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Anchorage



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*Rick Mystrom, Mayor*

OFFICE OF THE INTERNAL AUDITOR

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**Internal Audit Report 96-11**  
**Chugiak Senior Center**  
**Health and Human Services**

**Introduction.** The Chugiak Senior Center is managed by Chugiak Senior Citizens, Inc., a not-for-profit organization. The land and buildings of the facility are owned by the Municipality of Anchorage. The relationship between the Municipality and Chugiak Senior Citizens, Inc. began in 1975 when the senior activities program was conducted in a community building. Since 1979, Chugiak Senior Citizens, Inc. has been contracted by the Municipality to manage the Chugiak Senior Center and provide services and activities to the seniors in the Chugiak area. Health and Human Services is the contract administrator.

Both the services and facilities offered by the Chugiak Senior Center have expanded since inception in 1975. Originally, the Chugiak Senior Center offered only a senior activities program. In 1976, a grant-funded transportation program was started. A year later, a nutrition program for seniors was initiated with grant funding. Further growth occurred in 1979 as construction was completed by the Municipality of Anchorage on 24 independent living apartments and a new activity center. The 1980's brought 20 additional independent living apartments and an adult day care wing. The newest addition, an assisted living wing with 20 apartments, came in 1993. Today the facility offers a wide range of services to seniors including independent living and assisted living facilities, assisted living services, meals, bingo, beauty salon, adult day care, outreach, transportation and various other senior activities.

In addition, membership in Chugiak Senior Center has expanded through the years. The Center had 25 members in 1976. Today, membership totals 313 paid members. Growth in members and services has meant growth in the operating budget. The original budget of a few thousand dollars has grown to over one million dollars a year.

**Scope.** The objective of this audit was to determine whether Chugiak Senior Citizens, Inc. was in compliance with the terms of the Management Agreement for the Chugiak Senior Center with the Municipality of Anchorage for the period January 1, 1996, to June 30, 1996. We also evaluated the Management Agreement for completeness and clarity. The audit was conducted in accordance with generally accepted government auditing standards and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of June through July 1996. The audit was requested by the Assembly.

**Overall Evaluation.** Chugiak Senior Citizens, Inc. was not in compliance with all of the terms of the Management Agreement for the Chugiak Senior Center. Specifically, we found non-compliance for 8 (62%) of the 13 requirements tested. The contract administrator had also identified non-compliance with the Management Agreement in the past and has worked with Chugiak Senior Citizens, Inc. to correct the deficiencies. However, non-compliance continues to be a problem. Requirements in the Management Agreement have even been revised in some cases to help facilitate compliance. In addition, the Management Agreement contained several areas that were unclear and incomplete. Further, the relationship between the Municipality of Anchorage and Chugiak Senior Citizens, Inc. was not well defined. The Municipality of Anchorage has allowed Chugiak Senior Citizens, Inc. to use Municipal land and facilities in return for their management of the Senior Center without well defined roles and expectations of performance. All revenue collected for rent and services has been retained by Chugiak Senior Citizens, Inc. for their use in operating the Senior Center as well as funding the corporation. Although the facilities and programs have expanded, it does not appear that the method for managing them has changed. Per the audited financial

statements for Chugiak Senior Citizens, Inc. expenditures have exceeded revenues over the last three years. In addition, funds required by the prior Management Agreement to be deposited into a reserve account to be used solely for the Apartment Complex have been used for unrelated costs.

**Financial Information.** Our review of the audited financial statements for fiscal years 1993, 1994 and 1995 for Chugiak Senior Citizens, Inc. revealed that expenditures exceeded revenue by \$26,817 and fund balance decreased by \$33,192. This negative financial trend indicates that rents and fees may be too low to support the current operation.

	1993	1994	1995
Total Revenue	\$860,902	\$1,172,458	\$1,143,365
Total Expenditures	\$898,517	\$1,149,362	\$1,155,662
Excess of Revenue Over Expenditures (Expenditures over revenue)	\$(37,615)	\$ 23,096	\$ (12,297)

## FINDINGS AND RECOMMENDATIONS

### 1. Non-compliance with the Management Agreement.

a. **Finding.** Chugiak Senior Citizens, Inc. did not always comply with the requirements of the Management Agreement. Our review of 13 selected contract terms revealed 8 that had not been complied with by the corporation. Specifically, the following terms were not complied with:

- 1) The annual operations plan was not submitted by May 15, 1996.
- 2) The annual operating budget was not submitted by May 15, 1996.

- 3) Monthly reports were not presented as required. Income and expense reports were not presented by funding source. Instead, they were presented by function. The program and community service reports did not include a summary of housing units available and rented. Further, program reports were not submitted for other funding sources.
- 4) The financial management system did not meet all requirements. The system did not disclose all financial transactions relating to the contract, did not always provide accounting records supported by source documentation, and did not account for and control all property.
- 5) Audited financial statements for fiscal year 1995 were not submitted by June 30, 1996.
- 6) A fixed asset inventory of all property greater than \$100 was not maintained. The inventory records were not current and did not contain the purchase price, source of funds used to purchase the items and the date of the purchase.
- 7) Written agreements had not been prepared between the Chugiak Senior Citizens, Inc. and all subcontractors. We noted three subcontracts for services with no written contracts with the vendors -- a beauty shop, thrift store and in-house security.
- 8) Purchase orders used for the food service operations did not contain the required verbiage regarding nondiscrimination.

b. **Recommendation.** Health and Human Services should ensure that Chugiak Senior Citizens, Inc. complies with the requirements in the Management Agreement. If non-

compliance continues to be a problem consideration should be given to terminating the agreement.

- c. **Management Comments.** Management stated, "Agree with findings 1-8. A new Executive Director was recently hired and the several new members were elected to the Board of Directors in October. The audit was presented to the Directors and they understand the importance and implications of these findings and recommendations. Most of the non-compliance issues will remain open for the next several months or until the new Board of Directors has an opportunity to review the issues and make recommendations. The Department of Health and Human Services will continue to work with the Board and staff to ensure compliance with the findings. Currently, the management agreements are on a month to month extension and will remain so until satisfactory resolution. Regarding the concerns related to the financial management system and the audited financial statements, the previous CPA died and the new firm was unable to reconstruct the books in a timely manner and is still in the process of obtaining the records. However, they have recommended and the Center is using a new accounting system -- Quick Books -- as of July 1st. The staff and Board are both learning the capabilities of the system and the Municipality and State are working on an agreement that reports produced from the system will meet the requirements needed to resolve the concerns raised by the Internal Auditor. A report of these findings will be issued within 90 days to Internal audit. Should non-compliance continue to be a problem, a recommendation to terminate the agreement will be considered, but from all appearances at this time, resolution should be within reach.

"A new position of Purchasing Agent has been created and the first responsibility of the new employee will be to develop a fixed assets inventory system. This item will remain open until completed. The additional responsibility of ensuring that non-

discrimination verbiage is added to the food service orders will be part of the job duties of this position. Wording from Title VII of the Municipal Purchasing Code will be given to the staff as a guide.

“The lack of written agreements with the sub-contractors for the Beauty shop, Garret management, and the in-house security has been an outstanding issue for some time. Agreements for each area are being developed for review by the Board of Directors and will be negotiated with the current contractors. Contract monitor will keep copies of all agreements in the contract files.

“The required management plan, operating budget and facility use plan have been presented to the Municipality since this audit was completed. All are currently under review and will be discussed with the Board of Directors after the new Board has organized and elected it's officers. The State Division of Senior Services has agreed to work with the Municipality and Chugiak Senior Citizens, Inc. to make the reporting requirements for their grants simplified where possible which will help eliminate duplicative reports.”

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

2. **Sole Source Agreement.**

- a. **Finding.** The Chugiak Senior Center has been operated by Chugiak Senior Citizens, Inc. on a sole source basis since 1979 through a management agreement with the Municipality of Anchorage. Since there has not been a stated fee stipulated in the agreement, the provisions of Anchorage Municipal Code Title 7, pertaining to competitive bidding and sole source procurement, have not been followed. However,

Chugiak Senior Citizens, Inc. has been allowed to collect and use all rents and fees collected from the Senior Center operations. This revenue could be considered a form of management fee since the land and buildings belong to the Municipality (annual rent collected was over \$270,000). We did note that Chugiak Senior Citizens, Inc. has been instrumental in obtaining grant funds for the construction and expansion of the Senior Center programs and facilities. As a result, we detected a general attitude that Chugiak Senior Citizens, Inc. had a proprietary right to operate and manage the Center.

- b. **Recommendation.** Health and Human Services should clearly define the relationship with Chugiak Senior Citizens, Inc. regarding the management of the Chugiak Senior Center and the collection and use of all revenue.
  
- c. **Management Comments.** Management stated, "The Department concurs with this recommendation. Several changes were made to the former agreement in an attempt to streamline and simplify the contract. Upon review, we also find that more clarity is needed. Meetings have been held with other Municipal Departments who interface with the Chugiak Senior Center. The Departments of Health and Human Services and Property and Facility Management will develop one management agreement that encompasses the responsibilities of the contractor and the Municipality. The new agreement will include oversight related to the collection of rents, their use, and what areas the reserves will cover in the overall operations and maintenance of the facility. The Board of Directors will be required to develop a capital improvement plan and budget in conjunction with Property Facility and Management with the appropriate reserves from the rent collections to be set-aside in a restricted account for use on maintenance projects. The sole source agreement findings will be reviewed with the Purchasing Department to determine what corrections are needed to bring the management agreement into compliance with Title VII requirements."

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

3. **Management Agreement Not Clear.**

- a. **Finding.** The Management Agreement with Chugiak Senior Citizens, Inc. for the period January 1 through June 30, 1996, did not include all aspects of the Senior Center operations and was, to some extent, unclear. Changes of some major provisions and requirements from the prior agreement have added to the lack of clarity. For example:

- 1) The agreement did not specifically address the assisted living facility. This facility was added to the center in 1993 and provides new services to the residents which were only alluded to in the agreement.
- 2) The current agreement does not specifically address the authority to collect fees and rents but stated that any excess of program revenues over program expenditures shall be the property of Chugiak Senior Citizens, Inc. provided that the excess is only used for programs or equipment for the Senior Center. The prior agreement stated that any excess program revenues or other income, related to or generated by programs, services, and activities at the Senior Center shall be deposited into a separate reserve account and shall be used solely for the benefit of the Senior Center. Also, excess revenue from the Apartment Complex shall be deposited into a separate reserve account and shall be used solely for the benefit of the Apartment Complex. Our review of the audited financial statements for June 30, 1993 through 1995, revealed that a total of \$47,093 had been transferred out of the Apartment Fund to offset deficiencies in other funds. In addition, the agreement did not



include any requirements for proper cash controls. Our cursory review of cash control procedures at the Senior Center revealed serious control weaknesses and a general lack of accountability. The methods used by the Chugiak Senior Citizens, Inc. to control and safeguard program revenue can have a direct impact on the financial condition of the Senior Center.

- 3) The prior agreement stated that all equipment located at the Senior Center, either already purchased or hereinafter acquired with program revenue and/or Municipal grants, belonged to the Municipality. The current agreement states that all equipment at the Senior Center acquired by the Municipality or with Municipal funds is the property of the Municipality. Equipment acquired by the corporation is the property of the corporation.
- 4) The prior agreement stated that the corporation was responsible for all costs in connection with the maintenance and repair of the Senior Center and all mechanical and non-expendable equipment. The current agreement states that the corporation is responsible for preventive and routine maintenance at the Senior Center and that the corporation should notify the Municipality of any projected major maintenance needs. This has shifted the burden of major maintenance and repair to the Municipality.

- b. **Recommendation.** The management agreement with Chugiak Senior Citizens, Inc. should be revised to clearly address all aspects of the operation and management of the Senior Center.
- c. **Management Comments.** Management stated, "We agree with these findings and recommendations. As stated in the preceding management comments, we are developing a new management agreement between the Municipality and the Chugiak

Senior Citizens, Inc. We will specifically address the assisted living component to include the authority to collect fees and rents and the requirement to account for revenues by function. The revenue from apartments will be addressed in the same manner. Clarification of ownership regarding equipment will also be reviewed and clarified. Property and Facility Management and the Department of Health and Human Services will review with the Chugiak Senior Citizens, Inc. the issues of routine and preventative maintenance responsibilities in the new agreement. The roles of all parties will be clear in each area of the operation and management of the Senior Center.”

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

#### 4. **Questionable Treatment of Donated Food.**

- a. **Finding.** Donated food was not properly accounted for nor controlled. The Senior Center received donations of food items from a local grocery store company. However, the dollar value of the donated food items was not entered into the accounting records of Chugiak Senior Citizens, Inc. In addition, the items were not always entered on records of accountability for the kitchen activity, they were not clearly marked as donated items and their usage was not monitored to ensure that items were only used for the Senior Center. In fact, those items that were not found to be fit for consumption by the Senior Center were placed in an area for individuals to take. We question the liability associated with the practice of distributing food that could be potentially unfit for consumption.

- b. **Recommendation.** Health and Human Services should consider revising the management agreement to include requirements for the proper handling of donated food items.
  
- c. **Management Comments.** Management stated, "Agree. The Internal Auditor met with the staff and Board of Directors and gave a very thorough review of this area of concern. In order to supplement their State funding for the nutrition grant, Chugiak Senior Citizens receives donated food from a local food chain. Clearly, the majority of donated food is used by the kitchen staff for the daily meal service. The practice of placing food which is not fit for consumption in an area for individual use will be discontinued. This item will remain open and review will continue until resolution."
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Incomplete Reporting of Financial Transactions.**

- a. **Finding.** Not all financial transactions were included in the Chugiak Senior Citizens, Inc. accounting records. For example, the cash collected for the sale of copies made on a Senior Center copy machine was not deposited to the Senior Center accounts nor included in program revenue. Instead, it was used to fund special activities for the assisted living facility. We also noted that various grants and accounts receivable from Medicare as well as in-kind contributions were also not included in the accounting records. Not including financial transactions in the accounting records distorts program revenue and hampers financial analysis of Senior Center operations.
  
- b. **Recommendation.** Health and Human Services should ensure that all financial transactions are included in accounting records.

- c. **Management Comments.** Management stated, "We agree with these findings and recommendations. This area was discussed with the Board and new controls are being put in place. Cash registers will be put in the dining room, gift shop, and the Garret -- a "second hand store" the Center operates to provide revenue for the programs. A review with the new Board of Directors on these past practices will take place at the next Board meeting. This item will remain open until satisfactory resolution is in place."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal and Chugiak Senior Citizens, Inc. officials.

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