

INTERNAL AUDIT REPORT

2020-11

Mountain View Community Center

Parks and Recreation Department

December 10, 2020

MUNICIPALITY OF ANCHORAGE
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Municipality of Anchorage

Austin Quinn-Davidson
Acting Mayor

December 10, 2020

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2020-11, Mountain View Community Center, Parks and Recreation Department**. A brief summary of the report is presented below.

In accordance with the 2020 Audit Plan, we have completed an audit of the Mountain View Community Center. The objective of this audit was to determine whether the Boys and Girls Clubs of Southcentral Alaska managed and operated the Mountain View Community Center in accordance with the terms of the grant contract. Specifically, we determined whether Municipal grant funds were spent only for grant purposes, reviewed expenditures and budgets, and reviewed Mountain View Community Center operations, procedures, and records.

Our audit revealed that the Boys and Girls Clubs of Southcentral Alaska did not manage and operate the Mountain View Community Center in accordance with the terms of the grant contract. Specifically, the Boys and Girls Clubs of Southcentral Alaska commingled Municipal grant funds for the Mountain View Community Center with other funding sources and had not established a budget for Municipal grant fund expenditures. Furthermore, our review of the Mountain View Community Center's 2019 transactions revealed \$13,318 in questionable bonuses and related expenses charged to the Municipal grant account for seven Mountain View Community Center employees. Finally, the Boys and Girls Clubs of Southcentral Alaska did not obtain prior written approval from the Parks and Recreation Department before using Municipal grant funds to pay for its indirect charges, did not obtain three competitive price quotes for purchases over \$500 as required by the grant contract, and did not maintain an inventory list of equipment purchased with Municipal grant funds.

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

Michael Chadwick, CIA, CICA
Director, Internal Audit



Municipality of Anchorage

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Internal Audit Report 2020-11 Mountain View Community Center Parks and Recreation Department

Introduction. The Mountain View Community Center (Center) is funded in part by a grant from the Municipality of Anchorage (Municipality). This grant is administered by the Parks and Recreation Department (Grant Administrator). According to the grant contract, “The goal of the grant is to provide management services by the Boys and Girls Clubs of Southcentral Alaska at the Mountain View Recreation Center to engage youth, adults, and families in positive activities and programs that build individual and community strength.” In 2019, the Municipality transferred to the Boys and Girls Clubs of Southcentral Alaska (Boys & Girls Club) \$375,250 for management of the Center. The Boys & Girls Club provides numerous programs and activities at the Center for children of all ages including homework assistance, a commercial kitchen with a lunchroom, a teens-only room, a television area, a gym, a technology lab, a music room, a recording studio, an art room, and a snack shack run by the teen members.

Objective and Scope. The objective of this audit was to determine whether the Boys & Girls Club managed and operated the Center in accordance with the terms of the grant contract. Specifically, we determined whether Municipal grant funds were spent only for grant purposes, reviewed expenditures and budgets, and reviewed Center operations, procedures, and records.

We conducted this performance 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 March through October 2020, including work stoppages

during this time when audit staff was temporarily assigned to the Municipality's Emergency Operations Center to assist with the response to the COVID-19 pandemic. The audit was requested by the Administration.

Overall Evaluation. The Boys & Girls Club did not manage and operate the Center in accordance with the terms of the grant contract. Specifically, the Boys & Girls Club comingled Municipal grant funds for the Center with other funding sources and had not established a budget for Municipal grant fund expenditures. Furthermore, our review of the Center's 2019 transactions revealed \$13,318 in questionable bonuses and related expenses charged to the Municipal grant account for seven Center employees. Finally, the Boys & Girls Club did not obtain prior written approval from the Grant Administrator before using Municipal grant funds to pay for its indirect charges, did not obtain three competitive price quotes for purchases over \$500 as required by the grant contract, and did not maintain an inventory list of equipment purchased with Municipal grant funds.

FINDINGS AND RECOMMENDATIONS

1. Funds Comingled.

- a. Finding.** The Boys & Girls Club comingled Municipal grant funds for the Center with other funding sources. Specifically, in 2019, the Boys & Girls Club had \$396,132 in Center expenditures recorded to the Municipality's grant account in their accounting system, exceeding the \$375,250 Municipal grant by \$20,882. As a result, it was difficult to determine which expenditures were made using Municipal grant funds and which were from the Center's other funding sources. Part 1, Section 12, *Financial Management System*, of the grant contract states that "Grantee shall establish and maintain a financial management system including . . . Effective control over and accountability for all grant funds . . .". When asked where the funding for the excess expenditures came from, Boys & Girls Club management stated that "The expenses in excess of the contract award were funded by General Funds (i.e. generated by

fundraising, other program fees from our Athletics or Licensed Childcare operations, cash reserves, etc.).”

- b. **Recommendation.** The Grant Administrator should direct the Boys & Girls Club to discontinue comingling expenditures between Municipal grant funds and the Center’s other funding sources.

- c. **Management Comments.** Management stated, “Concur. The Grants Administrator will verify the Grantee has established a separate account within their financial institution in which they have a stronger control of the funds before the 2021 grant agreement is awarded.”

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

2. **Grant Budget Not Established.**

- a. **Finding.** The Boys & Girls Club had not established a budget for Municipal grant fund expenditures. Specifically, when we reviewed the Center’s 2019 Statement of Activity there were no amounts entered in the budget categories. As a result, we were unable to compare actual expenditures to budgeted amounts to determine if expenses were appropriately managed. Part 1, Section 12 of the grant contract states that the “Grantee shall establish and maintain a financial management system including . . . Maintain a grant (source) fund accounting system and accounting records, which is supported by source documentation including a comparison of actual expenditures to budgeted amounts.”

- b. **Recommendation.** The Grant Administrator should ensure that the Boys & Girls Club provides a budget for Municipal grant fund expenditures as required by the grant contract.

- c. **Management Comments.** Management stated, “Concur. The Grants Administrator will work with the Grantee to establish a budget before the 2021 grant agreement is awarded.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Questionable Employee Bonuses.**

- a. **Finding.** Our review of the Center’s 2019 transactions revealed \$13,318 in questionable bonuses and related expenses charged to the Municipal grant account for seven Center employees. According to the Federal Office of Management and Budget, Circular Number A-122, *Cost Principles for Non-Profit Organizations*, “In determining the reasonableness of a given cost, consideration shall be given to . . . Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.” For that reason, using Municipal grant funds to pay employee bonuses did not appear as ordinary and necessary for the operations of the organization or the performance of the award.
- b. **Recommendation.** The Grant Administrator should periodically review the Center’s expenses for questionable expenditures with Municipal grant funds and seek reimbursement if the expense(s) is determined to be unallowable.
- c. **Management Comments.** Management stated, “Concur. The Grants Administrator will remind the Grantee of the unallowable expenditures identified in the grant agreement. Due to the comingling of the grant funds, it is unclear what funds were used for the bonuses disbursed in 2019. By creating a separate account for the grant funds, it will eliminate the ambiguity and make it more transparent of any transaction in violation of the grant agreement. The Grant Administrator will follow up with the Grantee quarterly to verify compliance with the 2021 grant agreement.”

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

4. **Prior Written Approval Not Obtained for Indirect Charges.**

- a. **Finding.** The Boys & Girls Club did not obtain prior written approval from the Grant Administrator before using Municipal grant funds to pay for its indirect charges. Specifically, in 2019, the Center spent over \$39,000 in Municipal grant funds on indirect costs including: Administration, Finance, and Human Resources. Part 1, Section 4, *Use of Grant Funds; Scope of Expenses*, of the grant contract states that “Written approval must be obtained from Grantor prior to expending grant funds for . . . Indirect rate or overhead charges.”
- b. **Recommendation.** The Grant Administrator should ensure that the Boys & Girls Club receives prior written approval for indirect charges as required by the grant contract.
- c. **Management Comments.** Management stated, “Concur. The Grant Administrator will reinforce this requirement with the Grantee. The 2021 grant agreement will be amended to allow for email approval from the Grant Administrator for any expenditure requiring prior approval. The Grant Administrator will follow up quarterly with the Grantee to verify compliance with the 2021 grant agreement.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Purchases Made Without Three Competitive Price Quotes.**

- a. **Finding.** The Boys & Girls Club did not obtain three competitive price quotes for purchases over \$500 as required by the grant contract. For example, three competitive

quotes were not obtained for the following purchases: three purchases for studded tires and vehicle repairs totaling \$4,577; four purchases for maintenance services totaling \$4,554; and five purchases for audit services totaling \$4,307. In addition, when supporting documentation was provided for a \$2,085 material purchase, as part of a remodeling project, it consisted of only one receipt for the purchase, one full price quote, and one partial price quote. Moreover, it appeared that the two price quotes were dated after the purchase was made. Part 1, Section 4 of the grant contract states that “For purchases of non-expendable personal property, or for the award of an agreement with a value of \$500 or more, the Grantee will require three competitive price quotations from three potential suppliers; and . . . Grantee will retain written records of price quotations, and will include in the written records the written specifications of: suppliers’ names, addresses, and prices quoted.” Further, the Boys & Girls Clubs-Alaska, Finance Policies and Procedures: Procurement, states that “Any purchase funded via the Municipality of Anchorage requires a bid process at \$500 or above.”

- b. **Recommendation.** The Grant Administrator should ensure that the Boys & Girls Club obtains three competitive price quotes for items or contracts over \$500 purchased with Municipal grant funds as required by the grant contract. In addition, the price quotes should contain the required information outlined in Part 1, Section 4.D. and should be retained in the records per the grant contract.

- c. **Management Comments.** Management stated, “Concur. The Grant Administrator will remind the Grantee of the competitive bidding process for expenditures over a specified monetary value in the 2021 grant agreement. A written process will be developed for these specific purchases and enforced by the Grant Administrator for all expenditures in the 2021 grant period of performance. The Grant Administrator will follow up quarterly with the Grantee to verify compliance with the 2021 grant agreement.”

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

6. **Inventory List Not Maintained for Equipment Purchased with Grant Funds.**

- a. **Finding.** The Boys & Girls Club did not maintain an inventory list of equipment purchased with Municipal grant funds. As a result, we could not determine if the Boys & Girls Club had marked and inventoried equipment purchased with Municipal grant funds. Part 1, Section 17.B., *Ownership; Publication, Reproduction, and Use of Material*, of the grant contract states, “Equipment purchased by Grantee with grant funds shall be the sole property of Grantor, and shall be marked and inventoried in accordance with Municipal Policies and Procedures, and submitted to the Grant Administrator with quarterly and annual reports.” In addition, Municipal Policy and Procedure 24-13, *Fixed Asset and Infrastructure Accountability*, requires that Municipal assets over \$500 be tagged. According to Boys & Girls Club management, they are working on putting together an inventory list.
- b. **Recommendation.** The Grant Administrator should ensure that the Boys & Girls Club submits an inventory list as required by the grant contract. Additionally, the Grant Administrator should ensure that all assets over \$500 purchased with Municipal grant funds be marked accordingly.
- c. **Management Comments.** Management stated, “Concur. The Grant Administrator will work with the Grantee to establish an inventory control process in line with the competitive bidding process for all assets over a specified monetary value in the 2021 grant agreement. The Grant Administrator will follow up quarterly with the Grantee to verify compliance with the 2021 grant agreement.”
- 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 on October 28, 2020.

Audit Staff:
Dalton Benson