January 5, 2006

Internal Audit Report 2006-1
Northeast Community Center
Office of Economic and Community Development

Introduction. The Northeast Community Center (NECC) is funded in part by a grant from the Municipality of Anchorage (Municipality). The purpose of the grant contract is to " . . . provide personnel and recreation and office supplies necessary to successfully operate and manage the NorthEast Community Center." The grant amount has varied from $144,430 in 1999 to $131,430 in 2005. Since November 1, 2000, most of the annual grant has been used to reimburse the Boys & Girls Club of SouthCentral Alaska (Boys & Girls Club) for management of the NECC under the direction of the NECC Board. The Boys & Girls Club provides numerous programs and activities for children including a study hall, a game room, a computer lab, and a host of other youth-related activities.

Objective and Scope. The objective of this audit was to determine whether the NECC had complied with the grant contract requirements. Specifically, we determined whether grant funds were spent only for grant purposes; compared 2002, 2003, and 2004 expenditures and budgets; and reviewed NECC operations, procedures and records.

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 period of September through October 2005. The audit was requested by the Administration.

Overall Evaluation. NECC has not complied with grant contract requirements. Specifically, salaries and benefits were paid with grant funds, which were not allowable expenses per the grant agreement, and equipment purchased with grant funds was not marked nor inventoried. Budget categories were exceeded by more than 10 percent without approval and contracts over $500 were let without three competitive bids. The unused portion of grant funds was not returned to the Municipality. In addition, a formal written contract had not been prepared between the NECC and the Boys & Girls Club for the various programs offered at the Northeast Community Center. Further, required quarterly reports had not been submitted timely, did not contain all required information, and were not accurate. In conclusion, we found that the grant contract had not been properly administered, contributing to the many non-compliance areas identified by our audit. A review completed by Internal Audit in October 2000 identified two of the same issues.

FINDINGS AND RECOMMENDATIONS

1. Salaries and Benefits Incorrectly Paid with Grant Funds.

a. Finding. Contrary to grant contract requirements, grant funds were used to pay for salaries, payroll taxes, health and life insurance, short term disability, pension plan contributions, long term disability and unemployment insurance premiums. Prior to 2003, the grant contract permitted the use of grant funds for wages, employee benefits, and payroll taxes. However, a change in the 2003 contract eliminated the use of grant funds for such expenses. The current contract states in Appendix A that, "Grant funds shall be used for insurance, utilities, business services, recreation and office supply expenses, art supplies, janitorial services and supplies, office equipment, advertising, contracted services and miscellaneous costs for the NorthEast Community Center during the 2005 calendar year."

b. Recommendation. The grant administrator should ensure that grant funds are used in compliance with the grant contract.

c. Management Comments. Management concurred and stated, "Originally in 1996, the grant contract permitted the use of grant funds for wages, employee benefits, and payroll taxes. However, the prior administration changed the language in the 2003 contract, eliminating the use of grant funds for such expenses. Due to personnel changes, neither party caught the language change. The language will be reinstated with the 2006 grant agreement."

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

2. Equipment Purchased with Grant Funds Not Inventoried.

a. **Finding.** The NECC has not marked and inventoried equipment purchased with Municipal grant funds as required by Part 1, Section 15.B of the grant contract which states, "Equipment purchased by Grantee with grant funds shall be the sole property of Grantor marked and inventoried as such with a copy of the inventory forwarded to the Grantor." Equipment purchased with grant funds such as tables, chairs, etc., was not separately identified and accounted for. A review of the NECC completed by Internal Audit in October 2000 identified a similar problem.

b. **Recommendation.** The grant administrator should require the NECC to revise its records to specifically segregate equipment purchased with grant funds and submit an inventory as required per the grant contract. Additionally, the grant administrator should require that all assets purchased with grant funds be marked accordingly.

c. **Management Comments.** Management concurred and stated, "In 2000-2001, the NECC inventoried and labeled all equipment; however, an inventory has not been conducted since that time. The NECC will supply a complete inventory to the grant administrator by 12/31/05 of equipment purchased with grant funds and will continue to submit an inventory per the grant contract. Also, all assets purchased with grant funds will be marked accordingly."

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

3. NECC Exceeded Their Budget Without Municipal Approval.

a. **Finding.** The NECC exceeded budget categories without approval from the grant administrator as stipulated in the grant contract. For example, a comparison of the December 2004 NECC quarterly report comparing income and expenses to the 2004 grant budget revealed that expenditures in six budget categories had exceeded budgeted amounts without approval from the grant administrator. Specifically, the budgets for recreation/program supplies, office supplies and insurance were overspent by $43,539, $2,966.16 and $2,948, respectively. Per the grant contract, Part 1, Section 4.A, the "Grantee shall use any and all monies awarded under this contract only to perform the services, functions or activities described in Appendix 'A'. Any change in a budget category in the Grant Budget included in Appendix 'A' which exceeds the total budget category by an amount greater than 10% or five hundred dollars ($500), whichever is smaller, must be approved in writing by Grantor." A review completed by Internal Audit in October 2000 reported similar findings.

b. **Recommendation.** The grant administrator should ensure that grant funds are spent in accordance with approved budgets.

c. **Management Comments.** Management concurred and stated, "The NECC will review their budget on a quarterly basis prior to submitting reports to the grant administrator. If they exceed any budget categories, they will request approval from the grant administrator at that time. The grant administrator will ensure grant funds are spent in accordance with approved budgets."

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

4. **Contract Let Without Three Competitive Bids.**

a. **Finding.** The NECC had not obtained three competitive quotations for the general liability insurance contract which cost $9,140 in 2004. Per the grant contract, Section 4.G.1, "For purchases of non-expendable personal property, or for the award of a contract with a value of $500 or more, the Grantee will require three competitive price quotations from potential suppliers." In addition, Section 4.G.2 states that the "Grantee will retain written records of price quotations and will include in the written records: a. Specifications; b. Suppliers' names and addresses; and c. Prices quoted."

b. **Recommendation.** The grant administrator should require the NECC to obtain three competitive price quotations for all contracts with a value of $500 or more. In addition, the quotations should contain the required information outlined in Section 4.G.2 and should be retained in the records per the grant contract.

c. **Management Comments.** Management concurred and stated, "The NECC had not obtained three competitive quotations for the general liability insurance contract which cost $9,140 in 2004. The board contacted multiple carriers but had a difficult task securing one. The NECC notified the grant administrator by phone of their inability to get three vendors to quote their insurance for 2005; the NECC will supply the MOA with the names and retain that information in their records per the grant contract."

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

5. Unused Grant Funds Not Returned to the Municipality.

a. **Finding.** The NECC did not return to the Municipality the unencumbered balance of $3,624 remaining in the 2004 grant. According to the NECC Treasurer, the unspent funds were carried over to the 2005 budget. Part 1, Section 18 of the grant contract states, "Upon expiration of this grant contract, no unencumbered funds may be expended by the Grantee. Grantee will promptly refund to the Grantor any unencumbered balance of grant funds paid to Grantee or otherwise dispose of said funds as Grantor may direct."

b. **Recommendation.** The grant administrator should ensure that unspent grant funds remaining at the end of the grant contract are returned to the Municipality.

c. **Management Comments.** Management concurred and stated, "The NECC did not return to the Municipality the unencumbered balance of $3,624 remaining in the 2004 grant. The board will return all unused 2005 grant funds to the grant administrator no later than January 15, 2006."

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

6. No Written Grant Contract Between NECC and Boys & Girls Club.

a. **Finding.** A written contract had not been executed between the NECC and the Boys & Girls Club. The Boys & Girls Club is paid by the NECC Board of Directors to manage and operate the NECC. There was an interim agreement that expired December 31, 2001, but both the Boys & Girls Club and NECC were not able to provide a current agreement.

Section 17 of the grant contract states, "Grantee may enter into subcontracts for the purchase of goods and services necessary for the performance of this contract, provided: A. Every subcontract shall be reduced to writing and contain a precise description of the services or goods to be provided and the nature of the consideration paid therefor." In addition, Section 17.B requires that "Every subcontract under which Grantee delegates the provision of services shall be subject to review and approval by the Administrator before it is executed by the Grantee."

b. **Recommendation.** The grant administrator should require the NECC and the Boys & Girls Club to negotiate a written contact that meets the requirements of the grant contract.

c. **Management Comments.** Management concurred and stated, "The original agreement between NECC and the Boys & Girls Club expired December 31, 2001. An addendum was signed to extend the agreement on a year to year basis. The NECC will execute a new agreement with the Boys & Girls Club by March 31, 2006."

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

7. Quarterly Reports Filed Late, Not Complete, and Inaccurate.

a. **Finding.** The NECC had not submitted complete quarterly reports on time. For example, the 2nd quarter 2005 report was not filed until September 26, 2005, a full 88 days after the close of the 2nd quarter. Section 12.B states, "First, second and third quarter reports shall be submitted to the Administrator within thirty (30) days from the end of the preceding quarter. The fourth quarter report shall be submitted as part of the annual report."

In addition, the quarterly reports submitted for 2004 and 2005 contained only expenditure versus budget data and nothing about programming changes, employee changes, and/or identification of management problems. Section 12.B, requires that the "Grantee shall submit a quarterly report to the Administrator for periods ending March 31, June 30, September 30, and December 31. Said report shall compare actual expenditures to budget for the quarter and year-to-date, and note any programming changes, employee changes, and/or identify any management problems."

Finally, the report for the fourth quarter 2004 included totals that were inaccurate. For example, the horizontal "TOTAL" row did not include two expenses from the "Postage" and "Refund" categories which caused an overstatement of $136.47. In addition, the "YTD TOTAL" column did not include a "Misc Non-Moa" budget category, thus understating the column by $3,147.

b. **Recommendation.** The grant administrator should ensure that required reports are submitted timely and accurately.

c. **Management Comments.** Management concurred and stated, "Reports are consistently late and incomplete and that was the reason the grant administrator requested the audit. The NECC board will work with the treasurer who prepares the reports to ensure they are accurate and timely. The grant administrator will continue to monitor the timeliness and accuracy of the reports."

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

8. Grant Contract Not Properly Administered.

a. **Finding.** The grant contract with NECC had not been properly administered, contributing to the many non-compliance areas identified by our audit. We were told that the individual assigned the responsibility to administer this grant had also been assigned the responsibility to administer almost 50 other grants and contracts, as well as other duties. As a result, it has been difficult, if not impossible, to provide adequate oversight of the numerous grants and contracts. Without proper oversight and monitoring, funds provided by the Municipality may not be spent for the intended purpose, Municipal assets may be lost, and the services contracted for may not be delivered.

b. **Recommendation.** The Executive Director of the Office of Economic and Community Development should consider reassigning some of the grants and contracts to other employees so that sufficient oversight and administration can be performed over all grants and contracts.

c. **Management Comments.** Management concurred and stated, "While the grant agreement is cumbersome, it is worth the effort to administer given the benefits to the community. In an effort to reduce the number of grants administered by this office, the Office of Economic & Community Development will be working with the newly reorganized Parks and Recreation Department that has a designated grants administrator position to administer this grant as well as two others that are funded by Parks & Recreation."

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

<u>Discussion With Responsible Officials</u>. The results of this audit were discussed with appropriate Municipal officials on November 28, 2005.

Audit Staff:
Bill Miller