



Report to Audit Committee

MUNICIPALITY OF ANCHORAGE

Audit Wrap Up:
Year Ended December 31, 2021

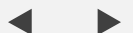
IBDO[®]

Contents

QUICK ACCESS TO THE FULL REPORT

<u>INTRODUCTION</u>	3
<u>EXECUTIVE SUMMARY</u>	4
<u>INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	9
<u>ADDITIONAL REQUIRED COMMUNICATIONS</u>	13
<u>APPENDIX</u>	19

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of Audit Committee (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Client and is not intended and should not be used by anyone other than these specified parties.



Welcome

October 27, 2022

Audit Committee

Municipality of Anchorage

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We present an overview of our plan for the audit of the financial statements of Municipality of Anchorage, (the Municipality), as of and for the year ended December 31, 2021, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

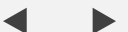
This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Municipality's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the Municipality and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

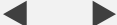
BDO USA, LLP

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.





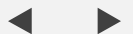
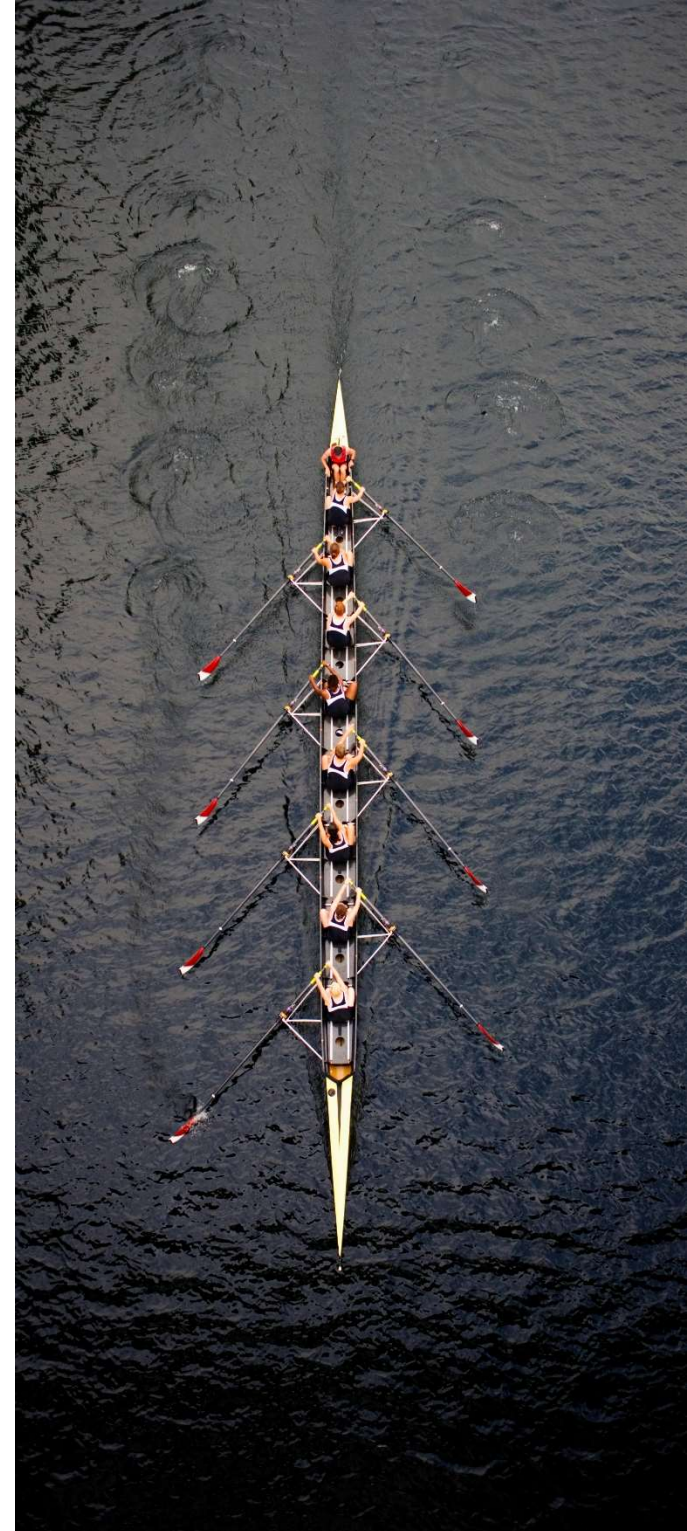
Executive Summary



Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended December 31, 2021. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or Audit Committee of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- ▶ We issued an unmodified opinion on the financial statements and released our report on September 30, 2022.
- ▶ We issued our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. We reported one material weakness in this report.
- ▶ We issued our report on compliance and on internal control over compliance for each major federal program in accordance with the Uniform Guidance. We issued a modified opinion on compliance related to subrecipient monitoring for three federal programs and an unmodified opinion on the remaining compliance requirements for these programs and for all requirements of the other 5 major programs. We also reported a significant deficiency related to procurement, suspension and debarment for two federal major programs.
- ▶ We issued our report on compliance and on internal control over compliance for each major state program in accordance with the *State of Alaska Single Audit Guide and Compliance Supplement*. No findings were reported, and we issued an unmodified opinion on compliance over major programs.
- ▶ Our responsibility for other information in documents containing the Municipality's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the Municipality and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Municipality personnel throughout the course of our work.



Results of the Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the Municipality's accounting practices, policies, and estimates:

The Municipality's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 22 to the Municipality's financial statements.
- ▶ The Municipality adopted
- ▶ There were no changes in significant accounting policies and practices during 2021.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Municipality's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the financial statements.

Significant Accounting Estimates

Allowance for Uncollectible Accounts - based on prior collection experience and historical trends

Net Pension/OPEB Liabilities - Based on actuarial calculations prepared by licensed actuaries for each plan

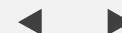
Incurred but Not Reported (IBNR) Self-Insurance Liabilities - based on past claims experience modified for current trends and information, as determined by a third-party actuary

Landfill Closure and Post Closure Obligations - based on the expected remaining useful life of the municipal landfill, trends in inflation, and remaining landfill capacity

Environmental Remediation Liabilities - based on various remediation action cost estimates and the probability of each course of action taking place

Asset Impairments - based on the restoration cost approach, which is used for impairments that result from physical damage. Under this approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset

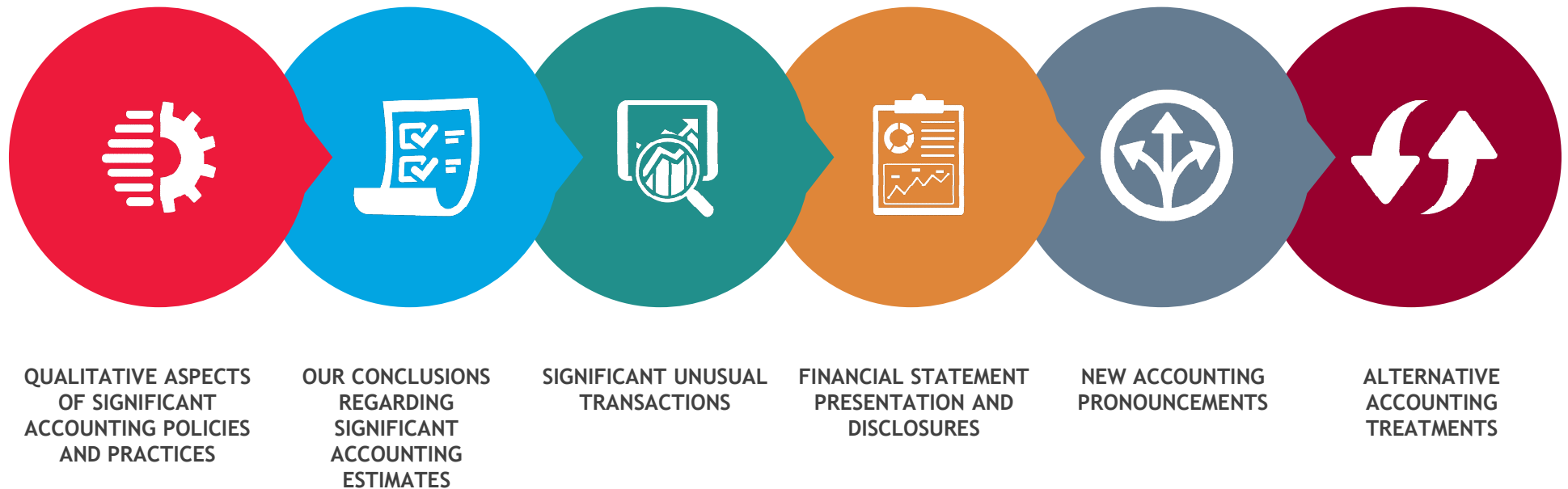
- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in 2021.



Results of the Audit

QUALITY OF THE MUNICIPALITY'S FINANCIAL REPORTING

A discussion will be held regarding the quality of the Municipality's financial reporting, to include:



ITEMS FOR DISCUSSION

- ▶ Fund balance - availability of bond rating reserve and working capital reserve (page 124, note 15).
- ▶ Accounting for FEMA and other grant revenues and recovery
- ▶ Enterprise fund capital investment compared to debt
- ▶ GASB 87 implementation for fiscal year 2022

Results of the Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

Please see below for corrected misstatement of Solid Waste Services, a component unit of the Municipality of Anchorage.

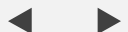


Corrected Misstatement

Item #	Account Name and Adjustment Description	Debit	Credit
1	Deferred Inflows	\$ 2,104,722	
	Capital Contributions		\$ 2,104,722

Description of Corrected Disclosure Misstatements

The entry above corrected capital contributions that were recognized as deferred inflows. SWS is an enterprise funds and therefore deferred inflows should be recognized as revenue.





Internal Control Over Financial Reporting

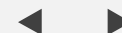
Internal Control Over Financial Reporting and Compliance

In planning and performing our audit of the financial statements and compliance, we considered the Municipality's internal control over financial reporting and compliance (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion(s) on the financial statements and compliance, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to Audit Committee all material weaknesses and significant deficiencies that have been identified in the Municipality's internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements or noncompliance on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by Audit Committee.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements or material noncompliance will not be prevented, or detected and corrected, on a timely basis.



Internal Control Over Financial Reporting

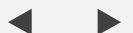
In conjunction with our audit, we noted the following:

▶ The following material weaknesses were identified:

Material Weakness	Comments
Financial Statements Do Not Agree with Underlying Books and Records	The controller's division has top-side adjustments to conform with GASB prescribed standards for financial statement reporting.

▶ We have communicated to management of the Municipality control deficiencies that were identified as a result of our audit that we did not consider to be material weaknesses or significant deficiencies.

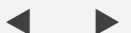
Control Deficiency	Comments
SAP User Access Review	User access is provision and disabled through batch process PFUD within SAP. Formal user access reviews are not performed.
SAP Segregation of Duties	SAP Users have access to Z_CHARM_DEVELOPER and Z_CHARM_OPERATOR which creates a SOD for developer access to deploy changes to production
KABA DB Password Policy	SQL password authentication is appropriate, however, password policy and expiration for SQL logins are not enforced.
Telestaff (AFD) User Access Review	User access reviews are performed for administrative users, but documentation is not retained to support implementation.
Telestaff (APD) User Access Review	User access reviews are performed for administrative users, but documentation is not retained to support implementation.
TeleDriver New Hire, Termination, User Access Review	There is no formal on-boarding control for TeleDriver. Access to TeleDriver is requested and approved verbally by the Dispatch Operations Supervisor and no supporting documentation is retained. There is no formal off-boarding control for TeleDriver. Notification of a termination to system admin to disable access to TeleDriver is communicated verbally by the Dispatch Operations Supervisor and no supporting documentation is retained.



Internal Control Over Financial Reporting

In conjunction with our audit, we noted the following:

Control Deficiency	Comments
TeleDriver User Access Review	MOA does not perform user access reviews for the TeleDriver application.
TeleDriver Password Policy	<p>The application does not enforce password parameters, including minimum length, complexity, expiration, history, account lockout.</p> <p>Oracle database supporting TeleDriver is not configured to enforce password requirements, including password.</p>
SAP Protocols - Segregation of Duties	Within SAP protocols were not in place to segregate duties such that the same individual could both initiate and post cash disbursement transactions.
Telestaff AFD Password Policy	<p>The application does not enforce password parameters, including minimum length, complexity, expiration, history, account lockout.</p> <p>SQL database supporting TeleStaff utilizes proper authentication method, however, password policy and expiration check is not enabled for SQL login.</p>
Telestaff (AFD) Segregation of Duties	SOD: Battalion Chief has full administrative privileges within the application.
Deferred FEMA revenues classified as deferred inflows instead of recognizing as revenue	FEMA revenues were incorrectly recorded as deferred inflows of resources rather than recognized as revenue in Solid Waste Services (a component unit of MOA). As Solid Waste Services is an enterprise fund of the municipality, deferred inflows related to grants is an improper treatment. An adjustment was proposed and accepted by management for a net position impact of approximately \$2.1 million.
Delay between fiscal year end and close process	There is a significant time delay between the fiscal year end and the comprehensive year in close process that creates a delay in final deliverables. The MOA should develop a comprehensive close process (project plan) since significant areas are performed outside of controller division who is responsible for the financial reporting. This close process should include timely reconciliations of cash and investments against disclosures, review of pension adjustments against final published reports, and review of debt covenant calculations against the reported financial statements.



Internal Control Over Compliance

In conjunction with the single audit, we noted the following:

▶ The following material weaknesses were identified:

Material Weakness and Material Noncompliance	Comments
Subrecipient Monitoring	For three major programs (related to COVID-19 response), subrecipient agreements did not include the required federal award identification or applicability of audit requirements.

▶ The following significant deficiencies were identified.

Significant Deficiency	Comments
Procurement, Suspension, and Debarment	For two major programs (related to Port infrastructure), evidence was not retained in procurement documentation to support confirmation of contractor status in SAMS Exclusions as an entity not subject to suspension or debarment.



Additional Required Communications

Other Required Communications

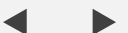
Following is a summary of other required items, along with specific discussion points as they pertain to the Municipality:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to Audit Committee as part of our Audit Planning communications.
Obtain information from Audit Committee relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risks of material misstatement, including fraud risks; or tips or complaints regarding the Municipality's financial reporting that we were made aware of as a result of our inquiry of Audit Committee.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
- Information Systems (IS) Auditors	Internal BDO specialists supplemented the core engagement team in reviewing the Municipality's IS programs and applications for risk assessment purposes related to internal controls over financial reporting.
- Pension and OPEB Actuaries	Internal BDO specialists supplemented the core engagement team in evaluating the suitability of the actuarial assumptions used for financial reporting purposes by the Public Employee Retirement System and Anchorage Police and Fire Retirement System pension plans, as well as the Police and Fire Retiree Medical Group and Gentile Group OPEB plans.

Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the Municipality:

Requirement	Discussion Point
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Significant matters identified by component auditors	During the component auditor's procedures, there were no significant matters identified that were deemed necessary to bring to group management's attention.
Significant findings and issues arising during the audit in connection with the Municipality's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	We discussed the implications of the fund classification process at the Municipality with management at length. We also discussed concerns regarding the components of fund balance and classification of expenses in special revenue funds appropriately. In addition, there were several single audit findings that were discussed with the management group as outlined in the single audit. There were no other significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Municipality's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were delays in the audit as a result of various challenges related to financial reporting, including disclosure changes in cash and investments, delays in receipt of accurate information from the State of Alaska related to pensions, and a significant number of major programs due to COVID-19 funding streams. There were no other significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to Audit Committee regarding their oversight of the financial reporting process.



Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the Municipality:


Requirement	Discussion Point
If applicable, other matters significant to the oversight of the Municipality's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Municipality's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.



Independence

Our engagement letter to you dated January 4, 2022 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Municipality with respect to independence as agreed to by the Municipality. Please refer to that letter for further information.





BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 65 offices and over 740 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 90,000 people working out of nearly 1,650 offices across 165 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.

www.bdo.com

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2021 BDO USA, LLP. All rights reserved. www.bdo.com

