureau complied with the requirements of the Contract. There were, however, some areas that required improvement. Several questionable expenses were made with bed tax revenue. Also, reported performance measures did not comply with the Contract. For example, nearly half of the performance measures reported did not match the measures contained in the Contract. In addition, we found that the performance measures contained in the Contract could be improved. Finally, the Anchorage Convention and Visitors Bureau was not in compliance with the Contract's provision about subcontracts.





*Mayor Mark Begich*

## Office of the Internal Auditor

September 13, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-10**

#### **Contract Compliance NovaPro Risk Solutions, LP**

#### **Risk Management Department**

As part of the 2007 Audit Plan, we have completed a contract compliance audit of the professional services contract between the Municipality of Anchorage and NovaPro Risk Solutions, LP. The objective of this audit was to determine whether NovaPro Risk Solutions, LP, complied with the contract requirements for claims adjusting services, especially with the specific measurable objectives in Appendix A of the contract. Specifically, we selected a total of 111 workers' compensation, general liability and automobile liability claims and reviewed the claim files for contract compliance. In addition, we reviewed resumes and licenses for NovaPro Risk Solutions, LP, staff working on Municipal claims to ensure staff had the required work experience and were licensed with the State of Alaska. Moreover, we tested if NovaPro Risk Solutions, LP, submitted the required reports and made timely payments on claims in accordance with Alaska State Statutes. Finally, we followed up on prior audit findings contained in audit reports 2003-11 and 2004-11.

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 July 2007. The audit was requested by the Administration.

Generally, NovaPro Risk Solutions, LP, complied with the contract requirements for claims adjusting services. However, some of the specific measurable objectives listed in Appendix A of

the contract needed improvement. Initial reserves were not always timely set and the three-point contact was made late. In addition, we found that the NovaPro Risk Solutions, LP, branch manager was not licensed with the State of Alaska and did not have the required seven years of multi-line experience. Finally, our follow-up on prior audit findings revealed that back injury statements were not taken, the Municipality has not yet adopted a policy and procedure for sewer and water cleanup, and Municipal Policy and Procedure 40-12, *Modified Work Program*, was not in compliance with federal regulations and had not been officially rescinded.





# Municipality of Anchorage

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Mayor Mark Begich

## Office of the Internal Auditor

November 1, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### **Internal Audit Report 2007-11**

#### **Fixed Asset Accountability**

#### **Anchorage Fire Department**

As part of the 2007 Audit Plan, we have completed an audit of fixed asset accountability at the Anchorage Fire Department. The objective of this audit was to determine if the Anchorage Fire Department complied with Municipal Policy and Procedure 24-13, *Fixed Asset and Infrastructure Accountability*, in regards to reportable and non-reportable fixed assets. Our audit included a review of supply-related accounts to determine if there were any fixed assets charged to these accounts. We reviewed and compared the physical inventory of technology-related fixed assets to the PeopleSoft Asset Management Module records. We also reconciled an internal inventory of vehicles and vehicle-related equipment to PeopleSoft Asset Management Module 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 June through July 2007. The audit was requested by the Administration.

The Anchorage Fire Department has not complied with Municipal Policy and Procedure 24-13. Specifically, the Anchorage Fire Department had not performed an annual physical inventory of fixed assets since 2000 and lacked sufficient controls to prevent the loss or misappropriation of fixed assets. In addition, we found that some fixed assets were coded to the wrong general ledger accounts. We also found that the Municipality's Purchasing Department was not notified of disposed fixed assets. Finally, we identified five Municipal vehicles that were not clearly marked as fire response vehicles or Municipal-owned vehicles.

Internal Audit Department - 2007 Annual Report

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*Community, Security, Prosperity*





# Municipality of Anchorage

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Mayor Mark Begich

## Office of the Internal Auditor

November 29, 2007

Honorable Mayor and Members of the Assembly:

The attached report is submitted for your review.

### Internal Audit Report 2007-12

#### Cash Controls

#### Health and Human Services

As part of the 2007 Audit Plan, we have completed a cash controls audit at the department of Health and Human Services. The objective of this audit was to determine whether the Environmental Services Division and Community Health Services Division had proper cash controls in place, and if these controls were in compliance with Municipal Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. To accomplish our objective, we performed surprise cash counts, verified that deposits were made timely, and reviewed cashier daily summary reports for completeness. We also reviewed and tested billing and collection transactions for fees, payments collected, and 30 selected client visits. Finally, we inventoried inspection and maintenance certificates and waivers.

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 2007. The audit was requested by the Administration.

Cash control procedures were generally satisfactory and complied with Municipal Policy and Procedure 24-1 in the Environmental Services and Community Health Services Divisions. However, we found no evidence of unscheduled cash/check counts at both divisions, and segregation of duties could be improved at the Community Health Services Division.

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## **ANCHORAGE MUNICIPAL CODE 3.20**

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## **ANCHORAGE MUNICIPAL CODE 3.20**

### **“3.20.100 Office of internal audit established; staff.**

- A. There is established an office of internal audit to provide the assembly and the mayor with objective information to assist them in determining whether government operations are adequately controlled and whether the required high degree of public accountability is maintained.
1. The office of internal audit shall meet generally accepted government audit standards with regard to independence.
  2. The director of internal audit shall be appointed by the mayor with concurrence of a majority vote of the assembly.
  3. The director of internal audit may be dismissed by the mayor only for cause shown, and only with concurrence of a majority of the assembly.
  4. The director of internal audit shall be a person able to manage a professional audit staff, analyze financial records and evaluate operations for economy, efficiency and program results.
  5. The director of internal audit shall be either a certified internal auditor or a certified public accountant.
  6. The director of internal audit shall not be actively involved in partisan political activities or the political affairs of the municipality.
  7. The director of internal audit shall interact with the municipal audit committee to ensure maximum coordination between the needs of the assembly and the mayor in the development and execution of the annual audit plan.
- B. The director of internal audit shall have such assistants and employees as are necessary to perform all required duties.

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

Charter references: Independent audit, § 13.10.”

### **“3.20.110 Responsibilities of the director of internal audit.**

- A. No later than January 31 of each year, the director of internal audit shall:
1. Prepare a draft annual audit plan;



2. Submit the draft plan to municipal audit committee members for review and comment; and
3. Finalize the plan and submit it to the municipal audit committee for final review and endorsement.

The audit plan shall be the official list of audits to be conducted by internal audit during the year. Additionally, the director of internal audit may revise the audit plan during the year to include other appropriate audits, which are consistent with the responsibilities specified in Section 3.20.100, and promptly submit the revisions to municipal audit committee members for review and comment and then to the mayor and assembly for approval. Except for audits such as cash and inventory audits where, based on the professional judgment of the director of internal audit, prior notification may hinder the effectiveness of the audit, no audit to be added to the annual audit plan as a revision may commence until the audit plan is revised and approved per this subsection.

- B. In addition to those audits contained in the annual audit plan outlined in subsection A of this section, audits may also be undertaken at the direction of the mayor or a majority of the assembly. The mayor will notify the assembly through an assembly information memorandum (AIM) or other appropriate means prior to commencement of such audits.
- C. The director of internal audit shall cooperate with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be coordinated.
- D. The director of internal audit shall have responsibility to conduct expanded scope audits of all municipal departments, agencies, authorities and activities to independently determine whether:
  1. There are adequate internal administrative and accounting control systems in place and that they are functioning as intended;
  2. Activities and programs being implemented have been authorized by the assembly, the mayor or this Code;
  3. Activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by the assembly, the mayor or this Code;
  4. Activities or programs efficiently and effectively serve the purpose intended by the assembly, the mayor or this Code;
  5. Activities and programs are being conducted and funds expended in compliance with applicable laws;
  6. Revenues are being properly collected, deposited and accounted for;

7. Resources, including funds, property and personnel, are adequately safeguarded, controlled and used in a lawful, effective and efficient manner;
  8. Financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities, and that is necessary to establish a proper basis for evaluating the programs and activities; and
  9. During the course of audit work, there are any indications of fraud, abuse, conflict of interest or illegal acts.
- E. Audits shall be conducted in accordance with generally accepted government auditing standards.
- F. In all matters relating to the audit work, the director of internal audit and the audit staff must be free from personal and external impairments to independence and shall maintain an independent attitude and appearance.
- G. The director of internal audit shall present conclusions, findings and recommendations, along with verbatim responses from the administration, in a written audit report.
- H. The written audit report shall be promptly presented simultaneously to the mayor and the assembly.
- I. Copies of final audit reports of the office of internal audit shall be available for public inspection during regular business hours.
- J. The duties of the director of internal audit under this section shall not be construed to replace or relieve the responsibility of any other person.
- K. This section shall not apply to the Anchorage Telephone Utility or its board of directors unless otherwise agreed by the Anchorage Telephone Utility.

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

**"3.20.120 Responsibilities of administration when deficient conditions disclosed by audit.**

A. The administration shall:

1. Plan or implement corrective action in response to reported deficient conditions within 30 days of receiving a draft internal audit report disclosing the conditions;
2. Submit to the director of internal audit a written response stating concurrence or nonconcurrence with the audit findings and action taken or planned under subsection A of



this section to correct the reported deficiencies, suitable for verbatim inclusion in the final report of audit; and

3. If the response under subsection B of this section describes a plan of action, submit to the director of internal audit a second report promptly upon implementing the plan.
- B. This section shall not authorize the public disclosure of material that is confidential or privileged under federal, state or local law, or material the public disclosure of which otherwise would constitute an unwarranted invasion of personal privacy.
- C. This section shall not apply to the Anchorage Telephone Utility or its board of directors unless otherwise agreed by the Anchorage Telephone Utility.

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

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

- A. In the performance of their duties under Section 3.20.110, the director of internal audit and internal audit staff are authorized to have full, free and unrestricted access to:
  1. All public records, as defined in Section 3.90.020;
  2. All activities of the municipal government;
  3. All municipal property;
  4. All municipal personnel; and
  5. All policies, plans and procedures and records pertaining to expenditures financed by municipal funds.
- B. This section shall not apply to the Anchorage Telephone Utility or its board of directors unless otherwise agreed by the Anchorage Telephone Utility.

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