

# **State of Alaska FY2002 Governor's Operating Budget**

Department of Transportation/Public Facilities  
Internal Review  
BRU/Component

## **Component: Internal Review**

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## **Component Mission**

To provide professional audit assistance to Department management to insure 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.

The section is responsible for:

- Reviews of operations and identifies control weaknesses, addresses systems improvements, ensures compliance, and makes recommendations for improvement in use 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 insuring 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 insure 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.
- Assists the Division of Legislative 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 firm's 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 FY2001 – 2002

A significant portion of the Internal Review's audit work is performed on specific projects. However, a portion of the audit work and associated operating costs is not eligible to be directly charged to 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 important audit work not eligible for federal funds.

It is also essential for Internal Review to comply with the federal requirements of A-87. Therefore, Internal Review is shifting from direct charging to indirectly charging projects receiving audit services. This will be accomplished by the budget adjustments submitted for fiscal year 2002 and will bring the section into compliance with federal regulations.

## Major Component Accomplishments for FY2000

- Completed 50 consultant engineering overhead rate audits and 25 utility company rate audits to insure rates and other charges under contracts with the Department are supportable and meet federal requirements.
- Worked on several contractor claims and has 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 FY2002

**Measure: Percentage of requested and completed engineering firm audits and desk reviews in the previous fiscal year.**

*(Developed jointly with Legislature in FY2001.)*

### Current Status:

During fiscal year 2000, Internal Review received requests for and completed 50 engineering firm audits or desk reviews. Therefore, Internal Review is on track in addressing this performance measure.

**Benchmark:**

There is no benchmark for the number of this type of audit to be performed. However, in the prior two years the number of completed audits or desk reviews has ranged from 38 in fiscal year 1999 to 43 in fiscal year 1998. The increase is a reflection of the increase in the federal programs and our ability to address audit requests on a timely basis.

**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.

**Status of FY2001 Performance Measures**

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
<ul style="list-style-type: none"> <li>Number of requested engineering firm audits and desk reviews completed in the previous fiscal year.</li> </ul>		X			

**Internal Review**  
**Component Financial Summary**

All dollars in thousands

	FY2000 Actuals	FY2001 Authorized	FY2002 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	530.9	660.5	658.1
72000 Travel	10.4	13.2	29.2
73000 Contractual	26.8	25.5	25.5
74000 Supplies	8.5	26.5	26.5
75000 Equipment	0.7	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
<b>Expenditure Totals</b>	<b>577.3</b>	<b>725.7</b>	<b>739.3</b>
<b>Funding Sources:</b>			
1003 General Fund Match	74.8	75.2	0.0
1004 General Fund Receipts	43.8	56.6	58.7
1007 Inter-Agency Receipts	10.2	0.0	0.0
1027 International Airport Revenue Fund	62.9	64.5	65.1
1053 Investment Loss Trust Fund	0.0	1.9	0.0
1061 Capital Improvement Project Receipts	385.6	527.5	615.5
<b>Funding Totals</b>	<b>577.3</b>	<b>725.7</b>	<b>739.3</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2000 Actuals	FY2001 Authorized	FY2001 Cash Estimate	FY2002 Governor	FY2003 Forecast
<b>Unrestricted Revenues</b>						
None.		0.0	0.0	0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>						
Interagency Receipts	51015	10.2	0.0	0.0	0.0	0.0
International Airport Revolving Fund	51055	62.9	64.5	64.5	65.1	65.1
Capital Improvement Project Receipts	51200	385.6	527.5	527.5	615.5	615.5
Investment Loss Trust Fund	51393	0.0	1.9	1.9	0.0	0.0
<b>Restricted Total</b>		<b>458.7</b>	<b>593.9</b>	<b>593.9</b>	<b>680.6</b>	<b>680.6</b>
<b>Total Estimated Revenues</b>		<b>458.7</b>	<b>593.9</b>	<b>593.9</b>	<b>680.6</b>	<b>680.6</b>

## Internal Review

## Proposed Changes in Levels of Service for FY2002

none

**Summary of Component Budget Changes  
From FY2001 Authorized to FY2002 Governor**

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2001 Authorized</b>	<b>133.7</b>	<b>0.0</b>	<b>592.0</b>	<b>725.7</b>
<b>Adjustments which get you to start of year:</b>				
-Add \$16.0 CIP to implement Phase 2 of Indirect Cost Allocation Plan to comply with OMB Circular A-87	0.0	0.0	16.0	16.0
<b>Adjustments which will continue current level of service:</b>				
-Fund Change to implement Phase 2 of Indirect Cost Allocation Plan to comply with OMB Circular A-87	-75.2	0.0	75.2	0.0
-Year 2 Labor Costs - Net Change from FY2001	0.2	0.0	-2.6	-2.4
<b>FY2002 Governor</b>	<b>58.7</b>	<b>0.0</b>	<b>680.6</b>	<b>739.3</b>

## Internal Review

## Personal Services Information

Authorized Positions			Personal Services Costs	
	FY2001 Authorized	FY2002 Governor		
Full-time	9	9	Annual Salaries	497,546
Part-time	1	1	COLA	7,613
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	171,228
			<i>Less 2.70% Vacancy Factor</i>	(18,287)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>10</b>	<b>10</b>	<b>Total Personal Services</b>	<b>658,100</b>

## Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Clerk I	0	0	1	0	1
Internal Auditor I	0	0	1	0	1
Internal Auditor III	4	1	0	0	5
Internal Auditor IV	1	0	0	0	1
Internal Auditor V	0	0	1	0	1
Statistical Technician I	1	0	0	0	1
<b>Totals</b>	<b>6</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>10</b>