

October 30, 2003

**Internal Audit Report 2003-12
Recycling Challenge Grant
Solid Waste Services**

Introduction. The Municipality of Anchorage is challenging businesses, organizations, and individuals to identify and implement results-oriented projects to reduce and recycle waste generated within the community. Projects that address waste reduction, recycling and reuse of secondary materials are eligible for the Waste Reduction and Recycling Challenge Grant Program administered by Solid Waste Services. Under the Challenge Grant Program, Solid Waste Services awarded a matching grant of \$55,000 to Green Star, Inc. for an Electronics Recycling event in May 2003. This event generated over 280,000 pounds of recyclable electronics, such as computers, monitors, and televisions. In addition, Solid Waste Services awarded a matching grant of \$15,000 to Alaskans for Litter Prevention and Recycling (ALPAR) for the 2002/2003 Christmas Tree Recycling program. This program recycled over 10,000 trees.

Objective and Scope. The objective of this audit was to determine whether the grant recipients, Green Star, Inc., and ALPAR, have complied with the grant contract requirements, specifically, whether: (1) the required match has been met as specified by the grant contract, and (2) Municipal funds have been spent only for grant purposes. 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 month of September 2003. The audit was requested by the Administration.

Overall Evaluation. Although Municipal grant funds were spent for grant purposes, we found that Green Star's in-kind contributions listed in the final project budget report were not adequately supported. We also found that Green Star may have overvalued its matching portion of the grant

when it used a 208 percent overhead rate. As a result, reported expenditures may be in error and the “dollar-for-dollar” required match may be misreported. Moreover, we identified inconsistencies with Green Star’s grant agreement and found that ALPAR’s project budget report showing actual expenditures did not comply with the grant agreement. However, we found that ALPAR’s expenditures were appropriately supported and the required “dollar-for-dollar” match was met.

FINDINGS AND RECOMMENDATIONS

1. In-Kind Contributions Not Adequately Supported.

a. Finding. Several of Green Star’s in-kind contributions listed in the final project budget report were not adequately supported. Consequently, they may have misreported their contribution for the required “dollar-for-dollar” match of grant funds. For example:

- 1) ***Estimated Values Not Documented*** - When establishing in-kind values for publicity/outreach, pallets, transportation and forklifts, Green Star used estimates and had no documentation showing how these estimates were determined. Section 6 of the Municipality of Anchorage Grant Agreement states: “The Grantee shall establish and maintain a financial management system including: A. Effective control over and accountability for all project funds (including in-kind contributions) C. Accounting records which are supported by source documentation.”

- 2) ***Volunteer Labor Charges Not Supported*** - Green Star was unable to provide adequate support for the \$12,000 claimed in volunteer labor charges. Green Star claimed 1,200 volunteer labor hours at a rate of \$10 per hour. However, most of these hours could not be supported by appropriate documentation. For example, to support 620 volunteer hours worked by 124 volunteers, Green Star provided spreadsheets showing each volunteer’s name. When

volunteers arrived to work, an “X” was placed next to their name on the spreadsheets. However, we counted only 86 volunteers on these spreadsheets. In addition, Green Star was unable to tell us how long these volunteers actually worked since no log was kept to indicate when volunteers arrived and left. Green Star did state that some volunteers worked longer hours than indicated on the spreadsheets because the event generated more recyclable material than anticipated, but could not document these hours.

- b. **Recommendation.** Solid Waste Services should periodically review/monitor grantee files for appropriate supporting documentation. In addition, Solid Waste Services should require grantees to establish control over and accountability of in-kind project contributions, or eliminate the requirement for an in-kind match in future grants.

- c. **Management Comments.** Management stated, “SWS concurs with the finding. Due to the nature of the grant, historically, grantees have used significant in-kind expenses in their project estimates. SWS agrees with the Audit recommendation regarding the grant format. As part of future grants, in-kind expenses have been excluded from the project cost estimates for grant funding. This will be effective with the 2004 proposed grant program.”

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

2. **Overhead Rate Not Clearly Supported.**

- a. **Finding.** We were not provided clear documentation to support the 208 percent overhead rate Green Star used to determine its indirect labor costs. As a result, Green Star may have overvalued its indirect labor costs, and consequently, overvalued its matching portion of the grant. According to the Alliance for

Nonprofit Management, there are no standards or maximum levels for overhead rates. However, some guidelines allow indirect costs ranging from 3 percent to 70 percent.

- b. **Recommendation.** Solid Waste Services should review labor charges in grant proposals to determine if they seem reasonable.

- c. **Management Comments.** Management stated, “SWS concurs with the audit findings although it should be noted that even with the typical guidelines, overhead values as presented by Greenstar are certainly possible. As part of the grant proposal selection process, the review committee does raise questions when estimates seem abnormal. Although costs may seem abnormal at the proposal stage, the selection committee recognizes that each proposer is subject to an audit and that costs presented must be justified. SWS and the selection committee will continue to scrutinize abnormal labor rates in future proposals.”

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

3. **Grant Agreement Inconsistent.**

- a. **Finding.** Our review found that the grant agreement with Green Star contained a budget that did not agree with the actual grant award. Specifically, Green Star was awarded a \$55,000 grant, but the project budget report in Appendix A, which was part of the grant agreement, shows grant funding totaling \$66,674. Since the project budget report was inaccurate, we could not determine if grant funds were appropriately spent.

- b. **Recommendation.** Solid Waste Services should ensure that future grants contain a budget based on the final grant award.

- c. **Management Comments.** Management stated, “SWS concurs that the project budget report submitted in Appendix A differs from the grant award. In this case, the selection committee under funded the project in order to fund other proposals. As such it was up to the grantee to continue the project at the funded level. The original funds requested were based on estimates that assume full funding. In either case, the underlying conditions are that any funds should be used as outlined in the proposal and that the 50-50 match criterion is met. SWS will endeavor to have the proposers revise cost estimates based on the awarded funding prior to finalizing the grant agreement for future grants.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Final Budget Reports Not Checked for Compliance.**

- a. **Finding.** The Grant Administrator did not ensure that the project budget report showing the actual use of Municipal grant funds, required by Appendix B, agreed with Appendix A of the grant agreement showing the required use of the funds. For example, ALPAR did not include any grant funds for labor in Appendix A of the grant agreement. However, ALPAR’s project budget report in Appendix B shows that they spent \$1,694 of the grant funds for labor.
- b. **Recommendation.** Solid Waste Services should ensure that grantees comply with the budget requirements contained in Appendix A of the grant agreement. If Solid Waste Services does not want to enforce this requirement, then they should not be so restrictive in their grant agreements.
- c. **Management Comments.** Management stated, “SWS concurs with this finding. SWS agrees that the final budget report does not match the proposed estimate, but the dollars granted and expensed are in accordance with the 50-50 matching fund

requirement and were spent on items described within the original proposal as required by Section 3A of the grant agreement. As part of future grants, total expected budget as well as the scope of services description will be used to ensure that the project funds are expended for services depicted within the proposal. This will be effective with the 2004 proposed grant program.”

- 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 September 22, 2003.

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