

INTERNAL AUDIT REPORT

2022-05

Chugiak-Eagle River Senior Center
Contract Compliance

Anchorage Health Department

August 18, 2022

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MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

August 18, 2022

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2022-05, Chugiak-Eagle River Senior Center Contract Compliance**. A summary of the report is presented below.

In accordance with the 2022 Audit Plan, we have completed an audit of the Chugiak-Eagle River Senior Center Contract Compliance. The objective of this audit was to determine whether Chugiak Senior Citizens, Inc. complied with the contract requirements to operate the Chugiak-Eagle River Senior Center. To accomplish our objective we reviewed annual, quarterly, and monthly reports submitted by Chugiak Senior Citizens, Inc. to the Anchorage Health Department for the period covering January 2021 to March 2022 to determine completeness and timeliness of submission. We also reviewed 2022 insurance documents, compared 2021 contract budget categories to actual expenditures, reviewed subcontracts, reviewed maintenance and repair invoices, and reviewed the Leaseholder Improvement Reserve Account requirements.

Our audit revealed that management of the contract can be improved. Specifically, the amount paid to Chugiak Senior Citizens, Inc. exceeded the amount submitted for reimbursement by \$3,242. Moreover, Chugiak Senior Citizens, Inc. did not always comply with some of the contract's financial information reporting requirements and did not satisfy one of the contract's insurance requirements. Furthermore, Chugiak Senior Citizens, Inc. did not comply with contract requirements regarding the Leaseholder Improvement Reserve Account. Finally, the Municipality of Anchorage paid for some maintenance and repair expenses that were not its responsibility.

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

Michael Chadwick, CIA, CICA
Director, Internal Audit



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Internal Audit Report 2022-05
Chugiak-Eagle River Senior Center Contract Compliance
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Introduction. The Municipality of Anchorage (Municipality) has contracted out the management and operation of the Chugiak-Eagle River Senior Center (Center) to Chugiak Senior Citizens, Inc. (Contractor). The contract is administered by the Anchorage Health Department (Department). The Contractor is a nonprofit corporation that manages the Center "...to provide quality services and facilities to meet the needs of seniors in our community through effective stewardship and program development." The Municipality of Anchorage owns the facilities¹, grounds, and parking areas of the 42-unit independent living apartments and the 20-unit assisted living apartment complex and has historically provided partial operational funding through the contract. The Contractor may provide, at its own expense, other services to operate the Center. The total contract amount for 2021 was \$340,000 which provided funding for insurance premiums, health insurance payments, and healthcare software. The total contract amount for 2022 is \$320,000.

Objective and Scope. The objective of this audit was to determine whether the Contractor complied with the contract requirements to operate the Center. To accomplish our objective we reviewed annual, quarterly, and monthly reports submitted by the Contractor to the Department for the period covering January 2021 to March 2022 to determine completeness and timeliness of submission. We also reviewed 2022 insurance documents, compared 2021 contract budget categories to actual expenditures, reviewed subcontracts, reviewed maintenance and repair invoices, and reviewed the Leaseholder Improvement Reserve Account (Reserve Account) requirements.

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

¹The Contractor also manages a 20-unit affordable housing complex on the same property that was funded by the United States Department of Housing and Urban Development.

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.

Overall Evaluation. Management of the contract can be improved. Specifically, the amount paid to the Contractor exceeded the amount submitted for reimbursement by \$3,242. Moreover, the Contractor did not always comply with some of the contract's financial information reporting requirements and did not satisfy one of the contract's insurance requirements. Furthermore, the Contractor did not comply with contract requirements regarding the Reserve Account. Finally, the Municipality paid for some maintenance and repair expenses that were not its responsibility.

FINDINGS AND RECOMMENDATIONS

1. **Contractor Overpaid for Contract Services.**

- a. **Finding.** The amount paid to the Contractor exceeded the amount submitted for reimbursement by \$3,242. Specifically, in 2021 the Contractor was paid \$325,864 for management and operation of the Center. Although the Contractor spent \$327,925 on eligible expenses in 2021, they only claimed \$322,622 in 2021 according to quarterly financial reports submitted by the Contractor. This overpayment was the result of 2021 quarterly report amounts being inaccurately tracked on an internal spreadsheet.
- b. **Recommendation.** The Contract Administrator should request from the Contractor the \$3,242 overpayment. In addition, the Contract Administrator should ensure that internal spreadsheets are reconciled to reimbursement requests.
- c. **Management Comments.** Management stated, "Management concurs with the finding that an overpayment of \$3,242 was made to the Contractor in 2021 due to an internal tracking error. The Contract Administrator moved the contract from an advance payment basis to a reimbursement basis for 2022, which reduces the chance of similar

errors occurring. The Contract Administrator has taken corrective action by requesting the Contractor either submit a reimbursement request for the \$3,242 with proof of eligible 2021 expenses or return the overpayment.”

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

2. **Financial Reporting Requirements Not Always Met.**

- a. **Finding.** Chugiak Senior Citizens, Inc. did not always comply with some of the contract’s financial information reporting requirements. According to Amendment Number Seven of the contract, effective January 2022, “To receive payment, the Contractor shall complete the monthly Financial Report Form provided by the Administrator and submit it to the attention of the Program manager and Administrator at the Anchorage Health Department. The monthly Financial Report Form is due no later than the final day of the month following the period covered by the report.” Despite many reminders from the Department, the Contractor failed to timely submit the reports two out of three months during the first quarter 2022. For example, the monthly financial report for January 2022 was due on February 28, 2022. However, it was not submitted until March 16, 2022, 16 days late. In another case, the monthly financial report for March 2022 was due on April 30, 2022. However, it was not submitted until May 20, 2022, 20 days late. As a note, in 2021 the contract did not specify a due date for these reports.

Despite repeated reminders from the Department requesting these reports, the Contractor has consistently submitted them late. The contract does not contain a financial penalty clause if these reports are not submitted timely. We found another Department contract contains a penalty clause for unsatisfactory performance. Specifically, the Animal Care and Control Services contract states that “Anchorage shall retain twenty-five (25) percent of the completed contract final month’s payment

until all services, data rights, reports, work in progress, and inventory are provided to and accepted by Anchorage.”

- b. **Recommendation.** The Anchorage Health Department Director should consider adding a financial penalty clause to the contract to help ensure that the monthly Financial Report is submitted timely by the Contractor.
- c. **Management Comments.** Management stated, “Management concurs with the finding that financial reporting from the Contractor is often submitted past the deadline. Management will take corrective action by amending the contract to include a financial penalty clause for late or missing financial reports.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **One Insurance Requirement Not Met.**

- a. **Finding.** Chugiak Senior Citizens, Inc. did not satisfy one of the contract’s insurance requirements. Specifically, the Contractor’s workers compensation insurance did not have a waiver of subrogation against the Municipality as required by the contract. Amendment Number Five of the contract states that “General Liability, Workers Compensation, and Automobile policies shall be endorsed to waive all rights of subrogation against the Municipality of Anchorage by reason of any payment made for claims under the above coverage.” When we spoke with Center staff, one staff told us that the Contractor was not aware of this insurance requirement while another staff told us that it was not added because the staff person thought it was unusual to have this subrogation requirement for workers compensation.

- b. **Recommendation.** The Contract Administrator should ensure that the Contractor’s workers compensation insurance has a waiver of subrogation against the Municipality as required by the contract.

- c. **Management Comments.** Management stated, “Management concurs with the finding. The Contract Administrator has taken corrective action by ensuring the Contractor is aware of the requirement and by requesting a certificate of insurance with proof that the waiver of subrogation for workers compensation insurance requirement is met. The Contract Administrator has since received a certificate of insurance showing that this insurance requirement is met.”

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

4. **Requirements Not Complied With for the Reserve Account.**

- a. **Finding.** Chugiak Senior Citizens, Inc. did not comply with contract requirements regarding the Reserve Account. Specifically, according to the contract the Contractor must submit a Reserve Account plan to the Contract Administrator and Program Manager detailing how they intend to maintain the Reserve Account and should include the planned accumulation of reserve funds and any planned expenditure of funds. In addition, the amount of funding for the Reserve Account should include a deposit of five percent of the yearly net excess at the end of the year. Finally, the funding level is reviewed annually by the Contractor and Municipality, and it should not be reduced without approval from the Municipality.

However, the Contractor’s fiscal plan differed from the contract requirements stated above and instead stated that, “In compliance with the Municipality of Anchorage Contract, Chugiak-Eagle River Senior Center currently deposits a minimum amount equal to 3% of the monthly revenue generated by the rental fees collect [sic] from

independent living apartments located at Chugiak-Eagle River Senior Center. The amount collected is deposited each month no later than [sic] the 25th of each month in this designated reserve replacement account.” The Contractor’s fiscal plan also states that, “The balance of the Reserve Replacement account shall be maintained at a minimum of \$35,000.” According to Center management, this language was agreed upon between the previous Center’s management and the Municipality several years ago; however, there was no contract amendment incorporating these changes.

Moreover, we found that the Contractor made a deposit of \$3,500 in 2021 to the Account. As of March 2022, the Reserve Account balance was \$35,009. In 2019 and 2020, the Contractor did not make any deposits into the Reserve Account. To determine the accuracy of the 2021 deposit and to determine if additional deposits should have been made in 2019 and 2020 to the Reserve Account, we requested profit/loss statements from Center staff for 2019 through 2021. However, Center staff were unable to provide those statements to us and as of June 20, 2022, we had not received a profit/loss statement. (Please refer to “Other Pertinent Information” at the end of this report.)

- b. **Recommendation.** The Contract Administrator should ensure that the Center complies with the current contract language regarding the Reserve Account. In addition, the Anchorage Health Department Director should consider amending the contract to clarify Reserve Account practices.

- c. **Management Comments.** Management stated, “Management concurs with the finding that the Contractor has not complied with the requirements for the Reserve Account. The Contract Administrator will take corrective action by requesting Reserve Account statements, determining what amount needs to be deposited by the Contractor into the Reserve Account, and holding contract payments until the Contractor shows proof that the deposit requirements have been met.”

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

5. **Some Maintenance and Repair Invoices Need Reimbursement.**

- a. **Finding.** The Municipality of Anchorage paid for some maintenance and repair expenses that were not its responsibility. Specifically, in 2021 the Municipality paid a \$270 vendor invoice for an emergency alarm repair call-out that should have been the Contractor's responsibility to pay. Appendix D of the contract states that, "Repairs and equipment maintenance less than ONE THOUSAND DOLLARS (\$1,000) are the responsibility of the Contractor...". In addition, in 2022, there was a \$3,082 invoice for correcting deficiencies noted in an annual fire sprinkler inspection report. The Contractor paid the first \$1,000 as required by Appendix E of the contract; however, the Municipality still paid the entire \$3,082 instead of the remaining portion of \$2,082 because the vendor had applied the \$1,000 payment to the wrong account. The Contract Administrator stated that the Department does not monitor maintenance and repair invoices from the Contractor since these invoices are not spending contract funds and these invoices are handled by the Municipality's Maintenance and Operations – Facility Maintenance section.
- b. **Recommendation.** The Facilities Maintenance Manager should ensure that the Municipality is reimbursed \$270 for the emergency alarm repair and for the \$1,000 overpayment for correcting deficiencies noted in an annual fire inspection report. In addition, the Anchorage Health Department Director should consider amending the contract to specify that Maintenance and Operations is the contract administrator for Appendices D and E of the contract.
- c. **Management Comments.** Facilities Maintenance Management stated, "Concur. The \$1,000 credit has been applied to the correct account. The Municipality is currently in

the process of seeking reimbursement for the \$270 emergency alarm repair. In addition, controls have been put in place to make sure this doesn't occur in the future."

Anchorage Health Department Management stated, "AHD Management concurs with the finding. Management will take corrective action by coordinating with Maintenance and Operations to have Appendices D and E, both related to maintenance and repairs, of the contract moved from the AHD contract to a separate agreement between Maintenance and Operations and the Contractor."

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

OTHER PERTINENT INFORMATION

The Center was not able to readily provide basic financial information. For example, although not required by the contract, we found that the Contractor had not completed a 2019 and 2020 financial audit. The Contractor had submitted a letter from an audit firm for the 2019 and 2020 financial audits with an estimated date of completion of March 15, 2022. However, those audits had still not been completed as of June 28, 2022. In another case, during our review we requested some standard financial reports such as profit/loss statements and expense reports. However, Center staff were unable to provide any of those financial reports to us. As such, although not a contract compliance issue, decision makers may not always have adequate information when reviewing and approving financial related documents and making strategic related decisions for the Center. Although this information was not readily available, in some cases we did find other sources and methods for some of this information.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on June 23 and June 28, 2022.

Audit Staff:
Dalton Benson