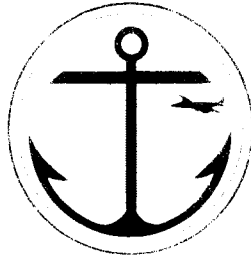


Municipality of Anchorage



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OFFICE OF THE INTERNAL AUDITOR

July 13, 2001

Internal Audit Report 2001-3 Anchorage Horse Council Management Agreement Cultural & Recreational Services

Introduction. The Municipality of Anchorage (Municipality) entered into a management agreement with the Anchorage Horse Council, Inc. (AHC) in June of 1985 for the William Clark Chamberlin Equestrian Center on Abbott Road. The agreement will expire on January 1, 2006, with an option to extend the agreement until January 2010. The agreement stipulates that direct management of the facility be handled by the AHC. The agreement also states the AHC is to operate the facility with the goal of becoming self-sufficient and decrease the need for Municipal funding by at least 5% each year.

Scope. The objective of this audit was to assess the financial condition of the AHC and determine their compliance with the management agreement. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, 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 April and May 2001 at the request of Cultural & Recreational Services.

Overall Evaluation. The AHC failed to operate the Equestrian Center in a manner compliant with the management agreement during the period reviewed. Noncompliance issues centered around the failure to maintain a reserve account, lack of fund accounting, missing written documentation and inadequate insurance coverage. The continued viability of the AHC is questionable based on the information reviewed. Adequate revenues have not been generated from the operation of the facility to meet all expenses. In addition, the agreement has not been effectively monitored by the Contract Administrator. Insufficient oversight has contributed to the problems facing the AHC and the operation of the facility.

FINDINGS AND RECOMMENDATIONS

1. Financial Viability of AHC Questionable.

- a. **Finding.** We question the financial viability of the AHC. The organization has been struggling financially for the last several years and has not been able to generate sufficient income to cover the increasing costs of operation. According to the management agreement, Municipal funding was to decrease each year by at least 5% with the intent the Center was to be fully funded by user fees. However, funding was actually increased from \$20,000 in 1996 to \$21,000 in 1997 through 2000. (See Attachment A for a schedule of Municipal funding.) The AHC also has not made the required contribution to the reserve account, instead using these funds to finance operating expenses. Further, the AHC obtained a \$5,000 loan in 2000 and has included an additional \$10,000 loan in the 2001 budget. It appears that there has been a reluctance to increase user fees or implement other programs or activities that could generate additional revenue. We were told that pressure from the private stables has been one reason that services, such as horse boarding, have not been implemented to raise additional revenue.
- b. **Recommendation.** The Municipality should work with the AHC to develop ideas for increasing revenue to make the Center fully funded by user fees and donations. If this is not possible, the continued operation of the Equestrian Center should be reconsidered.
- c. **Management Comments.** Management concurred and stated, "CRS Staff will counsel and provide closer oversight to assist with financial planning, accounting, fund-raising, and long-term planning. Staff will meet with the board of the Horse Council in July."

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

2. **Reserve Account Not Properly Maintained.**

- a. **Finding.** The reserve account has not been maintained in accordance with the management agreement. The management agreement (Section 3.04) requires that deposits must be made to a segregated reserve account on a monthly basis totaling 10% of gross receipts for the year. Further, the agreement stipulates that all withdrawals from the reserve account are to be approved by the Contract Administrator and that the Contract Administrator should be a signer on the account. Our audit disclosed that deposits have not been made as required to the reserve account. From inception, the reserve account has been in a deficit position. The balance of the reserve account at the end of year 2000 was only \$356.36, almost a \$12,000 deficit. We also found no evidence that the withdrawals had been approved by the Municipality nor was the Contract Administrator a signer on the account. (See Attachment B for the reserve account activity.)
- b. **Recommendation.** The AHC should be required to maintain the reserve account in accordance with the management agreement. Monthly deposits should be made totaling 10% of gross receipts. All withdrawals should be approved by the Contract Administrator and the Contract Administrator should be included as a signer on the reserve account bank account. Further, the AHC should be required to provide a plan for repayment of the deficit in the reserve account.
- c. **Management Comments.** Management concurred and stated, "Reserve account balances will be repaid from future revenues on a scheduled repayment program. Future reserve account deposits will be verified by staff. MOA staff will be added

to the account and the account will require a signature from a MOA representative prior to withdrawal. These changes will occur in July."

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

3. **Accounting Records Not Maintained As Required.**

- a. **Finding.** The AHC has not maintained separate accounts by source of funds for all revenue and expenditures as required by the management agreement. We also found that the budgets and financial reports submitted to the Municipality have not segregated expenses by source of funds. Thus it was not possible to determine whether Municipal funds were used in accordance with the management agreement. With the receipt of a grant from the State of Alaska for trail improvements for 2000 and 2001, maintaining separate accounts by revenue source is even more important. Both Internal Audit Reports 86-009 and 88-12 listed lack of fund accounting as a finding.
- b. **Recommendation.** The Contract Administrator should require the AHC to maintain separate accounts by source of funds for all revenue and expenditures as required by the management agreement.
- c. **Management Comments.** Management concurred and stated, "Fund accounting has already begun. Software to accommodate this fund accounting has been purchased and is in place."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Required Reports and Statements Not Submitted As Required.**

a. **Finding.** The contract administration files did not contain current documentation of a variety of reports required by the management agreement. Without these reports and schedules, we find it difficult to believe that the Contract Administrator has properly administered and overseen the operation of the Equestrian Center. The financial difficulty that the AHC is currently in is further evidence that proper oversight has not been exercised. Both Internal Audit Reports 86-009 and 88-12 addressed this issue as a finding. The following are examples of the reports that were not in the files:

- 1) The 2001 operating plan did not include the 2001 budget.
- 2) Revised budgets were not on file for expenses that exceeded the original approved operating budget.
- 3) The most recent inventory in the files was dated 1988.
- 4) The most current monthly statement of income and expenses on file was dated September 2000.
- 5) Copies of operating permits or licenses, including the current business license, were not on file.

b. **Recommendation.** The Contract Administrator should require that the AHC submit all required budgets, inventories, expense reports, and so forth in a timely manner. These reports should be analyzed to ensure that the requirements of the management agreement are met in operating the Equestrian Center.

- c. **Management Comments.** Management concurred and stated, "All reports shall be required prior to further disbursement of grant funds. Staff will monitor closely and remain in contact with the management of the Horse Council to insure all reports are filed timely. Monitoring to begin immediately. Staff will meet with them in July to stress the need for timely filing."

 - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
5. **Required Insurance Not in Effect.**
- a. **Finding.** The AHC did not have all insurance as required by the management agreement. The management agreement requires the AHC to maintain current policies for the following: Worker's Compensation, General Liability, Comprehensive Automobile Liability, and a Blanket Fidelity Bond. In addition, the Municipality is to be listed as an additional insured on each of the policies. Our review of contract files revealed that the Blanket Fidelity Bond and the Comprehensive Automobile Liability policy had lapsed and the Municipality was not listed as an additional insured on the General Liability insurance policy. Internal Audit Report 86-009 listed inadequate insurance as a previous finding.

 - b. **Recommendation.** The Contract Administrator should require the AHC to obtain all required insurance and include the Municipality as an additional insured on each of the policies.

 - c. **Management Comments.** Management concurred and stated, "The Blanket Fidelity Bond will be purchased and the MOA shall be listed as an Additional Insured on the Commercial General Liability policy immediately. Automobile liability will be

added as an endorsement of the CGL policy. Estimated completion date July 15, 2001."

- 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 officials on June 1, 2001.

Audit Staff:
Laura Adams

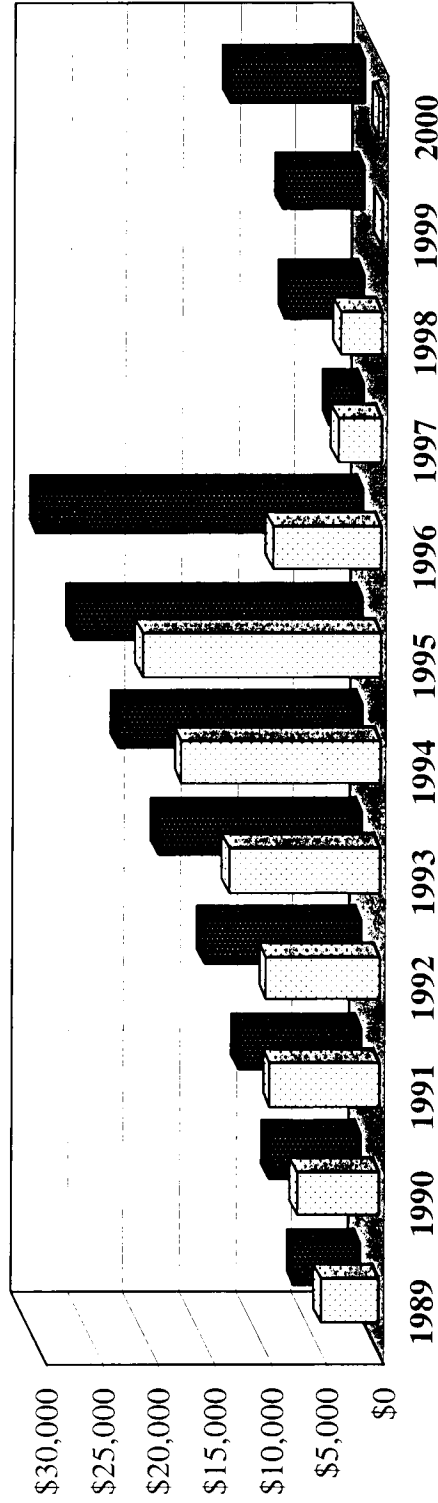
**Grant Funding Summary
1990-2000**

Year	Grant Approved	Grant Received	Percentage Difference From Prior Year
1990	\$22,460	\$23,126	3.0%
1991	\$22,000	\$16,500	(28.7)%
1992	\$23,000	\$21,500	30.3%
1993	\$22,000	\$20,750	(3.5)%
1994	\$22,000	\$33,650	62.2%
1995	\$22,000	\$20,000	(40.6)%
1996	\$21,000	\$20,000	0.0%
1997	\$21,000	\$21,000	5.0%
1998	\$21,000	\$21,000	0.0%
1999	\$21,000	\$21,000	0.0%
2000	\$21,000	\$21,000	0.0%

ATTACHMENT A

Internal Audit Report 2001-3
Anchorage Horse Council Management Agreement
Cultural & Recreational Services
July 13, 2001

Reserve Account Summary of Activity 1989-2000



Actual Balance
 Required Balance

ATTACHMENT B
 Internal Audit Report 2001-3
 Anchorage Horse Council Management Agreement
 Cultural & Recreational Services
 July 13, 2001