

INTERNAL AUDIT REPORT

2017-02

Anchorage Senior Activity Center:
Contract Administration

Department of Health and Human Services

January 11, 2017

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Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

January 11, 2017

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2017-02, Anchorage Senior Activity Center: Contract Administration, Department of Health and Human Services**. A brief summary of the report is presented below.

In accordance with the 2016 Audit Plan, we have completed an audit of the Anchorage Senior Activity Center: Contract Administration at the Department of Health and Human Services. The objective of this audit was to determine whether the contract was administered effectively. To accomplish our objective, we reviewed the last four quarterly reports submitted by Anchorage-Age Center, Inc. to the Department of Health and Human Services from October 1, 2015, to September 30, 2016, as well as other reports required by the contract. We also evaluated other contractual clauses.

Our audit revealed that the administration and monitoring of the contract needs improvement. Specifically, some of the contractual goals and objectives appeared obsolete, unattainable, unreasonable, ambiguous, and difficult to measure. In addition, contractual requirements regarding subcontractor approval and facility space rental approval appeared ambiguous and unreasonable.

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

Michael Chadwick, CIA, CICA
Acting Director, Internal Audit



Municipality of Anchorage

Ethan Berkowitz, Mayor

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Anchorage Senior Activity Center: Contract Administration Department of Health and Human Services

Introduction. The Department of Health and Human Services (Department) has contracted out the management and operation of the Anchorage Senior Activity Center (Center) to Anchorage-Age Center, Inc. (Contractor). The Contractor is a non-profit corporation whose mission is “to enhance the quality of life of Alaskans by promoting fitness, health and wellness, and social interaction.” The Municipality of Anchorage (Municipality) owns the facility and historically has provided partial funding of the operations through a contract. The Contractor is required to raise additional funds necessary to operate the Center. In 2016, the contract provided partial funding for utilities and eleven positions totaling \$525,700.

Objective and Scope. The objective of this audit was to determine whether the contract was administered effectively. To accomplish our objective, we reviewed the last four quarterly reports submitted by Contractor to the Department from October 1, 2015, to September 30, 2016, as well as other reports required by the contract. We also evaluated other contractual clauses.

We conducted this audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit was performed during the period of October through November 2016. The audit was requested by the Administration.

Overall Evaluation. The administration and monitoring of the contract needs improvement. Specifically, some of the contractual goals and objectives appeared obsolete, unattainable,

unreasonable, ambiguous, and difficult to measure. In addition, contractual requirements regarding subcontractor approval and facility space rental approval appeared ambiguous and unreasonable.

FINDINGS AND RECOMMENDATIONS

1. Some Goals and Objectives May Need Revision.

a. **Finding.** Some of the contractual goals and objectives appeared obsolete, unattainable, unreasonable, ambiguous, and difficult to measure. Specifically:

- *Obsolete Goals and Objectives* – Some of the goals and objectives no longer corresponded to current circumstances. For example, one of the objectives required the Contractor to, “Administer [the] on-site food distribution program to supplement the nutritional needs of 250 low income seniors per quarter with 190 unduplicated. Total for the year is 1000.” The Contractor had met the goal in the past because it administered two on-site food distribution programs: The Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFR). However, since the Contractor currently administers only one program, the CSFR, the Contractor’s current yearly capacity was limited to serving only 65 low income seniors. In addition, only when current recipients of the program stop meeting certain criteria, can they be replaced with new recipients on the program’s roster. Therefore, the requirement to have a stipulated number of unduplicated recipients was also no longer possible to achieve.
- *Unattainable and Unreasonable Goals and Objectives* – Some of the goals and objectives could not be reasonably achieved by the Contractor. For example, one of the objectives required the Contractor to “Increase the membership roster of the Anchorage Senior Center by 10% annually.” However, this

objective was difficult to achieve due to various reasons, such as 112 members passing away in 2015. In fact, the membership has been decreasing over the last few years. As of the third quarters of 2014, 2015, and 2016, the roster consisted of 1,977 members, 1,934 (a 2.2% decrease), and 1,745 (a 9.8% decrease) members respectively. In addition, the reasonableness of this objective is questionable due to its compounding effect. If the roster increased each year by 10 percent, the facility's current size may not be able to accommodate all of its members. To demonstrate, a 10 percent roster increase of an initial 2,000 person membership would result about 13,500 members after 20 years.

- *Ambiguous Goals and Objectives* – Some of the goals and objectives were ambiguous and could not be readily interpreted. For example, one of the objectives included the requirement to “Establish 8 monthly support groups that focus on a variety of health topics” However, it was not clear to the Contractor whether they had to create eight new support groups each month, if the support groups from the prior months had to be dismantled, or if the same support groups could continue.
- *Difficult to Measure Goals and Objectives* – Some of the goals and objectives could not be readily measured. For example, one of the objectives included the requirement that “25 seniors quarterly will demonstrate increased ability to measure blood sugar or blood pressure accurately. . . .” However, the Contractor was not sure how this “increased ability” could be determined.

- b. **Recommendation.** The Department Director should consider revising the goals and objectives stipulated in the contract so they align with current circumstances and are attainable, reasonable, understandable, and measurable.
- c. **Management Comments.** Management stated, “The Department agrees with Finding #1. Goals and objectives identified in the contract were developed by the Contractor

(General Manager and Board of Directors) to help the Contractor meet its mission ‘ . . . to enhance the quality of life of Alaskans by promoting fitness, health and wellness, and social interaction.’ It is clear from the quarterly narrative reports that the Contractor is meeting its mission.

“In the future, all goals and objectives will be reviewed with the Contractor as part of the annual contract renewal and amendment process. Obsolete or unmeasurable goals and objectives will be deleted from the contract and, if appropriate, new ones established. Program staff have already met with the General Manager and members of the Board of Director’s to establish measurable and meaningful goals for program year 2017. All goals and objectives that have been developed are attainable, reasonable, understandable and measurable.

“In addition to the quarterly narrative report, the Contractor will complete a brief report that summarizes the goals and objectives (Contract Amendment #2). This report will be reviewed by program staff and compared to the narrative report. Discrepancies between the two documents will be resolved prior to the disbursement of additional funds.”

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

2. **Some Contractual Clauses May Need Revision.**

- a. **Finding.** Contractual requirements regarding subcontractor approval and facility space rental approval appeared ambiguous and unreasonable. Specifically:
- *Ambiguous/Unreasonable Subcontractor Approval Requirement* – Per Section 15 of the contract, *Subcontracts*, “Every subcontract under which Anchor-Age

Center, Inc. delegates the provision of services shall be subject to review and approval by the Contract Administrator before it is executed by Anchor-Age Center, Inc.” However, per the Contractor, it was not clear what kind of subcontracts had to be reviewed and approved by the Contract Administrator. For example, it was unclear if a \$500 contract to provide entertainment and music for dances needed approval from the Contract Administrator. During the past three years, the Contractor entered into over 40 various subcontracts. In view of that, it appeared unreasonable to require that the Contractor gets every subcontract, regardless how incidental or immaterial, reviewed and approved by the Contract Administrator before its execution.

- *Ambiguous/Unreasonable Space Rental Approval Requirement* – Per Section 3.3 of the contract attachment, *Community Planning and Service Linkages*, “To the extent possible rent or provide space free of charge to other senior service providers if requested in order to better meet the needs of elders, subject to approval by the Administrator for the Municipality.” However, the contract was silent about space rentals to unrelated parties as a means to generate revenue. Accordingly, it was not clear if space rentals to unrelated parties were allowed and if the approval was required for such space rentals as well. During the past three years, the Contractor rented or provide space free of charge to other senior service providers and rented space to unrelated parties as a means to generate revenue more than 300 times and generated about \$83,000 of rental revenue. In addition, it appeared questionable to require that the Contractor gets every space rental approved by the Contract Administrator.

- b. **Recommendation.** The Department Director should ensure that subcontractor and space rental contractual clauses are understandable and reasonably attainable.
- c. **Management Comments.** Management stated, “The Department agrees with Finding #2. The Department funds approximately 15-20 percent of the senior center operation

and these funds are allocated to staff salaries, benefits and utility costs. The 2017 contract will be amended to clarify that only contracts pertaining to the use of municipal funds will require Department review.

“The Department intends to retain the clause allowing rent-free space to other service providers so that a variety of activities can be offered to senior citizens. The Contractor should also be allowed to continue renting portions of the facility to non-service providers as a way to generate additional revenue. The contract will be amended to remove pre-approval language for rental space.”

- 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 November 21, 2016.

Audit Staff:
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