

INTERNAL AUDIT REPORT

2015-07

Mobile Home Repair Program: Compliance

Department of Health and Human Services

July 31, 2015

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

July 31, 2015

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2015-07; Mobile Home Repair Program: Compliance; Department of Health and Human Services**. A brief summary of the report is presented below.

In accordance with the 2015 Audit Plan, we have completed an audit of the Mobile Home Repair Program's compliance at the Department of Health and Human Services. The objective of this audit was to determine whether Rural Alaska Community Action Program, Inc. had complied with the scope of work specified in the Subrecipient Agreement. To accomplish the objective, we reviewed project files for all five completed mobile home repair projects.

Based on our review, it is our opinion that Rural Alaska Community Action Program, Inc. had not complied with some of the Subrecipient Agreement's requirements. Specifically, Rural Alaska Community Action Program, Inc. did not meet the goal of completing 10 mobile home repairs by December 31, 2014. In addition, for all five of the tested projects, rehabilitation construction contracts were not executed by Rural Alaska Community Action Program, Inc.; Rural Alaska Community Action Program, Inc. did not check subcontractors for debarment; and Rural Alaska Community Action Program, Inc. did not submit to the Municipality of Anchorage contracts for review and approval.

There were four findings in connection with this audit. The Department of Health and Human Services was responsive to the findings and recommendations.

Michael Chadwick, CICA
Acting Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

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Introduction. The Municipality of Anchorage (Municipality) and Rural Alaska Community Action Program, Inc. (RurAL CAP) entered into the Subrecipient Agreement (Agreement) for the Mobile Home Repair Program (Program) in May of 2014. Under this agreement, RurAL CAP is required to assist low-income families who own and occupy mobile homes built in 1978 and after, in need of minor repairs. The Department of Health and Human Services (Department) is the contract administrator.

Objective and Scope. The objective of this audit was to determine whether RurAL CAP had complied with the scope of work specified in the Agreement. To accomplish the objective, we reviewed project files for all five completed mobile home repair projects.

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 through May 2015.

Overall Evaluation. RurAL CAP had not complied with some of the Agreement's requirements. Specifically, RurAL CAP did not meet the goal of completing 10 mobile home repairs by December 31, 2014. In addition, for all five of the tested projects, rehabilitation construction contracts were not executed by RurAL CAP; RurAL CAP did not check subcontractors for debarment; and RurAL CAP did not submit to the Municipality contracts for review and approval.

FINDINGS AND RECOMMENDATIONS

1. Program Goals Not Met.

- a. **Finding.** RurAL CAP did not meet the goal of completing 10 mobile home repairs by December 31, 2014. The Agreement provided \$200,000 to complete work on five mobile homes by September 30, 2014, and to complete work on five more mobile homes by December 31, 2014, for a total of 10 projects. However, work was completed on only three mobile homes by December 31, 2014.

In May 2015, the Municipality extended the agreement another year effective January 1, 2015 through December 31, 2015. This amendment provided another \$200,000 for a total of \$400,000 to complete work on ten more mobile homes by December 31, 2015, for a total of 20 projects. As of March 31, 2015, work had been completed on only seven mobile homes.

- b. **Recommendation.** The Contract Administrator should ensure that the goal for completing mobile home repairs is met.
- c. **Management Comments.** Management concurred and stated, “DHHS agrees with Finding #1. The MHRP Subrecipient Agreement with RurAL CAP was executed on May 16, 2014, leaving only 4 ½ months to complete the five mobile home repairs and 7 ½ months to complete the 10 mobile home repairs. The actual starting date of MHRP was delayed until December 22, 2014, so that the Contractors Manual could be completed as a reference for RurAL CAP to follow when writing the scope of work for mobile home repairs.

“DHHS has the authority to amend the agreement and given the slow start up of this project, chose to do so. Nevertheless, DHHS will ensure that all program materials

necessary to implement a program are either completed prior to issuing a request for proposal or the materials needed to be developed for program implementation are made part of the proposal.”

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

2. **Construction Contracts Not Executed.**

- a. **Finding.** Rehabilitation construction contracts were not executed by RurAL CAP with their contractors hired to perform the mobile home repairs for all five of the tested projects. The Mobile Home Repair Program Policy and Procedure Manual (P&P Manual) states that RurAL CAP is to execute the rehabilitation construction contracts with contractors hired to perform work. The construction contract, called the Mobile Home Repair Program Rehabilitation Construction Contract, clarifies the roles of the parties and has essential provisions such as compensation, conduct of work, liability and indemnity, warranty of construction, and dispute resolution.
- b. **Recommendation.** The Contract Administrator should ensure that RurAL CAP executes mobile home repair contracts with its contractors are executed for each project before proceeding with the repairs.
- c. **Management Comments.** Management concurred and stated, “DHHS agrees with Finding #2. The MHRP Contactor’s Handbook will be revised at Section VIII: Contract Execution to clarify allowable HUD contracting procedures.

“HUD regulations and Federal OMB Circulars do not require RurAL CAP to award a contractual agreement. Instead of executing a contract, RurAL CAP followed allowable HUD procedures and issued a Notice to Proceed to each contractor who

submitted bid for a MHRP homeowner projects. Copies of the Notice to Proceed are in each of the five MHRP client files.”

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

3. **Debarment Verifications Not Performed.**

- a. **Finding.** RurAL CAP did not check subcontractors for debarment for all five of the tested projects. The Agreement states that the RurAL CAP will check not only contractors, but also subcontractors for debarment. In addition, the Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion was not completed and signed by the subcontractors as required by the Mobile Home Repair Program Rehabilitation Construction Contract.
- b. **Recommendation.** The Contract Administrator should ensure that the debarment verification and certification requirements are met for all of RurAL CAP’s contractors and subcontractors.
- c. **Management Comments.** Management concurred and stated, “DHHS agrees with Finding #3. The DHHS MHRP client files did not have a copy of the certification forms or SAM System printouts for the two subcontractors at the time of the Internal Auditor’s review. These documents were completed by RurAL CAP during the Internal Audit and are now in the DHHS files.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Contracts Not Submitted for Approval.**

a. **Finding.** Contracts to perform the repair work for all five tested projects were not submitted by RurAL CAP to the Municipality for review and approval as required by the Agreement. The Agreement states that each mobile home repair contract exceeding \$2,500 is subject to review and approval by the Municipal designee before it is executed by RurAL CAP. All of the mobile home repairs exceeded \$2,500.

b. **Recommendation.** The Contract Administrator should ensure that RurAL CAP's mobile home repair contracts above the threshold amount are submitted for review and approval by the Municipal designee before proceeding with the repairs.

c. **Management Comments.** Management concurred and stated, "DHHS agrees with Finding #4 and will work with the Purchasing Department to consider removing this provision from new construction and rehabilitation agreements.

"DHHS minimized the risk for contracts exceeding \$2,500 through the contracting requirements identified in the program policies and procedures. Under the procedures, RurAL CAP provides DHHS with copies of mobile home repair bids, the scope of work to be performed, the pre-bid conference attendance sheets, the bids submitted by the contractors and the bid ranking results. This documentation is submitted to DHHS when a client file is complete."

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

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Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials.

Audit Staff:
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