

# INTERNAL AUDIT REPORT

2017-03

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## Anchorage Senior Activity Center: Contract Compliance

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 2017-03, Anchorage Senior Activity Center: Contract Compliance, 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 Compliance at the Department of Health and Human Services. The objective of this audit was to determine whether Anchorage-Age Center, Inc. complied with the contract requirements. 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 Anchorage-Age Center, Inc. had not complied with some of the contract's requirements. Specifically, our review of the last four quarterly reports revealed that Anchorage-Age Center, Inc.'s reported performance was not measured against contractual goals and objectives. In addition, quarterly reports submitted by Anchorage-Age Center, Inc. to the Contract Administrator needed improvement. Furthermore, Anchorage-Age Center, Inc. did not comply with all of the yearly and monthly reporting requirements stipulated in the contract. Finally, contractual requirements regarding fixed asset reporting, subcontractor approval, and space rental approval were not met.

There were four 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

Internal Audit Department

January 11, 2017

**Internal Audit Report 2017-03**  
**Anchorage Senior Activity Center: Contract Compliance**  
**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 has historically 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 Contractor complied with the contract requirements. 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 Contractor had not complied with some of the contract’s requirements. Specifically, our review of the last four quarterly reports revealed that the Contractor’s reported

performance was not measured against contractual goals and objectives. In addition, quarterly reports submitted by the Contractor to the Contract Administrator needed improvement. Furthermore, the Contractor did not comply with all of the yearly and monthly reporting requirements stipulated in the contract. Finally, contractual requirements regarding fixed asset reporting, subcontractor approval, and space rental approval were not met.

## FINDINGS AND RECOMMENDATIONS

### 1. Performance Not Measured Against Goals and Objectives.

- a. **Finding.** Our review of the last four quarterly reports revealed that the Contractor's reported performance was not measured against contractual goals and objectives. Section 3.8 of the contract attachment, *Project Reporting*, states that the Contractor must submit to the Contract Administrator a "Quarterly program activity report on progress in meeting stated goals and objectives." In addition, the presentation of the reported information could not be readily evaluated against the contractual goals and objectives. For example:
  - *Narrative Format Did Not Facilitate the Evaluation* – Some of the Contractor activities were presented in a narrative format that did not facilitate performance appraisal against the goals and objectives. For example, one of the objectives included the requirement to "Provide a comprehensive selection of educational classes and workshops for a minimum of 100 seniors relating to healthy food and nutrition." The quarterly goal was 25 seniors. However, the corresponding narrative under the heading *Mountain-Pacific Quality Health, Diabetic Education Empowerment Program* in the quarterly program activity reports described the past classes related to the objective and the periods when the classes were held and when the classes will be held in the future. However,

no information about the number of attendees of these classes was found in these quarterly program activity reports.

- *Statistical Report Structure Did Not Facilitate the Evaluation* – While the quarterly program activity reports presented statistics of classes, events, and other various activities, it was not apparent how the reported line items related to the goals and objectives stipulated in the contract. Some of these line items were presented in broad categories, which encompassed classes, events, and other various activities attributable to different goals and objectives. For example, reported numbers in the statistical reports under the broad line item called *Program* actually included activities related to three different objectives: cultural, educational, and recreational. Other broad line items, such as *Cultural Event*, *Social Event*, *Public Service*, and *Recreation*, also included line items that related to these three different objectives. Accordingly, extensive regrouping and recalculation would have been needed to determine the progress in meeting the corresponding objectives. In addition, some of the broad line items in the statistics encompassed data not related to the contractual goals and objectives. For example, the line item *Social Event* encompassed the number of lunches served in the kitchen during the reported quarter.
- *Statistical Report Headings Did Not Facilitate the Evaluation* – Columns of the statistics presented in the program activity reports contained headings *Duplicated* and *Unduplicated* with no explanation provided of what they meant. Accordingly, it was not clear what the reported numbers meant.

- b. **Recommendation.** The Contract Administrator should ensure that performance results are collected, compiled, and presented in a way that facilitates measurement against the goals and objectives stipulated in the contract.

- c. **Management Comments.** Management stated, “The Department agrees with Finding 1. The Contractor’s quarterly reports, while informative, were 100 to 150 pages in length and did not follow the format identified in the contract. This contract is up for renewal in January 2017 and the Contract Administrator is currently working with the Contractor to establish performance measurements that will comply with this recommendation. The quarterly report instructions will require that each performance measurement be restated, provide a numeric value associated with the measurement, followed by a brief narrative regarding activities taken to meet the measurement. The report will be reviewed by the Contract Administrator and any discrepancies 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. **Quarterly Reporting Needs Improvement.**

- a. **Finding.** Quarterly reports submitted by the Contractor to the Contract Administrator needed improvement. Specifically, our review of the last four quarterly reports revealed that some performance statistics were presented for the wrong periods and some financial information reported was incomplete.
- *Statistics Presented for Wrong Periods* – Two of the four quarterly reports mistakenly presented statistics for different time periods than the periods reported. For example, the 2016 second quarter report presented statistical data for the period 04/01/2013 – 06/30/2014 instead of 04/01/2016 – 06/30/2016.
  - *Incomplete Financial Information Reported* – Financial information presented in the quarterly reports did not include all of the months for the periods reported. For example, financial statements of the last month under each of the

reported quarterly periods were not included in all of the quarterly reports reviewed. The financial statements for the missing months were also not included in the subsequent quarterly reports. However, per Section 3.8 of the contract attachment, each quarter the Contractor must submit to the Contract Administrator a “Monthly income and expense statement showing monthly and year to date financial information by program and by funding source.”

- b. **Recommendation.** The Contract Administrator should ensure that quarterly reporting is accurate and complete.
  
- c. **Management Comments.** Management stated, “The Department agrees with Finding 2. As noted in the Management Comments to Finding 1, the Contract Administrator will review the quarterly report and discuss any reporting issues with the Contractor so they can be corrected in a timely manner. The report template will include a signature section for the Contract Administrator to indicate that the report was reviewed and approved. No funds will be disbursed without the Contract Administrator documenting evidence of approval.”
  
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Yearly and Monthly Reporting Needs Improvement.**

- a. **Finding.** The Contractor did not comply with all of the yearly and monthly reporting requirements stipulated in the contract. Specifically:
  - *Operations Plans Not Submitted* – Operations Plans that were to be provided on an annual basis by January 30 and were subject to approval by the Municipality were not submitted by the Contractor to the Contract

Administrator. Per the contract, the Operations Plans must include: 1) an administrative plan; 2) a program, services, and community relations plan; 3) a revenue-generating plan; 4) a fire, safety, and security plan; and 5) a facility use plan.

- *Income and Expense Statements Not Submitted* – Income and Expense Statements that were to be reported on a monthly basis were not submitted by the Contractor to the Contract Administrator. The contract requires that these reports be provided “Within thirty (30) days of commencement of contract and monthly thereafter.”

b. **Recommendation.** The Contract Administrator should ensure that all of the reporting requirements stipulated in the contract are met.

c. **Management Comments.** Management stated, “The Department agrees with Finding 3. As previously noted, during the 2017 contract preparation, the entire contract is being reviewed and requirements for the submission of documents will be evaluated to eliminate any unnecessary documentation. Additionally, the Contract Administrator will conduct an on-site monitoring review annually.

“In addition to the review of the quarterly reports, the monitoring review will help to ensure compliance with all provisions of the contract. To facilitate the monitoring review and ensure all contract deliverables are provided by the Contractor, the Contract Administrator will review the contract in its entirety and develop a Monitoring Checklist to identify all contract deliverables. The draft Monitoring Review Report will be discussed with the Contractor prior to finalization by the Contract Administrator.”



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

4. **Some Reporting/Approval Requirements Not Met.**

- a. **Finding.** Contractual requirements regarding fixed asset reporting, subcontractor approval, and space rental approval were not met. Specifically:
- *Fixed Assets Not Reported* – The inventoried fixed asset listing was not submitted to the Contract Administrator. Per Section 9 of the contract, *Ownership: Publication, Reproduction and Use of Material*, “Equipment purchased by Anchor-Age Center, Inc. with contract funds shall be the sole property of the Municipality marked and inventoried as such with a copy of the inventory forwarded to the Municipality.”
  - *Subcontractors Not Approved* – Subcontracts were not submitted to the Contract Administrator for approval. 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 Administrator before it is executed by Anchor-Age Center, Inc.”
  - *Space Rentals Not Approved* – Space rentals were not approved by the Contract Administrator. 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.”

- b. **Recommendation.** The Contract Administrator should ensure that the Contractor complies with all of the contractual requirements regarding fixed assets, subcontractors, and space rentals.
  
- c. **Management Comments.** Management stated, “The Department agrees with Finding 4. The new review process for quarterly reports and the annual monitoring review will help ensure that the Contract Administrator complies with this recommendation. Part of the monitoring review will be obtaining an inventory of equipment purchased for the senior center with municipal funds.

“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 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.

“With respect to approval of subcontracts by the Contract Administrator, 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 Contract Administrator approval.”

- 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.

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