

**State of Alaska
FY2004 Governor's Operating Budget**

**Department of Transportation/Public Facilities
Internal Review
BRU/Component Budget Summary**

BRU/Component: Internal Review

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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Component Mission

To provide professional audit assistance to Department management to ensure compliance with Federal Highway Administration (FHWA) and Federal Aviation Administration (FAA) requirements and to provide independent assessments of Department operations.

Component Services Provided

Internal Review is an independent section within the Department of Transportation and Public Facilities that reports directly to the Commissioner. Internal Review is an extension of the management function that identifies problems and recommends actions that can correct those problems. It provides a measurement of how well the Department is meeting its statutory requirements and achieving its objectives.

This section is responsible for:

- Reviews of operations and identifies control weaknesses, addresses systems improvements, ensures compliance, and makes recommendations for improvement in utilization of resources (efficiency, economy, and effectiveness).
- Pre-award audit evaluations and final (post performance) audits on firms under contract with the Department to assist in negotiating rates and ensuring that only agreed upon rates and charges have been paid.
- Audits performed on utility companies, concessionaires at the State's airports, grantees, and contractor claims involving federal-aid to ensure agreed upon rates were used, proper fees collected and that contractor claims were supportable.
- Internal audits on major federal and state programs and assists in special program reviews conducted by the FHWA and FAA.
- Assistance to the Division of Legislative Audit in the OMB Circular A-133 required Single Audit of Department operations.

Component Goals and Strategies

To determine that Department programs are administered and controlled with maximum effectiveness and efficiency in accordance with existing statutes, regulations, policies and procedures and plans; and that contracts have been awarded and administered in compliance with federal and state laws and regulations.

- Conduct annual audits/reviews of consulting engineering firms' salary and overhead rates
- Conduct annual audits of utility companies to verify rates and charges
- Conduct internal reviews of Department operations to the extent feasible, given operating budget constraints
- Conduct audits of concessionaires at the Fairbanks and the Ted Stevens Anchorage International airports
- Assist the Division of Legislative Audit in the annual state single audit
- Conduct audits of contractor claims as requested

Key Component Issues for FY2003 – 2004

A significant portion of the Internal Review's audit work is performed on the federal programs on specific projects. However, a portion of the audit work and associated operating costs is not eligible to be charged to the federal programs. The most cost-effective method of meeting audit requirements is to perform the audits in-house. It is important for the Internal Review Section to receive an adequate amount of general funds to continue audit functions not eligible for federal funds or overhead reimbursement.

Major Component Accomplishments in 2002

- The Internal Review Section completed 61 consultant engineering overhead rate audits, 22 utility company rate audits, 14 cost allocation plan reviews, 7 concession audits, and 6 final audits to ensure rates and other charges under contracts with the Department are supportable and meet federal requirements.
- Worked on several contractor claims and have assisted departmental staff and state attorneys in reducing claims on projects.
- Assisted the Division of Legislative Audit in performance of their annual single audit of the State, which completes the federal single audit requirements.

Statutory and Regulatory Authority

The following Federal and State Regulations and Statutes apply in general to the establishment and operation of the Internal Review Section:

AS 44.17.010, 020, 040 (Dept authority to establish organization and staffing)

AS 36.30.420 (Right to audit records)

AS 35.05.050 (Cooperation with the federal government for construction of public works)

Alaska Procurement Code and the Department Professional Services Agreement (PSA) Manual

Memorandum of Agreement between Alaska DOT/PF and FHWA

CFR Title 23 Part 645 (Accounting standards for utility companies)

CFR Title 48 Part 31 (Contract Cost Principles)

OMB Circular A-133 on the Federal Single Audit

Key Performance Measures for FY2004

Measure:

The percentage of requested engineering firm audits and desk reviews completed in the previous fiscal year.
Sec 141(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

Our target is to complete all audit requests in a timely manner and have no outstanding requests at year-end. During fiscal year 2002 Internal Review received requests for and completed 61 engineering firm audits or desk reviews. Therefore, Internal Review is on track in addressing this performance measure as all audits requested have been completed.

Benchmark Comparisons:

There is no benchmark for the number of this type of audit to be performed by other states or departments. However, we do have historical data for this type of audit. The following table summarizes the most recent fiscal years.

CONSULTING FIRM AUDITS REQUESTED AND COMPLETED DURING LAST FIVE FISCAL YEARS	
FY 1998	39
FY 1999	37
FY 2000	50
FY 2001	37
FY 2002	61

Background and Strategies:

Audits of engineering firms are required to document accounting systems and overhead and salary rates to be used in negotiating professional services contracts with the Department and insure that federal eligibility requirements are met. These audits are generally requested by management during the negotiation process. If audits are not performed on a timely basis it will slow or hinder the approval of contracts which are essential for ongoing project work. Internal Review's strategy is to give these audit requests high priority to insure audit information is provided to management and staff negotiators as quickly as possible after the request for audit is received.

Internal Review
Component Financial Summary

All dollars in thousands

	FY2002 Actuals	FY2003 Authorized	FY2004 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	561.8	672.5	682.1
72000 Travel	35.0	29.2	29.2
73000 Contractual	35.0	25.5	40.5
74000 Supplies	20.0	26.5	20.8
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	651.8	753.7	772.6
Funding Sources:			
1004 General Fund Receipts	58.7	56.7	51.0
1027 International Airport Revenue Fund	65.1	66.8	67.8
1061 Capital Improvement Project Receipts	528.0	630.2	653.8
Funding Totals	651.8	753.7	772.6

Internal Review

Proposed Changes in Levels of Service for FY2004

none

**Summary of Component Budget Changes
From FY2003 Authorized to FY2004 Governor**

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2003 Authorized	56.7	0.0	697.0	753.7
Adjustments which will continue current level of service:				
-Move in \$15.0 CIP from Commissioner's Office for increased audit costs	0.0	0.0	15.0	15.0
-Annualize FY2003 COLA increase for General Government and Supervisory Bargaining Units	0.0	0.0	9.6	9.6
Proposed budget decreases:				
-Reduce supply purchases	-5.7	0.0	0.0	-5.7
FY2004 Governor	51.0	0.0	721.6	772.6

Internal Review

Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2003</u> <u>Authorized</u>	<u>FY2004</u> <u>Governor</u>		
Full-time	9	9	Annual Salaries	520,617
Part-time	1	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	181,799
			<i>Less 2.89% Vacancy Factor</i>	(20,316)
			Lump Sum Premium Pay	0
Totals	10	9	Total Personal Services	682,100

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Internal Auditor I	0	0	1	0	1
Internal Auditor II	1	0	0	0	1
Internal Auditor III	3	1	0	0	4
Internal Auditor IV	1	0	0	0	1
Internal Auditor V	0	0	1	0	1
Statistical Technician I	1	0	0	0	1
Totals	6	1	2	0	9