

Municipality of Anchorage



P.O. Box 196650
Anchorage, Alaska 99519-6650
Telephone: (907) 343-4438
Fax: (907) 343-4370
<http://www.ci.anchorage.ak.us>

Rick Mystrom, Mayor

OFFICE OF THE INTERNAL AUDITOR

March 10, 1997

Internal Audit Report 97-06 Accounts Receivable Merrill Field Airport

Introduction. Merrill Field Airport (Merrill Field) is a Municipal airport operated as a public service within the Municipality of Anchorage. Revenue in 1996, excluding amortization, totaled \$1,122,046. Primary sources of revenue are from airport leases restricted to aviation use only (38%), airport lease/rental fees from Orca Street properties (28%), and permanent aircraft parking fees (17%). Other sources of revenue included fuel fees, transient parking fees, vehicle parking fees, Medivac taxiway fees and other miscellaneous revenue. The fees from most of these revenue sources are billed and collected by Merrill Field utilizing a computerized database system called the Airport Management System. (The Airport Management System will also be referred to in this report as the "computer system"). Fuel fees, transient parking, Medivac taxiway fees and other miscellaneous fees are not billed through the computer system.

Scope. The objectives of the audit were to determine the adequacy of internal controls over account receivable and whether accounts receivable were being maintained and billed in an accurate and timely manner. In addition, we performed follow-up on the audit findings reported in Internal Audit Report 92-11 to determine whether corrective action had been taken. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of November through December 1996.

Overall Evaluation. Accounts receivable at Merrill Field had been properly established and were being maintained and billed in an accurate and timely manner. Action had been taken to correct all but one of the audit findings reported in Internal Audit Report 92-11. Specifically, supervisory review and reconciliation procedures had been implemented, delinquent notices were mailed out, accounts receivable were being aged, and uncollectible accounts were written off in accordance with Municipal guidelines. However, during the current audit, several areas were identified which require attention. Specifically, database access controls to the computer system required strengthening; off-site storage of system file back-up was not utilized; supervisory review procedures over credit transactions required strengthening; and controls over the collection of Medivac taxiway fees and fuel fees were not adequate.

FINDINGS AND RECOMMENDATIONS

1. Inadequate Controls Over The Computer System.

- a. Finding.** Controls over the computer system required strengthening. Specifically, user identification codes were not used and access to system capabilities was not restricted through the use of passwords. The same four individuals responsible in some manner for the billing, collection, and posting of fees to the system had unrestricted access to the system files. Further, the computer system included utility functions which allowed balances to be adjusted and transactions to be deleted without an adequate audit trail. Because of unrestricted access and lack of user identification codes, the computer system was susceptible to manipulation and unauthorized use. A similar finding was contained in the prior audit.

- b. Recommendation.** Controls over the computer system should be strengthened to include user identification codes. In addition, access to the system functions should

be restricted to provide access to system capabilities in accordance with job function and responsibility.

- c. **Management Comments.** Management concurred and stated, "We have already begun the process to update the Airport Management System into a fully fledged Windows 95 and NT program. We will request the programmer include user identification codes for tracking individual transactions and restrict access to system capabilities in accordance with job function and responsibility. Estimated completion date is 6/30/98."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **No Off-Site Storage for System File Back-up.**

- a. **Finding.** Merrill Field did not have off-site storage for file back-up of the accounts receivable and other pertinent airport data. Even though the computer system was backed-up daily, the back-up tapes were stored at the same location. This stand-alone computer system does not interface with the Municipal Financial Information System. As a result, the risk exists that accounts receivable data as well as other data maintained on the system could be lost due to fire or other natural disaster. Per discussion with Merrill Field personnel, as of January 1997 a back-up tape was stored off-site in the maintenance building and was scheduled to be updated on a monthly basis.
- b. **Recommendation.** Merrill Field should continue to provide for off-site storage to protect against the loss of accounts receivable and other pertinent airport data.

- c. **Management Comments.** Management concurred and stated, "As stated in the finding, we have instituted off-site storage for back-up tapes. No further action is required."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Supervisory Review Procedures for Credit Transactions Required Strengthening.**
- a. **Finding.** Procedures for credit memo transactions required strengthening. Specifically, there were no supervisory review and reconciliation procedures to ensure that all transactions relieving a customer's accounts receivable balance were supported by a properly authorized credit memo. Although our review of a sample of credit transactions did not reveal any which appeared invalid, the risk exists that unauthorized credit transactions could be made to the system and cash receipts diverted without detection.
 - b. **Recommendation.** All credit transactions should be reviewed by supervisory personnel on a monthly basis to ensure that they are supported by an approved credit memo.
 - c. **Management Comments.** Management concurred and stated, "Two employees will sign each credit memo and a photocopy of that credit memo will be filed numerically. Monthly supervisory review of that file will be performed. No further action is required."
 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Controls Over Medivac Taxiway Fees Were Not Adequate.**

- a. **Finding.** Controls over the collection of Medivac taxiway fees were not adequate to ensure that all fees were received as required. Columbia Alaska Regional Hospital (Columbia) had entered into a contractual arrangement known as the Access Permit Agreement with Merrill Field for the use of an adjoining taxiway (i.e., access area) between Merrill Field and Columbia. The fee to use of the access area was \$187.50 per aircraft. According to the Access Permit Agreement, Columbia was required to report monthly the date, time, point of origin, air carrier, and aircraft number of each fixed wing aircraft using the access area. The monthly report was to be accompanied by the fees owed. Our review of the fees paid by Columbia and the supporting documentation for the period of January through October 1996 revealed that the fees paid by Columbia were not supported by the required report except for the month of January. In addition, we were not able to find any documentation evidencing written correspondence to Columbia requesting the required report although Merrill Field personnel indicated that verbal requests had been made. Because of the lack of supporting documentation for the fees paid by Columbia, there was no way to verify their accuracy. Revenue received during the period reviewed was \$14,995.
- b. **Recommendation.** Merrill Field personnel should enforce the provisions of the Access Permit Agreement with Columbia. The required supporting documentation should be requested in writing to support the Medivac taxiway fees.
- c. **Management Comments.** Management concurred and stated, "It has been very difficult securing the required report since ownership of the hospital has changed frequently and continuity of personnel has been interrupted. One idea is to change the Access Permit Agreement to "flat rate fee" instead of "per occurrence fee".

Otherwise, we will request the required report in writing and enforce the provisions of the Access Permit Agreement. Estimated completion date is 9/30/97.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Municipality of Anchorage Fuel Fees Were Not Collected In Accordance With AMC.**

- a. **Finding.** Municipality of Anchorage fuel fees were not collected in accordance with AMC 11.60.200. According to the AMC, every distributor of aviation fuel is required to pay the Municipality a fee of \$.05 for every gallon of aviation fuel that it delivers at the airport. The distributor is required to pay the fee monthly and attach a legible invoice copy indicating the quantity of fuel delivered during the past month. Our review of the aviation fuel fees collected for the period of January through October 1996 and the supporting documentation from the various distributors revealed that only one of the three distributors was attaching the required invoices to support the amount remitted to Merrill Field as fuel fees. According to Merrill Field personnel, due to the volume of invoices being sent by the distributors with the payments, Merrill Field changed the reporting requirements of the distributors to require a summary report of gallons sold during the month rather than the individual invoices of fuel sales.
- b. **Recommendation.** Merrill Field should obtain the invoices of fuel sales required by the AMC or revise the AMC to eliminate the current requirement.
- c. **Management Comments.** Management concurred and stated, “We feel changing the AMC is preferable. We will require a certified, detailed report from the distributor instead of invoice copies. This will not lessen the legitimacy of the

Internal Audit Report 97-06
Accounts Receivable
Merrill Field Airport
March 10, 1997

payment but will reduce the volume of paper in our files. Estimated completion date is 9/30/97.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on February 26, 1997.

Audit Staff:
Amy McCollum