

# INTERNAL AUDIT REPORT

2020-01

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## Chugiak Volunteer Fire Department Cash Controls Follow-Up

Anchorage Fire Department

January 30, 2020

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

January 30, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-01, Chugiak Volunteer Fire Department Cash Controls Follow-Up, Anchorage Fire Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed a follow-up audit of the Chugiak Volunteer Fire Department Cash Controls. The objective was to conduct a follow-up audit to determine the effectiveness of corrective action taken by Chugiak Volunteer Fire and Rescue Company, Incorporated on the deficiencies contained in Internal Audit Report 2018-06. To accomplish our objective, we reviewed if Chugiak Volunteer Fire and Rescue Company, Incorporated exercised proper segregation of duties over accounts payable. In addition, we reviewed bank statements, financial system information, and supporting documents to determine if the Check Authorization Policy was followed; if direct debit and credit card transactions were properly approved, authorized, and reviewed; if there were any penalties for late utility payments or overdraft fees related to non-sufficient funds; and if there had been any further commingling between the Fire and Emergency Medical Services operations fund and the “Junior Firefighter” fund.

Management action corrected and significantly improved all issues identified in Internal Audit Report 2018-06. Our follow-up audit revealed that action taken by Chugiak Volunteer Fire Department was effective for all six deficiencies.

Michael Chadwick, CIA, CICA  
Director, Internal Audit



# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

January 30, 2020

## **Internal Audit Report 2020-01 Chugiak Volunteer Fire Department Cash Controls Follow-Up Anchorage Fire Department**

**Introduction.** In 2018 we performed an audit of the cash controls at the Chugiak Volunteer Fire Department (CVFD) and issued Internal Audit Report 2018-06 on October 11, 2018. To assess the effectiveness of corrective action, we were requested to perform a follow-up audit. This report contains the results of our follow-up audit.

The Municipality of Anchorage (Municipality) has contracted with 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 2018 and 2019, the Municipality made direct payments totaling \$1,025,375 each year to the Contractor to provide services. The Contractor currently has four paid employees: a Fire Chief, an Administrative Specialist, a Training Coordinator, and a Maintenance Specialist. 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 that include 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 was to conduct a follow-up audit to determine the effectiveness of corrective action taken by the Contractor on the deficiencies contained in Internal Audit Report 2018-06. To accomplish our objective, we reviewed if the Contractor exercised proper segregation of duties over accounts payable. In addition, we reviewed bank statements, financial system information, and supporting documents to determine if the Check Authorization Policy was followed; if direct debit



and credit card transactions were properly approved, authorized, and reviewed; if there were any penalties for late utility payments or overdraft fees related to non-sufficient funds; and if there had been any further commingling between the Fire and EMS operations fund and the “Junior Firefighter” fund.

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 December 2019 through January 2020.

**Overall Evaluation.** Management action corrected and significantly improved all issues identified in Internal Audit Report 2018-06. Our follow-up audit revealed that action taken by CVFD was effective for all six deficiencies.

## **AUDIT FINDINGS FOLLOW-UP**

### **1. Prior Finding: Lack of Segregation of Duties.**

- a. **Corrective Action.** The Administrative Specialist’s job duties were updated to no longer include purchasing authority. Specifically, the Administrative Specialist still enters and prints checks; but no longer has signature authority to sign checks and has not been issued a credit card. In addition, monitoring and reconciliation of the bank and credit card purchases and payments were still performed by the Administrative Specialist, but were now being reviewed by the CVFD Fire Chief and a Board member on a regular basis.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not Required.

- d. **Management Comments.** Not Required.
  - e. **Evaluation of Management Comments.** Not Required.
2. **Prior Finding: Check Authorization Policy Not Followed.**
- a. **Corrective Action.** Our review of 174 checks posted to the checking account from January through November 2019 found that all invoices/receipts had been submitted with their corresponding check request forms and were reviewed by the CVFD Fire Chief and a Board member. In addition, we found that all purchases over \$5,000 were approved by the CVFD Fire Chief and a Board member.
  - b. **Evaluation of Corrective Action.** Effective.
  - c. **Recommendation.** Not Required.
  - d. **Management Comments.** Not Required.
  - e. **Evaluation of Management Comments.** Not Required.
3. **Prior Finding: Lack of Internal Controls Over Direct Debit Transactions.**
- a. **Corrective Action.** While direct debit transactions were still used at CVFD, they were limited to pay insurance, utilities, taxes, and payroll. We found that all direct debit transactions from January through November 2019 were supported by adequate documentation and were reviewed by the CVFD Fire Chief and a Board member on a regular basis.
  - b. **Evaluation of Corrective Action.** Effective.

- c. **Recommendation.** Not Required.
- d. **Management Comments.** Not Required.
- e. **Evaluation of Management Comments.** Not Required.

4. **Prior Finding: Lack of Internal Controls Over Credit Cards.**

- a. **Corrective Action.** A Credit Card Purchase Review Policy was implemented to increase internal control. There are four authorized credit card holders, reduced from the eight found in the previous audit report. The authorized credit card holders stayed within their credit limits and submitted proper invoices/receipts for purchases. Credit card purchases were reviewed by the CVFD Fire Chief and a Board member on a regular basis.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not Required.
- d. **Management Comments.** Not Required.
- e. **Evaluation of Management Comments.** Not Required.

5. **Prior Finding: Controls Over Funds Need Improvement.**

- a. **Corrective Action.** Monthly utility statement balances from January through November 2019 were set to autopay which resulted in no late fees. In addition, there were no overdraft fees on the checking account and there were no late fees nor finance charges associated with the credit card.



- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not Required.
- d. **Management Comments.** Not Required.
- e. **Evaluation of Management Comments.** Not Required.

6. **Prior Finding: Funds Commingled.**

- a. **Corrective Action.** Our review of bank statements from January through November 2019 found no commingling in the checking or savings accounts from any outside funds. According to the CVFD Fire Chief, management of the “Junior Firefighter” fund has been transferred to the nonprofit.
- b. **Evaluation of Corrective Action.** Effective.
- c. **Recommendation.** Not Required.
- d. **Management Comments.** Not Required.
- e. **Evaluation of Management Comments.** Not Required.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on January 28, 2020.

Audit Staff:  
Dalton Benson