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# INTERNAL AUDIT DEPARTMENT

## 2020 ANNUAL REPORT

January 7, 2021

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MUNICIPALITY OF ANCHORAGE  
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# Internal Audit Department 2020 Annual Report

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# Municipality of Anchorage

Austin Quinn-Davidson  
Acting Mayor

## Internal Audit

January 7, 2021

Honorable Mayor and Members of the Assembly:

Attached is the Internal Audit Department 2020 Annual Report for your review and information.

This report includes background information on the audit profession, a summary of the 2020 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 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 policies and procedures, accountability and protection of Municipal assets, and achievement of program results.

During 2020, the Internal Audit Department issued 11 Municipal audit reports, 4 Anchorage School District audit reports, and 2 sunset audit reports. In addition, the Internal Audit Department performed 15 Municipal special projects. Finally, we attended 58 Anchorage Police Department events and provided nearly 2,012 hours of staff support to the Emergency Operations Center in response to the COVID-19 pandemic.

Michael Chadwick, CIA, CICA  
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 Municipal Audit Committee. The certified public accounting firm of BDO USA, 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 and recommendations and management's responses.

## **SCHEDULING OF AUDITS**

The Director of Internal Audit prepares an annual audit plan at the beginning of each fiscal year, which is reviewed and endorsed by the Municipal Audit Committee and approved by the Assembly and Mayor. 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

In addition, audits of the Anchorage School District are requested and authorized by the Anchorage School Board Finance Committee.

## **DISTRIBUTION OF AUDIT REPORTS**

Municipal audit reports are distributed to the Mayor, each Municipal Assembly Member, and other appropriate Municipal personnel. Anchorage School District audit reports are distributed to the Anchorage School District.

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 710, PO Box 196650, Anchorage, Alaska 99519-6650, telephone (907) 343-4438, e-mail: [michael.chadwick@anchorageak.gov](mailto:michael.chadwick@anchorageak.gov)
3. Internal Audit Department Website: [http://www.muni.org/departments/internal\\_audit](http://www.muni.org/departments/internal_audit)

## **STAFFING OF THE INTERNAL AUDIT DEPARTMENT**

Current staff members are:

Michael Chadwick, Director  
Scott Lee, Principal Auditor  
Derek Reynolds, Senior Auditor  
Dalton Benson, Senior Auditor  
Dawn Brown, Senior Auditor (Anchorage School District)  
Jennifer Strickland, Audit Technician

The current department Director provides the Municipality with more than 25 years of auditing experience. The current audit staff provides the Municipality with a combined total of over 20 years of auditing experience. Professional certifications held by department personnel include: Certified Internal Auditor (CIA) and Certified Internal Controls Auditor (CICA).

Government Auditing Standards Section 4.16 requires that each auditor complete, every two years, at least 80 hours of continuing professional education. 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 56 of the 80 hours should be in subjects that directly enhance the auditor's professional expertise to perform audits. In addition, Government Auditing Standards Section 4.17 requires that at least 20 of the 80 hours should be completed in each 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 current audit issues.

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## **INDEX OF 2020 MUNICIPAL AUDIT REPORTS**

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## 2020 MUNICIPAL AUDIT REPORTS

NUMBER	DATE	REPORT NAME	DEPARTMENT
	01/09/20	2019 Annual Report	Assembly
2020-01	01/30/20	Chugiak Volunteer Fire Department Cash Controls Follow-Up	Anchorage Fire Department
2020-02	02/27/20	Cash Control Procedures, Customer Service Division	Public Transportation Department
2020-03	04/03/20	Road Service Areas – Supervisory Boards	Public Works Administration
2020-04	04/03/20	2019 Parts, Fuel, and Chemicals Inventory	Anchorage Water and Wastewater Utility
2020-05	05/07/20	2019 Parts Inventory	Public Transportation Department
2020-06	06/11/20	Emergency Vehicle Preventive Maintenance	Anchorage Fire Department
2020-07	07/16/20	Purchase Orders Under \$5,000	Purchasing Department
2020-08	09/02/20	Annual Municipal Procurement Card Review	Purchasing Department
2020-09	10/22/20	Consistency Between Municipal Property Databases	Development Services Department
2020-10	12/02/20	Police and Fire Retiree Medical Trust Five-Year Review	Human Resources Department
2020-11	12/10/20	Mountain View Community Center	Parks and Recreation Department

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# **INDEX OF 2020 SCHOOL DISTRICT AUDIT REPORTS**

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## 2020 SCHOOL DISTRICT AUDIT REPORTS

<b>NUMBER</b>	<b>DATE</b>	<b>REPORT NAME</b>
ASD 2020-01	01/30/20	Criminal Background Checks
ASD 2020-02	02/14/20	Warehouse Inventory Controls, Maintenance and Operations Department
ASD 2020-03	11/12/20	Building Access Controls
ASD 2020-04(A)	12/22/20	Procurement Card Purchases

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## **INDEX OF 2020 SUNSET AUDIT REPORTS**

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## 2020 SUNSET AUDIT REPORTS

<b>NUMBER</b>	<b>DATE</b>	<b>COMMISSION/BOARD</b>	<b>DEPARTMENT</b>
2020-S1	08/11/20	Public Safety Advisory Commission	Anchorage Fire Department
2020-S2	08/11/20	Watershed and Natural Resources Advisory Commission	Planning Department

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## **INDEX OF 2020 MUNICIPAL SPECIAL PROJECTS**

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## 2020 MUNICIPAL SPECIAL PROJECTS

DATE	SUBJECT	RECIPIENT
01/21/20	Sister Cities Commission - Outside Bank Accounts	Administration
02/05/20	Building Safety Survey 2019 Results	Administration
03/16/20	Vera Whole Health Assessment Incentive Cost Validation – Anchorage Police Department Employees Association	Assembly
04/06/20	International Brotherhood of Electrical Workers, Local Union 1547 Contract Cost Validation	Assembly
06/15/20	Teamsters Local 959 Contract Cost Validation	Assembly
06/30/20	2019/2020 Procurement Card Rebate	Administration
09/08/20	Municipal Light and Power Procurement Card Purchases	Administration
09/21/20	2019 Municipal Travel	Administration/Assembly
09/21/20	International Association of Fire Fighters Local Union 1264 Contract Cost Validation	Assembly
10/05/20	Public Transportation Parts Inventory Audit Report #2020-05	Assembly
10/13/20	Building Safety Survey 2020 Results through September 30, 2020	Administration
10/15/20	Merrill Field Grant Funding	Administration
11/12/20	Municipal Clerk's Office, Review of Administrative Functions	Assembly
12/23/20	Emergency Medical Services Costs	Administration
12/31/20	Emergency Operations Center COVID-19 2020 Staffing Assistance	N/A

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**INDEX OF 2020 ANCHORAGE POLICE DEPARTMENT  
EVENTS**

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## 2020 ANCHORAGE POLICE DEPARTMENT EVENTS

The Office of Internal Audit assists the Anchorage Police Department’s Evidence Section in certifying the proper disposal of found, abandoned, or forfeited property in accordance with Anchorage Municipal Code Chapter 7.25, *Disposition of Disposable Property*. Property certified for disposal includes drugs, bicycles, cash, guns, and items sent to auction. Specifically, drugs are incinerated; bicycles are donated to the YMCA for their annual bike auction; cash is deposited into Municipal accounts; and some guns are destroyed. In addition, other guns and items exceeding a fair market value of \$50 are transferred to the custody of the Municipal auction contractor. Proceeds from the auction are distributed into Municipal accounts. Below are the number of disposal events that the Internal Audit Department participated in with the Anchorage Police Department’s Evidence Section.

<b>2020 ANCHORAGE POLICE DEPARTMENT EVENTS</b>	
<b>NUMBER OF EVENTS</b>	<b>DISPOSAL EVENT</b>
6	Auction Transfer
7	Bicycle Transfer
11	Cash Conversion
12	Drug Disposal Verification
12	Drug Incineration
6	Gun Transfer
4	Gun Disposal

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**EXECUTIVE SUMMARIES FROM  
2020 MUNICIPAL AUDIT REPORTS**

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January 30, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-01, Chugiak Volunteer Fire Department Cash Controls Follow-Up, Anchorage Fire Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed a follow-up audit of the Chugiak Volunteer Fire Department Cash Controls. The objective was to conduct a follow-up audit to determine the effectiveness of corrective action taken by Chugiak Volunteer Fire and Rescue Company, Incorporated on the deficiencies contained in Internal Audit Report 2018-06. To accomplish our objective, we reviewed if Chugiak Volunteer Fire and Rescue Company, Incorporated exercised proper segregation of duties over accounts payable. In addition, we reviewed bank statements, financial system information, and supporting documents to determine if the Check Authorization Policy was followed; if direct debit and credit card transactions were properly approved, authorized, and reviewed; if there were any penalties for late utility payments or overdraft fees related to non-sufficient funds; and if there had been any further commingling between the Fire and Emergency Medical Services operations fund and the “Junior Firefighter” fund.

Management action corrected and significantly improved all issues identified in Internal Audit Report 2018-06. Our follow-up audit revealed that action taken by Chugiak Volunteer Fire Department was effective for all six deficiencies.

February 27, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-02, Cash Control Procedures, Customer Service Division, Public Transportation Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of the cash control procedures at the Customer Service Division in the Public Transportation Department. The objective of this audit was to determine if proper cash controls were in place at the Customer Service Division and if these controls complied with Policy and Procedure 24-1, *Collecting, Securing, Depositing and Reporting Cash*. To accomplish our objective, we performed a surprise cash count and reviewed the Customer Service Division's cash controls. In addition, we reconciled random and judgmentally selected samples from the Customer Service Division's deposits from January 2018 through October 2019 and reviewed supporting documents for compliance and accuracy. Finally, we reviewed bus pass logs from four Anchorage Public Library locations to determine if passes were properly reconciled.

Our audit revealed that procedures and controls over cash and bus passes did not always comply with the requirements of Policy and Procedure 24-1. Specifically, the safe and some of the safe's internal compartments were left unlocked during operating hours and the safe's combinations were printed on a laminated sheet of paper and left on an employee's desk. In addition, unscheduled cash counts and reconciliations for each cashier were not regularly conducted, supporting cash documents sent to the Treasury Division were not always maintained by the Customer Service Division, and bank deposits were not always secured. Moreover, over \$13,000 in Ticket Vending Machine funds had not been deposited between May 23 through September 19, 2019, and the Customer Service Division had not received a written daily deposit exception for the Ticket Vending Machine funds from the Chief Fiscal Officer. Finally, Customer Service Division staff had not reconciled bus passes sold at four Anchorage Public Library locations.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.

April 3, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-03, Road Service Areas – Supervisory Boards, Public Works Administration**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of the Road Service Areas – Supervisory Boards. The objective of this audit was to determine if the Board of Supervisors for each road service area performed basic responsibilities required by Anchorage Municipal Code, such as announcing meetings, holding regular meetings, maintaining meeting minutes and keeping attendance records, and if Board of Supervisors member seats were filled. To accomplish our objective, we contacted each Board of Supervisors and reviewed the documentation provided to determine if the Board of Supervisors performed the basic responsibilities required by Anchorage Municipal Code between January 2018 through September 2019. In addition, we reviewed election results and Assembly documents to determine membership on the Boards of Supervisors.

Our audit revealed that most road service area Boards of Supervisors failed to perform basic responsibilities required by Anchorage Municipal Code, such as announcing meetings, holding regular meetings, maintaining meeting minutes, and keeping attendance records. In addition, we found that 8 of 22 (36%) road service area Boards of Supervisors were not fully staffed and that 12 of 14 (86%) appointed members of various road service area Boards of Supervisors were serving but had not been confirmed by the Assembly. Finally, the ballot language for the Homestead Limited Road Service Area, approved by the voters in 2013, was not codified in the Anchorage Municipal Code.

There were four findings in connection with this audit. Management was responsive to the findings and recommendations.

April 3, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-04, 2019 Parts, Fuel, and Chemicals Inventory, Anchorage Water and Wastewater Utility**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of the 2019 Parts, Fuel, and Chemicals Inventory. The objective of this audit was to determine the accuracy of Anchorage Water and Wastewater Utility's inventory records for parts, fuel, and chemicals. To accomplish our objective, we performed inventory counts based on randomly and judgmentally selected samples at the King Street Operations and Maintenance Warehouse. We also inventoried all chemicals at Anchorage Water and Wastewater Utility's Eklutna and Ship Creek Water Treatment Plants and Anchorage Water and Wastewater Utility's Asplund and Eagle River Wastewater Treatment Plants. In addition, we inventoried fuel stored at Anchorage Water and Wastewater Utility's Arctic Boulevard, King Street, and Eklutna locations.

Based on our test counts, our audit revealed that the parts inventory records for the King Street Operations and Maintenance Warehouse were reasonably accurate. Likewise, inventory records for chemicals at Anchorage Water and Wastewater Utility's Eklutna, Ship Creek, and Eagle River facilities were reasonably accurate. Similarly, fuel inventories at various facilities were reasonably accurate. Regarding chemical inventories at the Asplund Wastewater Treatment Facility, the number of chemicals that had discrepancies between the book balance and the inventory count dropped from four in 2018 to one in 2019. Further management action is still required to ensure that chemicals at the Asplund Wastewater Treatment Facility are properly accounted for.

There was one finding in connection with this audit. Management was responsive to the finding and recommendation.

May 7, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-05, 2019 Parts Inventory, Public Transportation Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of the annual inventory at Public Transportation. The objective of this audit was to determine the accuracy of the Public Transportation Department's inventory records for parts. To accomplish our objective, we reviewed the Public Transportation Department's inventory procedures to determine their adequacy. Moreover, we reviewed to determine whether the Public Transportation Department staff accurately recorded inventory movements in SAP and adjusting entries were processed accurately. Finally, we inventoried randomly selected and judgmentally selected parts in the Public Transportation Department's parts warehouse.

Based on our inventory counts, it is our opinion that the physical inventory was reasonably accurate. It should be noted that our inventory count occurred a few days after the Public Transportation Department had conducted a full inventory count of all parts, following a meeting with Internal Audit staff and the Controller Division, and updated their inventory records. Therefore, one would expect no discrepancies when we conducted our inventory count. Although the inventory count was accurate, we did find that inventory controls need to be improved. Specifically, the Public Transportation Department did not properly record inventory purchases and consumption in SAP. In addition, Public Transportation Department staff did not always perform monthly cycle counts of their parts inventory during 2019.

There were two findings in connection with this audit. Management was responsive to the findings and recommendations.

June 11, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-06, Emergency Vehicle Preventive Maintenance, Anchorage Fire Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of Emergency Vehicle Preventive Maintenance at the Anchorage Fire Department. The objective of this audit was to determine if the Anchorage Fire Department Maintenance Shop performed preventive maintenance activities according to industry standards and in a timely manner. To accomplish our objective, we examined preventive maintenance activity records of 20 selected emergency apparatus that covered the period from 2010 (the approximate time of implementation of FleetFocus M5) through November 2019 for accuracy, timeliness, and proper documentation. We also reviewed Anchorage Fire Department Maintenance Shop personnel training records and certifications.

Our audit revealed that the Anchorage Fire Department Maintenance Shop did not perform preventive maintenance activities according to industry standards or in a timely manner. Specifically, the preventive maintenance program was not actively administered. We found no evidence that the Anchorage Fire Department Maintenance Shop had comprehensive preventive maintenance standards, policies, procedures, or adequate records to address the needs of its fleet. In addition, the Anchorage Fire Department Maintenance Shop did not always perform preventive maintenance scheduled in FleetFocus M5 and did not adequately document the preventive maintenance activities performed for the Anchorage Fire Department's Fleet. Finally, Anchorage Fire Department fleet maintenance mechanics did not always possess sufficient Emergency Vehicle Technician certifications as required by industry standards.

There were four findings in connection with this audit. Management was responsive to the findings and recommendations.

July 16, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-07, Purchase Orders Under \$5,000, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of Purchase Orders Under \$5,000. The objective of this audit was to determine whether there were sufficient internal controls in place for purchases under \$5,000 made with SAP-automated purchase orders. To accomplish our objective, our audit included a review of automated purchase orders processed by various departments in 2019. Specifically, we identified and reviewed possible split purchases and judgmentally selected transactions to ensure purchases were properly authorized, supported, and physically present for inspection, if goods were procured.

Our audit revealed that internal controls for purchases under \$5,000 made with SAP-automated purchase orders could be improved. Specifically, our review of selected purchases revealed 19 purchases totaling \$160,853 that appeared to be split into two or more smaller transactions to circumvent the \$5,000 single purchase order limit. Furthermore, there were no written policies and procedures for using the SAP-automated purchase order function for purchases under \$5,000.

There were two findings in connection with this audit. Management was responsive to the findings and recommendations.

September 2, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-08, Annual Municipal Procurement Card Review, Purchasing Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of the Procurement Card Program. The objective of this audit was to determine whether employees adhered to Municipal policies and procedures regarding Procurement Card use. Our audit included a review of purchases made from January 1, 2019, to December 31, 2019. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with Policy and Procedure 48-16, Policy and Procedure 24-23, and the Procurement Card Guide.

Overall, most employees adhered to Municipal Policies and Procedures regarding the use of Procurement Cards. However, our review of calendar year 2019 Procurement Card transactions revealed some instances of questionable or prohibited purchases. Examples of these purchases included cable/satellite television subscriptions, expensive neoprene seat covers for some Municipal vehicles, a facility rental and food catering for a staff team building retreat, and appliances. Examples of prohibited purchases included food for a department holiday party, water, Christmas trees in office areas, retirement badges, retirement plaques, funeral related items, and employee gifts. In addition, transactions were sometimes split to circumvent the cardholder's single transaction limit. Finally, some Procurement Card transactions contained inadequate descriptions of the purchases.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.

October 22, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-09, Consistency Between Municipal Property Databases, Development Services Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed a Consistency Between Municipal Property Databases audit. The objective of this audit was to determine if inconsistencies existed between the Computer Assisted Mass Appraisal System and Certificates of On-Site Systems Approval databases and estimate the magnitude of the inconsistencies. This would provide the Municipality of Anchorage with information necessary to develop a plan to maximize limited resources for database comparisons. Records examined included Computer Assisted Mass Appraisal System database entries of properties identified by the Property Appraisal Division with private well and septic systems and the corresponding scanned Certificates of On-Site Systems Approval documents maintained in the Development Services Department database. Property Appraisal and Development Services officials recommended that we look at the number of bedrooms as it is a common factor in both databases. To accomplish our objective, we reviewed 450 randomly selected property records from 12,414 properties throughout the Municipality identified by Property Appraisal as having private septic systems.

Our audit revealed that inconsistencies existed between the Computer Assisted Mass Appraisal System and Certificates of On-Site Systems Approval databases. Specifically, our review of 450 randomly selected property records from 12,414 properties identified by the Property Appraisal Division as those with private septic systems in the Computer Assisted Mass Appraisal System database revealed 132 (29%) inconsistencies between the Computer Assisted Mass Appraisal System and the Certificates of On-Site Systems Approval records.

There was one finding in connection with this audit. Management was responsive to the finding and recommendation.

December 2, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-10, Police and Fire Retiree Medical Trust Five-Year Review, Human Resources Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of the Police and Fire Retiree Medical Trust. The objective of this audit was to perform the fifth five-year (January 1, 2015, through December 31, 2019) review of the operation of the Retiree Medical Funding Program for Police Officers and Firefighters as required by Anchorage Municipal Code 3.87.070A. Specifically, we reviewed the operation of the Retiree Medical Funding Program for Police Officers and Firefighters to determine whether it was being operated in compliance with Anchorage Municipal Code 3.87, including the accuracy of monthly trust contributions and participant transactions.

Based on our review, the Retiree Medical Funding Program for Police Officers and Firefighters was operated in compliance with Anchorage Municipal Code 3.87. Trust contributions were properly adjusted annually for the Medical Consumer Price Index. Moreover, we found that members' individual health reimbursement agreement accounts were properly credited with the correct monthly contribution amount matching the members' class. However, the monthly surplus distribution amounts were underpaid for 15 "deferred vested" members in 2018 and 2020.

There was one finding in connection with this audit. Management was responsive to the audit finding and recommendation.

December 10, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-11, Mountain View Community Center, Parks and Recreation Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of the Mountain View Community Center. The objective of this audit was to determine whether the Boys and Girls Clubs of Southcentral Alaska managed and operated the Mountain View Community Center in accordance with the terms of the grant contract. Specifically, we determined whether Municipal grant funds were spent only for grant purposes, reviewed expenditures and budgets, and reviewed Mountain View Community Center operations, procedures, and records.

Our audit revealed that the Boys and Girls Clubs of Southcentral Alaska did not manage and operate the Mountain View Community Center in accordance with the terms of the grant contract. Specifically, the Boys and Girls Clubs of Southcentral Alaska comingled Municipal grant funds for the Mountain View Community Center with other funding sources and had not established a budget for Municipal grant fund expenditures. Furthermore, our review of the Mountain View Community Center's 2019 transactions revealed \$13,318 in questionable bonuses and related expenses charged to the Municipal grant account for seven Mountain View Community Center employees. Finally, the Boys and Girls Clubs of Southcentral Alaska did not obtain prior written approval from the Parks and Recreation Department before using Municipal grant funds to pay for its indirect charges, did not obtain three competitive price quotes for purchases over \$500 as required by the grant contract, and did not maintain an inventory list of equipment purchased with Municipal grant funds.

There were six findings in connection with this audit. Management was responsive to the findings and recommendations.

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**EXECUTIVE SUMMARIES FROM  
2020 SCHOOL DISTRICT AUDIT REPORTS**

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January 30, 2020

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2020-01; Criminal Background Checks; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of Criminal Background Checks at the Anchorage School District. The objective of this audit was to determine the adequacy of internal controls over criminal background checks. To achieve our objective, we interviewed staff and reviewed current policies and procedures. In addition, we selected a stratified random sample of 1,601 current employees, which included temporary and substitute employees, to determine if adequate criminal background checks were performed by examining information found in the Anchorage School District's system of record (Business Plus), such as employee start date, Interested Persons Report date, as well as the Federal Bureau of Investigation fingerprinting result date. Furthermore, we searched CourtView, the State of Alaska's Court System public record database, for criminal activity in Alaska.

Based on our review, we found that criminal background checks can be improved. Specifically, the Anchorage School District does not require fingerprinting, and by extension a nationwide criminal records search, for all Anchorage School District employees when they are hired. In addition, the Anchorage School District does not require periodic criminal background checks of its employees throughout their employment with the Anchorage School District. Moreover, the Anchorage School District has no self-reporting policy requiring Anchorage School District employees to notify them of any arrests, charges, and/or convictions that occur after being hired. Finally, some coaches, assistant coaches, and associated volunteers were not sufficiently monitored to confirm that the Interested Persons Report was submitted to help ensure the safety of the children these employees and volunteers work with.

There were four findings in connection with this audit. Management was responsive to the findings and recommendations.

February 14, 2020

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2020-02; Warehouse Inventory Controls; Maintenance and Operations Department; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Maintenance and Operations Department's Warehouse Inventory Controls. The objective of this audit was to determine the adequacy of controls over receiving, storing, issuing, and accounting of inventory in the Maintenance and Operations Department's warehouse. To achieve our objective, we interviewed staff to identify internal controls and responsibilities for managing inventory. We also observed the receiving and issuing of inventory, as well as an inventory cycle count. In addition, we conducted our own inventory of randomly and judgmentally selected items and reviewed the year-end inventory totals and adjustments.

Our audit revealed that inventory controls in the Maintenance and Operations Department's warehouse can be improved. Specifically, we found 7 of 36 (19%) items that were inventoried had discrepancies between the book balance and the inventory count. In addition, access to the Maintenance and Operations Department's warehouse and inventory items was unrestricted. Finally, inventory items were not well organized in the warehouse.

There were three findings in connection with this audit. Management was responsive to the findings and recommendations.

November 12, 2020

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2020-03; Building Access Controls; Anchorage School District**. A brief summary of the report is presented below.

We have completed an audit of Building Access Controls at the Anchorage School District. The objective of this audit was to determine if there were adequate controls over building access. To accomplish our objective, we reviewed policies and procedures related to building access to determine if the policies and procedures were being enforced. In addition, we reviewed records of keys and fobs issued to employees and contractors.

Our audit revealed that controls over building access can be improved. Specifically, we found three different versions of the Key Control Procedure being used by schools and departments and the Anchorage School District's Key Distribution Plan was not always followed. Moreover, the key database maintained by the Maintenance Department was inconsistent, outdated, incomplete, and inaccurate. Furthermore, lost or stolen keys were not always reported to the Security and Emergency Preparedness Department; information regarding investigations of lost and stolen keys was not readily available; and the Maintenance Department reissued lost or stolen keys without coordinating with the Director of the Security and Emergency Preparedness Department to ensure that a lost/stolen key investigation report had been completed. In addition, assigned employee access privileges did not always match the requirements found in the Fob Control Procedure; building access was not always removed for terminated employees having fobs; and the Security and Emergency Preparedness and Maintenance Departments did not have accurate records of fobs issued to employees. Finally, lost and stolen fobs were not always reported by Anchorage School District staff to the Security and Emergency Preparedness Department.

There were ten findings in connection with this audit. Management was responsive to the findings and recommendations.

December 22, 2020

Anchorage School District Superintendent and Members of the School Board:

I am pleased to present for your review **ASD Internal Audit Report 2020-04(A); Procurement Card Purchases; Anchorage School District**. The original report issued December 10, 2020, has been amended to correct Attachment D - Top 20 School/Department Food and Meal Charges. After the original report was published and distributed, Internal Audit staff presented the report to the Anchorage School Board's Finance Committee on December 15, 2020. At that meeting the Finance Committee asked Internal Audit to provide the backup for the Anchorage School Board food and meal charges. That information was provided to the Chief Financial Officer on December 16, 2020. After conferring with Anchorage School District staff, an error was discovered with the food and meal charges for departments at the Anchorage School District Education Center. The remaining food and meal charges were correct. The error has been corrected in Attachment D. This error did not impact any of the findings and recommendations. A brief summary of the report is presented below.

We have completed an audit of the Anchorage School District's Procurement Card Purchases. The objective of this audit was to determine whether cardholders adhered to the Anchorage School District's policies and procedures regarding Procurement Card use. Our audit included a review of purchases made from January 1 to December 31, 2019. Specifically, we reviewed purchases of judgmentally selected transactions to ensure compliance with the Procurement Card User Manual.

Overall, most employees complied with Anchorage School District policies and procedures regarding the use of Procurement Cards. However, our review of Procurement Card transactions revealed that conditional purchases were not always approved prior to the purchase. In addition, transactions were sometimes split to circumvent the \$2,500 single transaction limit and Procurement Cards were sometimes used for personal purchases. Moreover, we found two instances of donations being made with Procurement Cards to agencies not included on the Anchorage School District's Charitable Giving Campaign list or not approved by the appropriate Instructional Division Senior Director. Furthermore, some purchases were delivered to employees' home addresses instead of the school or department. Finally, Procurement Card purchases were not always allocated to the appropriate Business Plus account code within five business days and approved within seven days, as required by the Procurement Card User Manual, and there were instances of inaccurate or misleading descriptions.

There were seven findings in connection with this audit. Management was responsive to the findings and recommendations.

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**EXECUTIVE SUMMARIES FROM  
2020 SUNSET AUDIT REPORTS**

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August 11, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present **Sunset Audit Report 2020-S1, Public Safety Advisory Commission, Anchorage Fire Department**, for your review. A brief summary of the report is presented below.

In accordance with Assembly Ordinance Number 2011-64(S-1), Section 14, we have performed a sunset audit of the Public Safety Advisory Commission. The objective of this audit was to provide information to the Mayor and Assembly to assist them in determining if the Public Safety Advisory Commission should be reauthorized. Our audit included a review of meeting minutes, resolutions and agendas, and member authorization and participation.

Based on our review of meeting minutes, resolutions, and attendance records, we recommend that the Assembly consider reauthorizing the Public Safety Advisory Commission until January 2021. In addition, the Assembly should consider holding a work session with the Public Safety Advisory Commission to discuss its role and recent activities to help determine if the Public Safety Advisory Commission should be reauthorized beyond January 2021. With the appointment of three Public Safety Advisory Commission members in June 2020, the Public Safety Advisory Commission is fully staffed. However, the terms for three Public Safety Advisory Commission members expired on October 14, 2018, and on October 14, 2019, but they continued to serve on the Public Safety Advisory Commission. Moreover, two Public Safety Advisory Commission members failed to attend most of the Public Safety Advisory Commission meetings. Finally, from January 2019 through June 2020, the Public Safety Advisory Commission issued one resolution.

The Public Safety Advisory Commission will sunset on October 14, 2020, unless reauthorized by the Assembly.

August 11, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present **Sunset Audit Report 2020-S2, Watershed and Natural Resources Advisory Commission, Planning Department**, for your review. A brief summary of the report is presented below.

In accordance with Assembly Ordinance Number 2011-64(S-1), Section 14, we have performed a sunset audit of the Watershed and Natural Resources Advisory Commission. The objective of this audit was to provide information to the Mayor and Assembly to assist them in determining if the Watershed and Natural Resources Advisory Commission should be reauthorized. Our audit included a review of meeting minutes, resolutions and agendas, and member authorization and participation.

Based on our review of meeting minutes, resolutions, and attendance records, we recommend that the Watershed and Natural Resources Advisory Commission be reauthorized.

The Watershed and Natural Resources Advisory Commission will sunset on October 14, 2020, unless reauthorized by the Assembly.

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**ANCHORAGE MUNICIPAL CODE CHAPTER 3.20**

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## ANCHORAGE MUNICIPAL CODE CHAPTER 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 reference**— Independent audit, § 13.10.

**Cross reference**— Principal executive personnel, boards and commissions, § 1.35.010.”

**“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.

(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; AO No. 2015-23(S), § 4, 3-24-15)”

**“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.

(AO No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S); AO No. 2015-23(S), § 5, 3-24-15)”

**“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.

(AO No. 77-359; AO No. 79-27; AO No. 88-70(S); AO No. 91-173(S); AO No. 2015-23(S), § 6, 3-24-15)”