

INTERNAL AUDIT REPORT

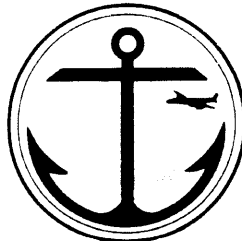
2011-14

Chugiak-Eagle River Senior Center

Department of Health and Human Services

November 30, 2011

MUNICIPALITY OF ANCHORAGE
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Mayor Dan Sullivan

November 30, 2011

Honorable Mayor and Members of the Assembly:

I am pleased to present **Internal Audit Report 2011-14, Chugiak-Eagle River Senior Center, Department of Health and Human Services** for your review. A brief summary of the report is presented below.

In accordance with the 2011 Audit Plan, we have completed an audit of the Chugiak-Eagle River Senior Center. The objective of this audit was to determine whether Chugiak Senior Citizens, Inc. has complied with the contract to operate the Chugiak-Eagle River Center. Specifically, we determined whether Chugiak Senior Citizens, Inc. provided reports and documents required by the contract; whether grant funds were spent only for grant purposes; and whether Chugiak Senior Citizens, Inc. has provided services and programs required by the contract.

Based on our review, we determined that Chugiak Senior Citizens, Inc. has generally complied with the current contract. However, Chugiak Senior Citizens, Inc. did not submit an annual operating budget to the Contract Administrator for approval by January 30th of each year. In addition, Chugiak Senior Citizens, Inc. did not maintain a current equipment and property inventory as required by the contract. Moreover, Chugiak Senior Citizens, Inc. hired a subcontractor without obtaining written approval from the Contract Administrator. Also, Chugiak Senior Citizens, Inc.'s procedure for the selection of a subcontractor did not cover indemnity. Finally, Chugiak Senior Citizens, Inc. did not pay the required first \$1,000 for a major repair that exceeded \$1,000.

There were five findings in connection with this audit. Management was responsive to the findings and recommendations.

A handwritten signature in black ink, appearing to read "Peter Raiskums".

Peter Raiskums, CIA, CFE
Director, Internal Audit

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Internal Audit Report 2011-14
Chugiak-Eagle River Senior Center
Department of Health and Human Services

Introduction. The Department of Health and Human Services has a contract to manage and operate the Chugiak-Eagle River Senior Center (Center) with Chugiak Senior Citizens, Inc. (Contractor). The Contractor is a nonprofit organization whose stated mission is to provide quality services and facilities to meet the needs of seniors in the community through effective stewardship and program development. The Center is owned by the Municipality, except for the low-income housing, which is owned by the United States Department of Housing and Urban Development (HUD). The Contractor receives partial funding from the Municipality to operate the Center. The total contract cost in 2011 was \$300,000 and provided partial funding for various insurance payments, a nurse position, and supplies for a preventative health outreach program.

Objective and Scope. The objective of this audit was to determine whether the Contractor had complied with the contract to operate the Center. Specifically, we determined whether the Contractor provided reports and documents required by the contract; whether grant funds were spent only for grant purposes; and whether the Contractor has provided services and programs required by the contract.

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 August through September 2011. The audit was requested by the Administration.

Overall Evaluation. The Contractor has generally complied with the current contract. However, the Contractor did not submit an annual operating budget to the Contract Administrator for approval by January 30th of each year. In addition, the Contractor did not maintain a current equipment and property inventory as required by the contract. Moreover, the Contractor hired a subcontractor without obtaining written approval from the Contract Administrator. Also, the Contractor's procedure for the selection of a subcontractor did not cover indemnity. Finally, the Contractor did not pay the required first \$1,000 for a major repair that exceeded \$1,000.

FINDINGS AND RECOMMENDATIONS

1. Annual Budget Submitted Late.

- a. Finding.** The Contractor did not submit an annual operating budget to the Contract Administrator for approval by January 30th of each year. Instead, budgets were submitted in September in 2008, 2009, and 2010 and in August in 2011. When budgets were submitted, they were neither approved nor rejected by the Contract Administrator. According to Center management, the Contractor's fiscal year runs from July 1st to June 30th. Consequently, the annual budget was not available by January 30th as required by the contract. Part II, Section 1, *Program Description/Scope of Services*, of the contract states that "Within thirty (30) days of commencement of this Agreement, the Grantee shall submit to the Administrator an Annual Operating Budget for the period from date of commencement of the Agreement through December 31, 2008 to the Administrator for approval and by January 30 each year thereafter."
- b. Recommendation.** The Contract Administrator should consider revising the contract to allow the Contractor to submit an annual operating budget to coincide with its June 30th fiscal year. In addition, the Contract Administrator should approve or reject the submitted budget or eliminate this requirement from the contract.

- c. **Management Comments.** Management stated, “Concur. Contract Administrator will amend Part II, Section 1: *Program Description/Scope of Services* to reflect the Contractor’s annual operating budget timeframe of July 1 through June 30.

“Within thirty (30) days of commencement of the Contract, the Contractor shall provide an operating budget and have it available to the Contract Administrator for review.”

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

2. **Inventory Needs Improvement.**

- a. **Finding.** The Contractor did not maintain a current equipment and property inventory as required by the contract. Specifically, we found that the inventory records did not contain the fund source used to purchase the equipment/property and information on whether it is owned by the Municipality, the Contractor, or others. Part I, Section 14.C, *Equipment*, of the contract states that “The Grantee shall maintain current inventories of all Municipal Equipment and Property and all Grantee Equipment and Property, with an original fair market value greater than FIVE HUNDRED DOLLARS (\$500) and/or expected to have a useful life exceeding one (1) year, including all Mechanical and Non-expendable Equipment at the Senior Center Complex. These inventories shall include an accurate description of each item, the date purchased or acquired, the original purchase price or original fair market value, the source of funds used to purchase the Municipal Equipment and Property and the Grantee equipment and property, and information on whether it is owned by the Municipality, the Grantee or others.”

- b. **Recommendation.** The Contract Administrator should ensure that the Contractor maintain a current inventory list containing all required information as required by Part I, Section 14.C of the contract.

- c. **Management Comments.** Management stated, “Concur. At the commencement of the Contract year, the Contractor will be advised to include as an update to the equipment and property inventory the fund source used to purchase the equipment/property and information on whether it is owned by the Municipality, the Contractor, or others. The update will be reviewed during the next on-site grant monitoring process.”

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

3. **Subcontractor Hired Without the Municipality’s Written Approval.**

- a. **Finding.** The Contractor did not submit a \$15,000 snow plowing and sanding contract to the Contract Administrator for approval. Part I, Section 20, *Assignments and Subcontracts*, of the contract states that “Every subcontract in an amount exceeding ONE THOUSAND DOLLARS (\$1,000) shall be submitted to the Administrator within ten (10) working days of its execution . . . Every subcontract in an amount exceeding FIVE THOUSAND DOLLARS (\$5,000) shall require prior written approval by the Administrator . . .”.

- b. **Recommendation.** The Contract Administrator should ensure that the Contractor obtains written approval prior to hiring subcontractors.

- c. **Management Comments.** Management stated, “Concur. Based on audit findings that indicate the Contractor has hired a subcontractor without obtaining written approval the Contract Administrator proposes the following:

“a) Contractor shall submit to the Contract Administrator a written policy and procedure for the selection of subcontractors within 30 days of submission of this audit response. Policy and procedure shall be in compliance with Part I Section 20 of the contract.

“b) A written request for contractor services will be submitted by Contractor to the Contract Administrator identifying all current subcontractors within two weeks of submitting the above mentioned policy and procedure.

“c) All future subcontracts must be approved by the Contract Administrator prior to execution of any subcontract. The Contract Administrator shall monitor all subcontractors during the on site monitoring in 2012.”

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

4. **Policy and Procedure for Selection of Subcontractor Needs Revision.**

- a. **Finding.** Although the Contractor did establish a written procedure for the selection of a subcontractor, the procedure did not cover indemnity. Part I, Section 20, of the contract states that “The grantee shall have established written procedures for the selection of a subcontractor that comply with requirements of Part I, Section 22...”, which deals with indemnity.

- b. **Recommendation.** The Contract Administrator should ensure that the Contractor revise its procedures for selection of a subcontractor to include indemnity.

- c. **Management Comments.** Management stated, “Concur. Contract Administrator will request the Contractor modify their policy and procedure document for hiring subcontractors to include indemnity language within 30-days of submission of this audit response.

“The Contract Administrator will review the procedural changes for compliance with the Contract.”

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

5. **Contractor’s Portion of Major Repair Not Paid.**

- a. **Finding.** The Contractor did not pay the required first \$1,000 for a major repair that exceeded \$1,000. Specifically, in 2010, the Municipality paid \$37,900 to repair the Center’s roof. However, the Contractor did not pay the required \$1,000. Part I, Section 15, *Maintenance and Repairs, Capital Improvements, Services*, of the contract states that “ If the Municipality, in its sole discretion, agrees with the need for a Major Repair or Major Maintenance and the estimate obtained by the Grantee is that it will cost ONE THOUSAND DOLLARS (\$1,000) or more, the Grantee shall be responsible for the first ONE THOUSAND DOLLARS (\$1,000) and the Municipality shall be responsible for the cost of such repair or maintenance in excess of the first ONE THOUSAND DOLLARS (\$1,000) paid by the Grantee. . . ”.

- b. **Recommendation.** The Contract Administrator should ensure the Contractor pays the first \$1,000 of the cost of any major repair or major maintenance that will cost \$1,000 or more, as required by the Contract.

- c. **Management Comments.** Management stated, “Concur. DHHS will advise PF&M of Part I, Section 15, *Maintenance and Repairs, Capital Improvements, Services* contract language and request compliance with this requirement while looking at the monitoring and feasibility of this contract requirement. As needed, contract language will be amended to better reflect the intent of this section.

“Should amendment to the contract be recommended, it will be prepared by January 31, 2012.”

- 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 October 13, 2011.

Audit Staff:
Scott Lee