

INTERNAL AUDIT REPORT

2013-03

South Central Alaska Power Project

Municipal Light and Power

February 28, 2013

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Mayor Dan Sullivan

February 28, 2013

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2013-03, South Central Alaska Power Project, Municipal Light & Power** for your review. A brief summary of the report is presented below.

In accordance with the 2012 Audit Plan, we have completed an audit of the South Central Alaska Power Project. The objective of this audit was to determine whether charges to Municipal Light & Power for the development and construction of the South Central Alaska Power Project were in compliance with the terms of the Participation Agreement. We also analyzed Chugach Electric Association, Inc.'s overhead calculation to determine if it was in accordance with the Participation Agreement.

Based on our review and analysis, we determined that the charges Chugach Electric Association, Inc. billed to Municipal Light & Power for the development and construction of the South Central Alaska Power Project and overhead calculation complied with the terms of the Participation Agreement. During our review we found several minor discrepancies. None of these discrepancies had a material effect on the charges by Chugach Electric Association, Inc.

There were no findings in connection with this audit.



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Introduction. The South Central Alaska Power Project (SCAPP) is a joint project between Chugach Electric Association, Inc. (CEA) and Municipal Light and Power (ML&P) to construct a new efficient, gas-fired power plant located adjacent to CEA's existing facilities in Anchorage. SCAPP has three gas turbine-generators and one steam turbine-generator running in combined cycle most of the time. In that mode, the hot exhaust from one, two or all three of the gas turbines is utilized to make steam for the steam turbine-generator, thereby producing additional power without additional fuel cost. The cost and output of the 183-megawatt project is shared between CEA (70%) and ML&P (30%). The plant is expected to be in commercial operation during first quarter of 2013. CEA and ML&P have entered into several agreements to provide for project construction, operation and maintenance.

Objective and Scope. The objective of this audit was to determine whether charges to ML&P for the development and construction of the SCAPP were in compliance with the terms of the Participation Agreement. Specifically, we reviewed the SCAPP Participation Agreement to determine what charges are allowable and selectively tested the project charges billed to ML&P to determine if they were appropriate and allowable in accordance with the Participation Agreement. We also analyzed CEA's overhead calculation to determine if it was in accordance with the Participation Agreement.

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 2012 through January 2013. The audit was requested by the Administration.

Overall Evaluation. Based on our review and analysis, the charges CEA billed to ML&P for the development and construction of the SCAPP and overhead calculation complied with the terms of the Participation Agreement. During our review we found several minor discrepancies. Specifically, we found that CEA did not always provide the year-end reconciliation of SCAPP deposits in a timely manner. We also found one billing had an incorrect overhead distribution and another billing contained an invoice for a different portion of the project. None of these discrepancies had a material effect on the charges by CEA.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on February 15, 2013.

Audit Staff:
Scott Lee