

INTERNAL AUDIT REPORT

2019-10

Girdwood Fire Department – Cash/Fiscal Controls

Anchorage Fire Department

December 20, 2019

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

December 20, 2019

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2019-10, Girdwood Fire Department Cash/Fiscal Controls, Anchorage Fire Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of the Cash/Fiscal Controls at the Girdwood Fire Department. The objective of this audit was to determine the adequacy of cash/fiscal controls at the Girdwood Fire Department. To accomplish our objective, we selected judgmental and haphazard samples from the Girdwood Fire & Rescue Incorporated's expenditures from January 2018 through June 2019 to determine if expenditures were appropriate for their operation, supported by valid invoices, properly approved, made to valid merchants, and reconciled to the Girdwood Fire & Rescue Incorporated's financial system. We also reviewed internal controls over deposits. Moreover, we assessed if Girdwood Fire & Rescue Incorporated had adequate segregation of duties for receiving and expending funds, and we reviewed out of service area calls. Finally, we performed a cursory review of payroll records to ensure that employees existed, but we did not review the accuracy of payroll transactions.

Our audit revealed that fiscal controls over Girdwood Fire & Rescue, Incorporated's funds need improvement. Specifically, there was a lack of segregation of duties regarding controls over funds. Moreover, there was a lack of internal controls over reimbursed expenditures to Girdwood Fire Department staff and members, and payments made directly to vendors were not always adequately supported. Furthermore, internal controls over deposits need improvement, Girdwood Fire & Rescue, Incorporated did not properly maintain expenditure records, and some management reports were not readily available. In addition, Girdwood Fire & Rescue, Incorporated had not submitted expenditure records to the Fire Chief of the Anchorage Fire Department as required by the contract, comingled funds between its fire protection services and emergency medical services operations and its non-profit operations, appeared to make several questionable purchases, and expended some funds that were not part of the approved budget. Finally, Girdwood Fire & Rescue, Incorporated expended Municipal funds responding to fire protection services and emergency medical services calls outside of the Girdwood Valley Service Area and lacked effective policies and procedures.

There were twelve 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

December 20, 2019

Internal Audit Report 2019-10 Girdwood Fire Department – Cash/Fiscal Controls Anchorage Fire Department

Introduction. Since 1998, the Municipality of Anchorage (Municipality) has contracted with Girdwood Fire & Rescue, Incorporated (Contractor), a non-profit corporation, to provide fire protection services and emergency medical services (EMS) within the Girdwood Valley Service Area. The contract is administered by the Fire Chief of the Anchorage Fire Department (AFD) or the Fire Chief's designee (Contract Administrator). The Contractor has a Board of Directors (Board), consisting of five individuals. According to the Contractor's Articles of Incorporation, the Board's duties and responsibilities include "Approve the annual fire budget for submission to the Municipality of Anchorage . . ." and "Employ and supervise the [Girdwood] Fire Chief." It also states that, "The main purpose of the Board of Directors is fiduciary responsibility to the GF&R [Girdwood Fire & Rescue Inc.] Service Area, shareholders of the corporation, and to the residents served." The Contractor currently has seven paid full-time employees: a Fire Chief, a Deputy Fire Chief, an Administrative Officer, a Training Officer, three Captains, and one part-time Firefighter/Emergency Medical Technician employee. Girdwood Fire Department (GFD) members receive payment only for emergency responses, training, and administrative duties they perform. The Municipality made direct payments to the Contractor totaling \$940,500 in 2018 and \$1,000,500 in 2019.

Objective and Scope. The objective of this audit was to determine the adequacy of cash/fiscal controls at GFD. Specifically, we selected judgmental and haphazard samples from the Contractor's expenditures from January 2018 through June 2019 to determine if expenditures were appropriate for their operation, supported by valid invoices, properly approved, made to valid merchants, and reconciled to the Contractor's financial system. We also reviewed internal controls over deposits. Moreover, we assessed if the Contractor had adequate segregation of duties for receiving and expending

funds, and we reviewed out of service area calls. Finally, we performed a cursory review of payroll records to ensure that employees existed, but we did not review the accuracy of payroll transactions.

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 July through September 2019. The audit was requested by the Administration.

Overall Evaluation. Fiscal controls over the Contractor's funds need improvement. Specifically, there was a lack of segregation of duties regarding controls over funds. Moreover, there was a lack of internal controls over reimbursed expenditures to GFD staff and members, and payments made directly to vendors were not always adequately supported. Furthermore, internal controls over deposits need improvement, the Contractor did not properly maintain expenditure records, and some management reports were not readily available. In addition, the Contractor had not submitted expenditure records to the Contract Administrator as required by the contract, comingled funds between its fire protection services and EMS operations and its non-profit operations, appeared to make several questionable purchases, and expended some funds that were not part of the approved budget. Finally, the Contractor expended Municipal funds responding to fire protection services and EMS calls outside of the Girdwood Valley Service Area and lacked effective policies and procedures (P&Ps).

Management Overall Comments. Management stated, "Thank you for the opportunity to respond to the Internal Audit report dated December 20, 2019. As you know, our purpose for requesting the audit was so we could learn how we could make our organization run efficiently and cost effectively. After receiving the draft audit, we immediately embarked on a process improvement plan with 30- and 60-day goals. We retained an Accountant to help revise and reconcile our accounting records and provide an accounting framework for 2020 which meets the financial reporting needs of the organization, the Girdwood Board of Supervisors (GBOS) and the Anchorage Fire Department (AFD). I am pleased to

report that we have made significant progress in implementing nearly all of the audit recommendations.”

FINDINGS AND RECOMMENDATIONS

1. Lack of Segregation of Duties.

- a. **Finding.** There was a lack of segregation of duties regarding controls over funds. Specifically, we found that one individual had authority over authorizing, processing, recording, and reviewing all data entered into their financial system. That same individual also had authority over processing, recording and reviewing reimbursements; processing and recording checks; processing and recording payroll; and processing, recording, and reviewing all deposits. Although the Contractor had assigned some duties to other employees, these employees were often circumvented and not fully utilized. Adequate segregation of key duties and responsibilities among different people helps reduce the risk of error, misuse, or fraud.
- b. **Recommendation.** The Contract Administrator should work with the Contractor to ensure that key duties are segregated among different individuals.
- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. We agree with the recommendation and have instituted additional internal controls for fiscal control measures and oversight of approvals.”

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

2. **Lack of Internal Controls over Reimbursements.**

- a. **Finding.** There was a lack of internal controls over reimbursed expenditures to GFD staff and members. We judgmentally sampled 113 of 212 reimbursements from January 2018 through May 2019 and found the following:
- *Lack of Pre-Approvals* – Our review found no evidence that expenditures made by GFD staff and members requiring reimbursement were approved prior to the purchase being made. According to GFD staff, some of the purchases received verbal approval.
 - *Reimbursement Forms Often Missing Required Information* – Reimbursements were sometimes issued when the corresponding reimbursement forms did not always contain required information. Specifically, 63 of 113 (56%) sampled reimbursements contained one or more of the following conditions: 24 were not signed by the requester, 39 lacked supervisory approval, 30 lacked a submission date, and 48 lacked approval dates. According to the GFD Chief, these reimbursements should have been sent to her for approval, but this did not always happen.
 - *Same Person Requesting and Approving Reimbursement* – In 7 of 113 (6%) reimbursements the requester and approver were the same person. For example, a \$1,093.23 reimbursement for blankets, glow sticks, and triage kits was both requested and approved by the same person.
 - *Business and Personal Purchases on Same Receipt* – Receipts provided for reimbursements sometimes showed both business and personal purchases. As a

result, it was difficult to determine which purchases were for business purposes. For example, a \$140.77 receipt for reimbursement included snack foods, bottled water, and paper towels in addition to personal food and snack purchases. Items to be reimbursed had been highlighted; however, the highlighted items totaled more than the reimbursement. In another case, three beef briskets were purchased. Reimbursements were paid on two of the beef briskets using the average price for all three beef briskets.

- *Receipts Not Always Submitted* - Reimbursements were sometimes issued without a receipt to support the purchase in 5 of 113 (4%) reimbursements we reviewed. For example, a \$667.82 reimbursement for a command tent and heater had no receipt to support the purchase. Girdwood Fire Department staff speculated that the receipt may have been removed when the heater was returned for a new one. In another case, a \$91.58 reimbursement had a purchase summary that may have been created by the requester instead of a receipt from the vendor.
- *Receipt Amount Did Not Always Match Reimbursement Amount* - Reimbursements did not match the receipt amounts in 7 of 113 (6%) reimbursements we reviewed. For example, a \$203.01 reimbursement was issued, but the receipt only showed \$196.71. Further analysis revealed that the reimbursement included a \$6.30 instant savings from the manufacturer. Girdwood Fire Department staff said that was an inappropriate inclusion of instant savings and it was not caught during the approval process.
- *Number of Staff Receiving Reimbursements Excessive* – The number of GFD employees and members receiving reimbursements was excessive. For example, in 2018, 26 total employees and members received reimbursements. Since GFD lacked adequate controls over expenditures, it appeared that anyone could make a purchase and expect to get reimbursed.

- b. **Recommendation.** The Contract Administrator should work with the Contractor to develop internal controls over reimbursements. They should ensure forms are filled out accurately, proper documentation is included, and authorizations are completed. The Contractor should also consider implementing a pre-approval system before expenditures are made that require reimbursement above a specified dollar limit.
- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. We agree that there is an excessive number of reimbursements. The current Fire Chief has been trying for over a year to reduce the number of reimbursements by obtaining either a municipal or nonprofit credit card. However, as the Fire Chief is not eligible for a municipal credit card since it is a contracted position, the Fire Chief would be required by a bank to personally financially secure the entire organization, which she is unable to do so. Therefore, all purchases for the organization are run through net 30 accounts and staff personal credit cards which then require a reimbursement. The Fire Chief has approached AFD and the GBOS frequently to see if this situation can be resolved with an alternative method that would not involve staff reimbursements. Not reflected in the report is the fact that the Fire Chief had required she give verbal permission prior to purchase, so the statement in the audit that any member could make a purchase and expect reimbursement is inaccurate. Staff have been coached and provided instruction on the importance of accurate accounting and how to properly fill out all financial documentation with written authorization. GFR has updated the Purchasing Policy and drafted a new Financial Policy. An Administrative Officer Desk Manual was also under draft at the time of the audit and is being updated to reflect financial procedures recommended by Internal Audit.”

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

3. **Vendor Payments Not Always Supported.**

- a. **Finding.** Payments made directly to vendors were not always adequately supported. We judgmentally sampled 61 of 398 payments made directly to vendors from January 2018 through June 2019 and found the following:

- *Lack of Pre-Approvals* – Not a single payment made directly to a vendor was pre-approved. Girdwood Fire Department’s latest approved P&Ps required a check request form to be used, although GFD staff said they have not used these P&Ps since 2016 (See Finding 12).
- *No Invoice Attached* – In 9 of 61 (15%) payments we reviewed, there was inadequate documentation attached to support the purchase. For example, two payments for newspaper advertisements did not have invoices attached. Instead, attached to the check image in the physical files was an email outlining how much advertisements would cost. Girdwood Fire Department staff said the vendor never sent invoices and would not run advertisements without payment being received first. In another case, two payments for \$436.66 and \$1,980, were issued to a vendor without invoices. When asked, GFD staff was unable to provide the invoices. Finally, GFD staff was unable to locate an invoice for a \$400 food purchase at a restaurant.

- b. **Recommendation.** The Contract Administrator should work with the Contractor to improve internal controls over direct payments to vendors. The Contractor should also consider implementing a pre-approval system before vendors are paid for purchases above specified dollar limits.

- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. We agree with the recommendation and have instituted additional internal controls for direct payments to vendors. Not reflected in the audit report was the recognition that the Fire Chief received all checks to vendors for check signatures and verified the amounts and vendors prior to signing. We have added a preapproval signature process for when the vendor invoice is received and continue with the second verification of the vendor at the check signing stage.”

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

4. **Internal Controls over Deposits Need Improvement.**

- a. **Finding.** Internal controls over deposits need improvement. Specifically, of the 20 deposits made to the operating account we found:

- *Deposit Not Always Made in Timely Manner* – Deposits were not always made in a timely manner. For example, a \$2,696.53 deposit recorded in GFD’s financial system on March 31, 2018, was not deposited until April 24, 2018, 24 days later. Girdwood Fire Department staff said they entered the data into the financial system when the deposit was ready to be made but did not go to Anchorage until a later date to make the deposit.

- *Deposit Records Not Maintained* – Physical records of deposits were not properly maintained. Specifically, GFD staff did not maintain deposit records after the deposit information was entered into GFD’s financial system. This is important because GFD’s financial system lacked necessary information, such as the origin of the funds and their purpose.
- b. **Recommendation.** The Contract Administrator should work with the Contractor to develop internal controls over deposits and deposit records.
- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. Following the draft audit recommendation, GFR has implemented new internal controls over deposits and deposit records for both the operating and nonprofit donations account. The \$2,696.53 deposit identified in the audit report was a payment incorrectly returned to fire department by the Internal Revenue Service (IRS). The delay in depositing the check was due to staff trying to reach the IRS on the phone to discuss the error. The result was that the IRS directed staff to deposit the check and issue a check of a similar value to resolve the IRS error.”

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

5. **Expenditure Records Not Properly Maintained.**

a. **Finding.** The Contractor did not properly maintain expenditure records. Specifically, when reviewing 2018 and 2019 expenditure documentation, we found:

- *Records Not Well Organized* - We noted that many records were not well organized. For example, we found vendor payment records such as invoices that were sometimes alphabetized in file folders by vendor name, but not always alphabetized. We also found reimbursement forms and their receipts in stapled packets based on the date they were processed, but not always put in order. Further, supporting reimbursement forms and receipts could not always be located. For example, we identified two instances where supporting documentation did not exist for reimbursements found in GFD's financial system. One entry was for \$80 and the other was for \$903.36. As a result, review of these records was difficult.
- *Missing Financial System Records* – We found three instances where issued reimbursements were not entered into GFD's financial system. Although the physical documentation was found, the reimbursements had not been entered into GFD's financial system. Girdwood Fire Department staff were unable to explain the missing entries.
- *Duplicate Check Entries* – Our review found a \$1,440 payment that was entered twice in GFD's financial system. However, we only found one invoice having a matching entry in GFD's financial system and the bank statement showed only one payment had cleared.

b. **Recommendation.** The Contract Administrator should work with the Contractor to ensure they accurately document and organize their expenditure records in the financial system and physical files.

- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. Following the draft audit recommendation, GRF has retained a Chartered Accountant and conducted a full reconciliation of GFR accounting records and internal control measures have been instituted.”

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

6. **Management Reports Not Readily Available.**

- a. **Finding.** Some management reports were not readily available. For example, despite multiple requests, GFD staff could not provide any reports showing budget-to-actual comparisons. Additionally, reconciliation summaries from the financial system were requested many times and eventually provided, but all summaries were dated the same day (August 4, 2019) and had questionable entries. For example, although the May 2019 reconciliation summary (dated August 4, 2019) matched the beginning and ending monthly balances of the May 2019 bank statement, it also appeared that credits in the bank statement were not entered in GFD’s financial system. When asked how errors and missing items could exist in the financial system when they supposedly performed regular reconciliations, GFD staff responded by saying they did not know and that items could have been voided or deleted. It appears that GFD staff only had two days of training on the financial system and admitted needing more training. Timely and accurate reconciliation of bank statements can help create strong fiscal internal controls by uncovering differences that may need further investigating, detecting errors on the

part of the bank and/or GFD, and ensuring that account balances are accurate and reflect GFD's true financial position, in order to make more informed decisions.

- b. **Recommendation.** The Contract Administrator should work with the Contractor to ensure the financial system is reconciled with bank statements in a timely manner and staff are properly trained in using the financial system.

- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, "Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings."

Management (Girdwood Fire Department) stated, "Concurrence. GFR was providing quarterly financial updates to the Girdwood Board of Supervisors. Starting in 2020, GFR will provide monthly management reports and accounting reconciliation to the AFD Finance Officer and the Girdwood Board of Supervisors on the municipal budget for GFR. Following the draft audit recommendation, GRF hired a Chartered Accountant to audit and reconcile the GFR accounting records. Adjustments have been made and all accounting is now reconciled to December 5, 2019. GFD Staff received 2 days of accounting software training in addition to training by the Chartered Accountant. The Chartered Accountant will remain on retainer to assist the GFR Staff."

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

7. **Expenditure Reports Not Submitted.**

- a. **Finding.** The Contractor had not submitted expenditure records to the Contract Administrator as required by the contract. According to the contract, Section 5, *Budget*,

Subsection B, “The Contractor shall keep records of and account for its expenditures under this contract and supply the Administrator with copies of such records.” According to AFD staff, financial documents had been requested from GFD staff, but as of September 2019, no documents had been received. As a result, the Contract Administrator did not have adequate information to properly monitor the contract.

b. **Recommendation.** The Contract Administrator should ensure that required expenditure records are provided by the Contractor.

c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. GFR was providing quarterly financial updates to the Girdwood Board of Supervisors. Starting in 2020, GFR will provide monthly updates to the AFD Finance Officer and the Girdwood Board of Supervisors on the municipal budget for GFR. Following the draft audit recommendation, GRF has hired a Chartered Accountant to create expense reporting measures in our accounting software which meet the MOA reporting requirements.”

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

8. **Funds Comingled.**

a. **Finding.** The Contractor comingled funds between its fire protection services and EMS operations, and its non-profit operations. Specifically, instead of having two separate operating accounts, we found that the Contractor used one operating account and did

not separate nor track the revenues and expenses between the different operations. As a result, it was difficult to determine which expenses and revenues were for the fire protection services and EMS operations and which were for the Contractor's non-profit operations. When asked if they knew which funds were used to make purchases, GFD management stated they did not know.

- b. **Recommendation.** The Contract Administrator should work with the Contractor to ensure they do not comingle different funds.

- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, "Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings."

Management (Girdwood Fire Department) stated, "Concurrence. Following the draft audit recommendation, GFR hired a Chartered Accountant to reformat the accounting records by separating the accounting for the tax supported operational functions and nonprofit donations. GFR has established separate accounting and bank accounts for tax supported operating funds and non-profit donations funds."

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

9. **Questionable Expenditures.**

- a. **Finding.** The Contractor appeared to make several questionable purchases. Questionable purchases included \$2,311 for coffee and related supplies, \$400 for a holiday party facility rental, \$500 for catering at a memorial service, \$69.95 for flowers, \$1,214 for custom-molded coins sold or given to the public, \$1,135 for laser-engraved

coins given for rank advancement, \$1,800 in member holiday gifts, \$4,670 for T-shirts sold or given to the public, \$228 for gift baskets, and \$588 for movie tickets and food labeled as “Volunteer Support” in GFD’s financial system. In addition, nearly \$6,000 was spent on food for Tuesday night dinners for GFD staff and members. According to GFD management, Tuesday night dinners help with member retention.

Although the contract does not specifically address these expenditures, in other organizations, such as the Municipality, many of these purchases are generally prohibited as they do not appear to serve the public good.

- b. **Recommendation.** The Contract Administrator should work with the Contractor to define what is or is not an appropriate expenditure of Municipal funds.

- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. Since the donation and operating funds were comingled at the time of the audit, some of the expenses were paid by donations which were also deposited in the same account. Operating and donation funds are now separated in accounting and bank accounts for these questionable expenses using donated funds, so this will not be an issue in 2020. GFR is a volunteer (paid part-time) fire department and like most volunteer fire departments struggles with recruitment and retention. GFR has low participation from Girdwood residents and 60% of the members commute from Anchorage for volunteer call shifts in the station. Each volunteer member provides the equivalent of 24 (24 hour) days of firefighter free staffing annually at no cost to the Girdwood Valley Service Area. Members are only paid when they respond to a call or for mandatory Tuesday night

training. Incentives for volunteer staff of meals, free coffee and other items are used to incentivize station staffing challenges especially during holidays or periods of poor winter driving conditions on the Seward Highway. This would be different than a union fire department where incentives are in the form of wage incentives.”

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

10. **Budget Modified Without Assembly Approval.**

- a. **Finding.** The Contractor expended some funds that were not part of the approved budget. After the budget was approved by the Anchorage Assembly, the Contractor created additional budget categories. These budget categories were called: Tuesday Night Dinner, Coffee Fund, Annual Gifts, Planned Events, and Awards and Plaques. Approximately \$23,600 was spent from these non-budgeted categories in 2018, but the Contractor only deposited about \$13,226 in non-Municipal funds in 2018. Therefore, Municipal funds must have been used to purchase some of these items. Some of these non-budgeted categories were added at the direction of the GFD Chief to better account for funds that had been coded to operating support. According to the contract, Section 5, Subsection D, “The Contractor shall expend funds only in accordance with the budget approved by the Anchorage Assembly. All contract budget revisions shall be subject to approval in accordance with standard municipal budget procedures.”
- b. **Recommendation.** The Contract Administrator should ensure that revisions to the Contractor’s budget are approved by the Assembly.
- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, “Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and

will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings.”

Management (Girdwood Fire Department) stated, “Concurrence. Since operating and donation funds were comingled in the accounting records, additional budget categories were added to the budget approved by the Girdwood Board of Supervisors and Anchorage Assembly. However, GFR did not modify the budget categories approved by the Assembly. GFR has established separate accounting and bank accounts for tax supported operating funds and non-profit donation funds. This should help avoid the appearance of budget modification through additional budget categories without Assembly approval.”

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

11. **Municipal Funds Spent on Non-Contractual Services.**

- a. **Finding.** The Contractor expended Municipal funds responding to fire protection services and EMS calls outside of the Girdwood Valley Service Area. Specifically, in 2018, GFD responded to 138 total calls including 5 fire, 88 EMS, and 17 service calls. From January to July 2019, they responded to 73 total calls including 4 fire, 40 EMS, and 13 service calls outside their service area. According to the contract, Section 3, *Scope of Services*, Subsection A, “The Contractor shall, within the limits of its budget, equipment and manpower capabilities, provide fire protection services and emergency medical services within the Girdwood Valley Service Area...”

In addition, GFD received no payments or reimbursements for out of service area responses, with one exception. According to AFD staff, “There were no fires or responses outside of the Girdwood service area that we billed for with the exception of transports.” For example, in 2018, of those 88 EMS calls GFD responded to outside of

their service area, 25 responses were outside of the Municipality, but only 7 ambulance transports were billed to patients. There is currently nothing in the contract that gives direction in billing for EMS equipment and time outside of the service area besides patient billing for ambulance transports. The GFD Chief mentioned that the Contractor's Board does not think they should respond to out of service area calls if they aren't getting paid for the response.

b. **Recommendation.** The Contract Administrator should ensure the Contractor only responds to calls within its service area as required in the contract.

c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, "Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings."

Management (Girdwood Fire Department) stated, "Concurrence. AFD has issued invoices for 2019 to the City of Whittier and Kenai Peninsula Borough for GFR incident responses. GFR is working with AFD to invoice for 2019 fire responses to private individuals outside of the Girdwood Valley Fire Service Area. AFD is responsible for municipal invoicing for calls outside of the Girdwood Valley Service Area."

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

12. **Effective Policies and Procedures Needed.**

a. **Finding.** The Contractor lacked effective P&Ps. Many of the problems identified in this report could have been avoided with more comprehensive P&Ps. Policies and

Procedures represent a unified approach to practices and provide written documentation to overall policy and methods of operation. According to GFD staff, they have an old set of approved P&Ps. However, they stopped using these P&Ps at the end of 2016 and are following stricter unwritten rules until new P&Ps are developed. The GFD Chief said a previous Chief started to revise the P&Ps but did not complete the update. According to the Contractor's Articles of Incorporation, Article VI, *Hierarchy of Governance*, "The Fire Chief shall develop and establish the Department Policies and Procedures."

- b. **Recommendation.** The Contract Administrator should ensure that the Contractor develops and implements effective P&Ps.

- c. **Management Comments.** Management (Anchorage Fire Department) concurred and stated, "Anchorage Fire Department accepts the 2019 Girdwood Fire Department Cash/Fiscal Controls Audit. I [Contract Administrator] concur with your findings and will pass it on to the Fire Chief with Girdwood Fire Department for action on the findings."

Management (Girdwood Fire Department) stated, "Concurrence. The Fire Chief requested the audit by Internal Audit to identify gaps and improve the business practices of GFR. In response to the audit, the Fire Chief has updated the Purchasing Policy and drafted a new Financial Policy. An administrative staff desk manual was being worked on at the time of the audit and is being updated to reflect financial procedures and internal controls recommended by report."

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

Internal Audit Report 2019-10
Girdwood Fire Department Cash/Fiscal Controls
Anchorage Fire Department
December 20, 2019

Discussion with Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on October 10, 2019.

Audit Staff:
Dalton Benson