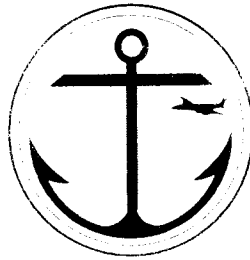


Municipality of Anchorage



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

July 12, 1999

Internal Audit Report 99-06 Review of Lease, Permit and Escrow Payments Heritage Land Bank

Introduction. The Heritage Land Bank (HLB) was established in 1983 to manage uncommitted Municipal lands acquired from the State of Alaska through the Municipal Entitlement Program for the benefit of present and future residents of Anchorage. The HLB manages approximately 8,000 acres of Municipal land including residential, commercial, industrial, recreational and open space areas. Land is leased to other government agencies and the private sector. In addition, land is used or managed by other Municipal agencies under special permit or authorization. Anchorage Municipal Code (AMC) Chapter 25.40 regulates the revenue produced from the disposal and use of HLB land. All income produced is deposited into the HLB operating fund. Revenue in 1998 totaled \$2,075,660. Since 1983, 51 escrow accounts have been managed by the HLB. Forty-six of the 51 escrow accounts were set up from a 1980 land settlement with the State of Alaska. Currently, four escrow accounts have an active status. The HLB also has 30 lease contracts and permit agreements. Twenty-two contract accounts require periodic payments to be made to the HLB accounts.

Scope. The objective of this audit was to identify all active contracts and escrow accounts and establish an accounts receivable system to track the required payments. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during May 1999. The audit was requested by the HLB Director.

Overall Evaluation. The HLB did not have complete records of all active contracts and escrow accounts. The HLB also did not have a system for tracking required payments and penalties from

escrow accounts, lease contracts, and permit agreements. In addition, their contracts did not always contain a penalty clause for late payments, and original Deeds of Trust were not always returned to the property owners.

FINDINGS AND RECOMMENDATIONS

1. Records in HLB Not Complete.

- a. **Finding.** The HLB did not have complete records of all of their contracts and escrow accounts. Some escrow files were located in the Controller Division, some were located in the HLB, and two lease agreements could not be located. Without complete files, it was not possible for HLB staff to ensure that all payments were received as required.
- b. **Recommendation.** All current contract agreements and escrow files should be maintained on file in the HLB office.
- c. **Management Comments.** Management stated, "We concur with the recommendation that the HLB Office should maintain a file on all contracts, permits and escrows administered by the office. A "master" file for each contract, permit and escrow must be established and maintained by the HLB, the file should contain original documentation when possible. Key documents, e.g., deeds of trusts, Patents and other deeds should be recorded with conformed copies kept on file in the HLB. Original Notes of Collections should be forwarded and maintained by the MOA Treasury Dept., with copies in the HLB file."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. HLB Did Not Have a System to Track Payments.

- a. **Finding.** The HLB did not have a system to track required payments and penalties from their escrow accounts and contracts. Instead, HLB staff used a revenue log to record payments made directly to the HLB. Since the payment schedules, interest and penalties vary with each account and contract, detailed accounts receivable records are essential to properly monitor the accounts.
- b. **Recommendation.** At the request of the HLB Director, we developed an accounts receivable system to track all required payments. This system should be used by the HLB staff to track payments.
- c. **Management Comments.** Management stated, "Management concurs that a system for Contract receivables and Note receivables must be developed to track all payments and receivable activity. Prior to 1995 the HLB did have a tracking System in place however, the function was transferred to Finance. Management recommends the development of automated financial reports for all periodic payments and receivables. Additionally, a schedule for notification of late or delinquent payments needs to be designed and implemented by HLB staff."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. Contracts Did Not Always Contain Penalty Clauses.

- a. **Finding.** HLB contracts did not always contain a penalty clause for late payments. Of the 22 contracts requiring periodic payments, only three contained a penalty clause for late payment. Without a penalty, there was no incentive to make payments

to the HLB by the stipulated date. For example, we noted that payments were always made late by seven lessees during 1998.

- b. **Recommendation.** The HLB should consider adding a penalty clause for late payments to the contracts.

- c. **Management Comments.** Management stated, "Management concurs that a "standard" for penalty clauses should be established and implemented in all HLB real estate contracts. Existing contracts where possible will be amended to incorporate penalty clauses, payment due dates will be calendar for proper notification."

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

4. **Original Deed of Trust Not Returned to Owners.**

- a. **Finding.** Original Deeds of Trust were not returned to the property owners. Specifically, we found that two original Deed of Trust documents were still in the closed escrow files even though all final payoffs were received and deposited into the HLB revenue account.

- b. **Recommendation.** The HLB should reconvey the original Deed of Trust documents to the property owners after final payments have been received.

- c. **Management Comments.** Management stated, "Management concurs. Master HLB files must be organized with all key documents recorded, made public record with conformed copies placed on file. *With regard to the original Deeds of Trust found in the files, local practice is to record a Deed of Reconveyance, once the Deed of Reconveyance is filed the Original Deed of Trust has little value.*"

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

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on June 11, 1999.

Audit Staff:
Lily Li
Guy Bailly