

# INTERNAL AUDIT REPORT

2018-06

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Chugiak Volunteer Fire Department Cash Controls

Anchorage Fire Department

October 11, 2018

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MUNICIPALITY OF ANCHORAGE  
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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

October 11, 2018

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2018-06, Chugiak Volunteer Fire Department Cash Controls, Anchorage Fire Department**. A brief summary of the report is presented below.

In accordance with the 2018 Audit Plan, we have completed an audit of the Chugiak Volunteer Fire Department Cash Controls. The objective of this audit was to determine whether the Chugiak Volunteer Fire and Rescue Company, Incorporated had adequate internal controls over its funds. To accomplish our objective, we reviewed the Chugiak Volunteer Fire and Rescue Company, Incorporated's expenditures from January 2017 through June 2018 to determine if they were for valid purchases for its operational needs, supported by valid invoices, made to valid merchants, properly approved, and reconciled in the Chugiak Volunteer Fire and Rescue Company, Incorporated's financial system. In addition, we assessed if the Chugiak Volunteer Fire and Rescue Company, Incorporated had adequate segregation of duties for expending its funds.

Our audit revealed that although the Chugiak Volunteer Fire and Rescue Company, Incorporated had improved cash controls since our previous audit in 2013, cash controls could further be strengthened. Specifically, there was a lack of segregation of duties regarding controls over accounts payable. Moreover, the Chugiak Volunteer Fire and Rescue Company, Incorporated's Check Authorization Policy was not always followed. Furthermore, there was a lack of internal controls over purchases made by directly debiting the Chugiak Volunteer Fire and Rescue Company, Incorporated's checking account and over purchases made with a credit card. Finally, controls over the Chugiak Volunteer Fire and Rescue Company, Incorporated's funds need improvement and the Chugiak Volunteer Fire and Rescue Company, Incorporated commingled funds with its Fire and emergency medical services operations fund and its "Junior Firefighter" fund.

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

Michael Chadwick, CIA, CICA  
Director, Internal Audit



# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

October 11, 2018

**Internal Audit Report 2018-06**  
**Chugiak Volunteer Fire Department Cash Controls**  
**Anchorage Fire Department**

**Introduction.** Since 2007, the Municipality of Anchorage (Municipality) has contracted with the Chugiak Volunteer Fire and Rescue Company, Incorporated (Contractor), a non-profit corporation, to provide fire protection services and emergency medical services (EMS) within the Chugiak Fire Service Area. The contract is administered by the Fire Chief of the Anchorage Fire Department (Contract Administrator) or designee. In 2017, the Municipality made direct payments totaling \$1,085,375 to the Contractor to provide services. The Contractor currently has four paid employees: a Fire Chief, an Administrative Officer, a Training Officer, and a Maintenance Manager. According to the Contractor's website, the Contractor provides fire protection and EMS response to an area of approximately 50 square miles and a population of around 14,000. The Chugiak Fire Service Area Board of Supervisors (Board), consisting of three individuals, has duties and responsibilities including overseeing the provision of fire services in the Chugiak Fire Service Area, and preparing and submitting an annual budget to the municipal administration and Assembly for approval.

**Objective and Scope.** The objective of this audit was to determine whether the Contractor had adequate internal controls over its funds. Specifically, we reviewed the Contractor's expenditures from January 2017 through June 2018 to determine if they were for valid purchases for its operational needs, supported by valid invoices, made to valid merchants, properly approved, and reconciled in the Contractor's financial system. In addition, we assessed if the Contractor had adequate segregation of duties for expending its funds.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that

we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of May through July 2018.

**Overall Evaluation.** Although the Contractor had improved cash controls since our previous audit in 2013, cash controls could further be strengthened. Specifically, there was a lack of segregation of duties regarding controls over accounts payable. Moreover, the Contractor's Check Authorization Policy was not always followed. Furthermore, there was a lack of internal controls over purchases made by directly debiting the Contractor's checking account and over purchases made with a credit card. Finally, controls over the Contractor's funds need improvement and the Contractor commingled funds with its Fire and EMS operations fund and its "Junior Firefighter" fund.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Lack of Segregation of Duties.**

- a. Finding.** There was a lack of segregation of duties regarding controls over accounts payable. Specifically, we found one individual had authority over entering, printing, and signing checks; making payments using a credit card and by directly debiting the Contractor's checking account; and reconciling the bank and credit card statements. Adequate segregation of duties helps prevent fraud, waste, and abuse in the controls over funds. A similar condition was reported in Internal Audit Report 2013-08.
- b. Recommendation.** The Contract Administrator should work with the Board to ensure that key duties are segregated among different individuals.
- c. Management Comments.** Management concurred and stated, "Anchorage Fire Department accepts the 2018 Chugiak Volunteer Fire Rescue Department Audit. I

[Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Chugiak Volunteer Fire Rescue for action on the findings.”

The Chugiak Fire Service Area Board of Supervisors' response letter is included as Attachment 1.

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

2. **Check Authorization Policy Not Followed.**

- a. **Finding.** The Contractor’s Check Authorization Policy was not always followed. Specifically, we found invoices/receipts for purchases and travel expenses were not always submitted. The Check Authorization Policy requires the Contractor to complete a check request form for any check written from the Chugiak Fire Service Area checking account and have the Chief’s and at least one Board member’s approval for any check over \$5,000. It also requires all checks to have two authorizing signatures. A copy of the check and an invoice/receipt must be turned into the Administrative Officer to be filed with the approved check request.
- b. **Recommendation.** The Contract Administrator should work with the Board to ensure that the Contractor complies with its Check Authorization Policy.
- c. **Management Comments.** Management concurred and stated, “Anchorage Fire Department accepts the 2018 Chugiak Volunteer Fire Rescue Department Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Chugiak Volunteer Fire Rescue for action on the findings.”

The Chugiak Fire Service Area Board of Supervisors' response letter is included as Attachment 1.

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

3. **Lack of Internal Controls Over Direct Debit Transactions.**

- a. **Finding.** There was a lack of internal controls over purchases made by directly debiting the Contractor's checking account. Specifically, direct debit transactions did not require approval, authorization, or review by the Chief or a Board member. For example, from January 2017 to June 2018, the Contractor's staff made 83 direct debit purchases totaling \$11,358 from Amazon. However, none of these purchases were reviewed by the Chief or a Board member.

Direct debit transactions carry a higher level of liability compared to credit cards. For example, unauthorized debit charges must be reported within 60 days after transmittal of the statement, compared with no time requirement for credit card charges. As a result, there was increased risk of misappropriation due to error, theft, and fraud.

- b. **Recommendation.** The Contract Administrator should work with the Board to consider eliminating the use of direct debit transactions as a payment method. Until direct debit transactions are eliminated, the Board should review direct debit transactions weekly.
- c. **Management Comments.** Management concurred and stated, "Anchorage Fire Department accepts the 2018 Chugiak Volunteer Fire Rescue Department Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Chugiak Volunteer Fire Rescue for action on the findings."

The Chugiak Fire Service Area Board of Supervisors' response letter is included as Attachment 1.

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

4. **Lack of Internal Controls Over Credit Cards.**

- a. **Finding.** There was a lack of internal controls over purchases made with a credit card. Specifically, there were eight individuals who each had a Contractor's credit card during the period of our review. We found that credit card transactions did not require approval, authorization, and/or review by the Chief or a Board member. From January 2017 through June 2018, the Contractor's staff made purchases totaling \$146,418 using credit cards; however, none of these purchases were reviewed by the Chief or a Board member. As a result, some questionable purchases may have been made. For example, our review found that five \$100 gift cards for iTunes, REI, Cabela's, Lowe's, and Regal Cinemas were purchased by a credit card holder. In another case, we found where two Amazon Prime memberships were purchased by two different credit card holders. A similar condition was reported in Internal Audit Report 2013-08.
- b. **Recommendation.** The Contract Administrator should work with the Board to develop internal controls over credit cards, including Board review of credit card transactions weekly.
- c. **Management Comments.** Management concurred and stated, "Anchorage Fire Department accepts the 2018 Chugiak Volunteer Fire Rescue Department Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Chugiak Volunteer Fire Rescue for action on the findings."

The Chugiak Fire Service Area Board of Supervisors' response letter is included as Attachment 1.

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

5. **Controls Over Funds Needs Improvement.**

- a. **Finding.** The controls over the Contractor's funds needs improvement. Specifically;
- *Penalties for Utility Payments* - From January 2017 through June 2018, the Contractor paid the electric bill for three locations and the gas bill for four locations. Our review found electric bill payments were late fifteen times for three different locations. In addition, gas bill payments were late nine times for four different locations. As a result, the Contractor incurred financial charges and late fees. For example, the Contractor paid a total of \$421.36 in financial charges and late fees due to the late payments for its electric bills.
  - *Non-Sufficient Fund Fee Charged* - In December 2017, the Contractor incurred an overdraft fee of \$29.00 due to non-sufficient funds in its checking account. However, at the same time there was \$377,622 available in the Contractor's savings account.
- b. **Recommendation.** The Contract Administrator should work with the Board to ensure that the Contractor closely monitors its fund balances and payment due dates and consider establishing overdraft protection for the checking account.
- c. **Management Comments.** Management concurred and stated, "Anchorage Fire Department accepts the 2018 Chugiak Volunteer Fire Rescue Department Audit. I



[Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Chugiak Volunteer Fire Rescue for action on the findings.”

The Chugiak Fire Service Area Board of Supervisors' response letter is included as Attachment 1.

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

6. **Funds Commingled.**

- a. **Finding.** The Contractor commingled funds with its Fire and EMS operations fund and its “Junior Firefighter” fund. Specifically, the Contractor used its Fire and EMS operations fund to purchase items, such as bike helmets and T-shirts, for the Junior Firefighter program. The Contractor then reimbursed the fund using a fund transfer from the Junior Firefighter program’s fund. Commingling mixes funds held in care for the Municipality (i.e. Fire and EMS operations funds) with the Contractor’s own funds (i.e. Junior Firefighter program fund), making it difficult to determine which purchases belong to which fund.
- b. **Recommendation.** The Contract Administrator should work with the Board to ensure that the Contractor does not commingle different funds.
- c. **Management Comments.** Management concurred and stated, “Anchorage Fire Department accepts the 2018 Chugiak Volunteer Fire Rescue Department Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Chugiak Volunteer Fire Rescue for action on the findings.”

The Chugiak Fire Service Area Board of Supervisors' response letter is included as Attachment 1.

- 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 August 27 and on August 30, 2018.

Audit Staff:  
Scott Lee

**Attachment 1**

**Board of Supervisors  
Chugiak Fire Service Area  
P.O. Box 670263  
Chugiak, AK 99567**

Ronni Sullivan, Chairperson  
Chugiak Fire Service Area  
Board of Supervisors  
PO Box 670363  
Chugiak, AK 99567

September 28, 2018

Michael Chadwick, Director  
Internal Audit  
Municipality of Anchorage  
632 W. 6th Avenue, Suite 600  
Anchorage, AK 99501

Dear Mr. Chadwick:

The Board of Supervisors of the Chugiak Fire Service Area, and the Chugiak Volunteer Fire Department would like to thank the team at Internal Audit for it's examination of our financial records and our internal financial controls. We appreciated your thorough and friendly review, made less stressful by Scott Lee. And you, Mike, have been helpful from the beginning, and remain that way as we come to the end of it.

We requested this audit because we recently hired a new paid Fire and EMS Chief, as well foreseeing that a new Administrative Specialist - Bookkeeper would be on board soon, and it seemed like the perfect time to review our practices and policies.

As a result of the findings, our Board has increased our regular review of the budget, credit cards, and direct debits. We have established or revised four new policies that will guide us as we continue to improve these issues. Our point by point responses are found below. Please don't hesitate to contact me if you have any questions or need clarification.

**1. Lack of Segregation of duties**

A newly hired Administrative Specialist will manage accounts payable and receivable. The Administrative Specialist will have limited purchasing responsibilities, will not be a credit card holder and will not be a signatory on bank accounts. The specialist will monitor and reconcile purchases and payments ensuring the review processes occur.

**2. Check Authorization Policy**

We will work to ensure that the check authorization policy is followed including prompt submission of receipts matched to invoices prior to payment.

**3. Lack of Internal Controls Over Direct Debit Transactions**

A new policy has been implemented to minimize direct debits by ensuring vendors are only paid using check, credit card or Net 30 day accounts whenever possible. Transactions that require direct debit such as payroll, taxes, utilities, etc., may still be required. Purchases made via on-line vendors such as Amazon will no longer use this method. All direct debit charges will be approved and reviewed by the Chief weekly with Board review at regular intervals.

**4. Lack of Internal Controls Over Credit Cards**

Segregation of duties related to the new Administrative Specialist will improve internal controls over credit cards. A new policy has been implemented in which credit card receipts are submitted within 5 days and purchases reviewed by the Chief weekly, with Board review at regular intervals.

**5. Controls Over Funds Needs Improvement**

The Administrative Specialist will ensure accounts are paid timely. Work is in progress to streamline utility payments by coordinating billing cycles with vendors. Our bank will not let us set up overdraft protection. We will be more diligent to eliminate any possible overdraft charges.

**6. Funds Commingled**

The "Junior Account" has been closed. The work of this program will be done instead by the non-profit, to avoid commingling of funds.

We will be requesting another audit for your 2020 planning purposes, so we can get a good look at how our changes and new staff effect our financial operations over a full year's period of time. We are committed to this and are sure you will see a vast improvement. Thanks again for your assistance.

Sincerely,



Ronni Sullivan  
CFSA Board of Supervisors