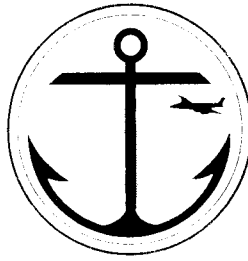


Municipality of Anchorage



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George P. Wuerch, Mayor

OFFICE OF THE INTERNAL AUDITOR

August 7, 2001

Internal Audit Report 2001-4 Anchorage Downtown Partnership Office of Management and Budget

Introduction. In compliance with Anchorage Municipal Code Title 19 - Special Assessments, Assembly Ordinance (AO) 97-51 established Special Assessment District 1SD97 with the intent of having the property owners in downtown Anchorage bear the cost of services for a Downtown Improvement District (AO 2000-98 extended 1SD97). The purpose of the Downtown Improvement District is to increase cleanliness, occupancy rates, investment values and lease income, to decrease crime and to generally stimulate economic development and improve the quality of life within the district. The Anchorage Downtown Partnership (ADP) is the non-profit corporation that has been under contract with the Municipality to provide the Downtown Improvement District services. For 2001, Assembly Memorandum 1119-2000 awarded a services contract to the ADP in the amount of \$464,464. The ADP has requested an additional \$187,500 of Municipal funds as a 50 cents on the dollar match to private sector donations. The ADP has also received a \$3.5 million contract for operating the Community Service Patrol over the next four and a half years.

Scope. The scope of this audit was limited to a high level review of the ADP to determine the financial health of the organization, compliance with Municipal contract provisions, and preparedness for handling additional contracts and funding. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of June through July 2001. The audit was performed at the request of the Mayor.

Overall Evaluation. The ADP has significant financial problems. Expenditures have been exceeding income, leading to cash flow difficulties, accumulation of debt, and inappropriate use of funds to cover expenses other than those for which the funds were designated. They had also not been utilizing proper fund accounting methods to segregate between revenue sources and the expenses charged against those sources.

We did note that the ADP was beginning to take steps to correct their weaknesses. At the time of the audit, the ADP had already started the process of implementing new software to correct their accounting deficiencies. During the audit, a new board member joined the ADP who has extensive audit and non-profit experience. Discussions with the ADP Executive Director and the new board member indicated that the ADP was going to develop new financial policies and procedures and a new budget that incorporates a plan for paying off the debts. They also stated that they were going to strengthen their accounting function to fully utilize the new accounting system.

We recommend that a follow-up review of the ADP be conducted to ensure the weaknesses noted in this audit have been adequately addressed. Unless the ADP rectifies their problems in the immediate future, we question their long term viability as an effective provider of services for downtown Anchorage.

FINDINGS AND RECOMMENDATIONS

1. Poor Financial Health.

- a. Finding.** Review of the financial statements and discussions with ADP personnel revealed that the ADP was in poor financial health. As of June 30, 2001, total liabilities were 190% of total assets, with liabilities exceeding assets by \$174,986. With expenditures exceeding income, debts accumulated and severe cash flow problems ensued which, along with inadequate fund accounting practices, could have lead to the inappropriate use of funds for expenses other than for which they were

designated. This included violations of both the Contract for Professional Services and the Anchorage Parking Authority contract.

It appeared that the ADP did not adequately control expenses due in part to an unrealistic budget, inadequate accounting practices, and weak oversight. The Executive Director indicated that the financial condition may also be partially attributable to expenditures for their 2000 campaign to win approval for continuing the improvement district and the start up expenses for the Community Service Patrol contract.

- b. **Recommendation.** The contract administrator should ensure that the ADP develops a new budget that incorporates a plan for paying down their debt and closely monitor the ADP's expenditures in comparison to the terms of their contracts. Additionally, the ADP needs to strengthen internal controls to ensure they properly utilize fund accounting and stay within their budget.
- c. **Management Comments.** Management concurred and stated, "We will work with ADP management and board to obtain a revised, realistic budget. Will also review, with Internal Audit's assistance the adequacy of their new accounting system for proper fund accounting."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Failure to Pay Anchorage Parking Authority for Parking Permits.**

- a. **Finding.** The ADP had not paid for parking permits in accordance with the terms of their contract with the Anchorage Parking Authority (APA). The ADP has a contract with the APA for group rate parking permits. The ADP sells the parking spaces to

local businesses, then uses the collected funds to buy permits for those spaces from the APA. The ADP normally buys 900 to 1,000 permits for approximately \$36,000 to \$39,000 each month. Review of the parking permit payment history at the APA revealed that the ADP had fallen one month behind with their payments in October 2000 and a second month behind in March 2001, for a past due total of \$77,765.

On April 1, 2001, the ADP Executive Director signed a promissory note for repayment of the debt with an initial payment of \$20,000 due April 15 and installments of \$4,000/month starting on May 15 and continuing until August 15, 2002. Review of the payment history for the promissory note determined that ADP had not been making the note payments as agreed. As of the end of June, they were \$10,000 behind in their payments.

- b. **Recommendation.** The contract administrator should monitor ADP's compliance with the terms of the parking permit contract and promissory note as an indicator of their financial health.
- c. **Management Comments.** Management concurred and stated, "It should be noted that according to the Parking Authority, the note was brought current on July 20."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Non-Compliance with Contractual Reporting Requirements.**

- a. **Finding.** The ADP was not complying with the operations and expense reporting requirements of Section 12 of the 2001 Contract for Professional Services. Discussion with the contract administrator and review of the documents provided to him by the ADP determined that the first quarter 2001 reports were not timely and

did not contain the required budget information breaking out how Municipal funds were used.

- b. **Recommendation.** The contract administrator should work with the ADP to ensure they submit all required reports in a timely manner. These reports should be analyzed to ensure that the requirements of the professional services contract are met.

- c. **Management Comments.** Management concurred and stated, "We will work with ADP management (and board of directors if necessary) to ensure all reports are received timely and contain the appropriate accounting of assessment district proceeds."

- 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 July 31, 2001.

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