

# INTERNAL AUDIT REPORT

2019-08

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Northeast Community Center

Parks and Recreation Department

August 30, 2019

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# Municipality of Anchorage

Ethan Berkowitz, Mayor

Internal Audit Department

August 30, 2019

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2019-08, Northeast Community Center, Parks and Recreation Department**. A brief summary of the report is presented below.

In accordance with the 2019 Audit Plan, we have completed an audit of the Northeast Community Center. The objective of this audit was to determine whether the Northeast Community Center Board and the Boys and Girls Clubs - Alaska had complied with the grant contract requirements. To accomplish our objective, we determined whether grant funds were spent only for grant purposes, reviewed expenditures and budgets, and reviewed Northeast Community Center operations, procedures, and records.

Our audit revealed that Administration of the Northeast Community Center grant could be improved. Specifically, awarding of the grant could be simplified. In addition, when the current sub-contract between the Northeast Community Center Board and the Boys and Girls Clubs - Alaska was submitted to the Parks and Recreation Department in December 2016, there was no indication the sub-contract was reviewed by the Municipality or received written approval before execution. Finally, the Northeast Community Center Board did not monitor the Boys and Girls Clubs - Alaska to ensure:

- Written approval was received from the Parks and Recreation Department before engaging in certain activities.
- They obtained three competitive price quotes for purchases.
- Grant funds were not used on unauthorized expenditures.
- An inventory list of items purchased with Municipal grant funds was maintained.

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

Ethan Berkowitz, Mayor

Internal Audit Department

August 30, 2019

**Internal Audit Report 2019-08**  
**Northeast Community Center**  
**Parks and Recreation Department**

**Introduction.** The Northeast Community Center (NECC) 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 NorthEast Community Center at the Center to engage youth, adults, and families residing in the vicinity in positive activities and programs that build individual and community strength.” The grant amount in 2018 and 2019 was \$196,175 each year. In 2018, most of the grant, \$191,910, was transferred to the Boys and Girls Clubs - Alaska (Boys & Girls Club) for management of the NECC through a sub-contract between the NECC Board of Directors (NECC Board) and the Boys & Girls Club, while the remaining \$4,265 was used by the NECC Board for its operating costs. The Boys & Girls Club provides numerous programs and activities at the NECC for children of all ages including meals, a computer lab, a television area, a gaming area, a study hall, a teens-only room, a basketball court, and an art room.

**Objective and Scope.** The objective of this audit was to determine whether the NECC Board and the Boys & Girls Club had complied with the grant contract requirements. Specifically, we determined whether grant funds were spent only for grant purposes, reviewed expenditures and budgets, and reviewed NECC 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 May through June 2019. The audit was requested by the Administration.

**Overall Evaluation.** Administration of the NECC grant could be improved. Specifically, awarding of the grant could be simplified. In addition, when the current sub-contract between the NECC Board and the Boys & Girls Club was submitted to the Grant Administrator in December 2016, there was no indication the sub-contract was reviewed by the Municipality or received written approval before execution. Finally, the NECC Board did not monitor the Boys & Girls Club to ensure:

- Written approval was received from the Grant Administrator before engaging in certain activities.
- They obtained three competitive price quotes for purchases.
- Grant funds were not used on unauthorized expenditures.
- An inventory list of items purchased with Municipal grant funds was maintained.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Grant Awarding Could Be Simplified.**

- a. **Finding.** Awarding of the grant could be simplified. The Grant Administrator, the NECC Board President, and the Boys & Girls Club Chief Financial Officer all stated that the Municipality should contract directly with the service provider instead of going through the NECC Board. Moreover, the NECC Board President expressed an interest in dissolving the NECC Board, especially since it now only has three of the seven required members. Further review found the Municipality contracts directly with the Boys & Girls Club for management of a similar facility, the Mountain View Recreation Center. In 2018, the NECC Board expended \$4,265 on operating costs such as telephone service and accounting fees, before giving the Boys & Girls Club the remaining \$191,910. Removing the NECC Board as a “middleman” would allow these grant funds to be used for the NECC’s programs and operations.



- b. **Recommendation.** The Parks and Recreation Department Director should consider putting management of the NECC out for competitive bid to contract directly with a service provider to serve the community that uses the NECC.
- c. **Management Comments.** Management stated, "Management concurs, but the objective may also be easily achieved if the NorthEast Community Center combines operations with the Boys and Girls Club Mountain View Recreation Center."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Sub-Contract Between NECC Board and Boys & Girls Club Not Approved.**

- a. **Finding.** When the current sub-contract between the NECC Board and the Boys & Girls Club was submitted to the Grant Administrator in December 2016, there was no indication the sub-contract was reviewed by the Municipality or received written approval before execution. The grant contract states that "Every sub-agreement under which Grantee delegates the provision of services shall be subject to review and approval by the Administrator before Grantee executes it. . . . Every subcontract in an amount exceeding \$1,000.00 shall require written approval by Grantor, and access to subcontractors business records relating to the purchase of goods or services pursuant to the sub-agreement." According to the NECC Board President, they did not receive written approval because it was assumed the sub-contract was acceptable to the Municipality. Internal Audit Report 2006-01 reported a similar finding.
- b. **Recommendation.** The Grant Administrator should ensure the NECC Board submits for review to the Municipality all sub-contracts and obtains approval before execution.
- c. **Management Comments.** Management concurred and stated, "The sub-agreement between the NorthEast Community Center and Boys and Girls Club was originally

signed in 2008 and renewed in 2012 and 2016. Between 2008 and 2016, the Parks and Recreation Department worked with both the NECC Board and the Boys and Girls Club Management to ensure the operation of the center. In 2016, when the sub-agreement was renewed, the Club President at the time correctly assumed that the Parks and Recreation Department supported the renewal of the sub-agreement. Both the NECC President and the Contract Administrator at the time were actively discussing the sub-agreement and the operation of the center and it was the understanding of both the President and Contract Administrator that the Department supported the renewal of the sub-agreement.

“To avoid this omission in the future, the New Contract Administrator has been given a checklist to review for approval of all contracts of \$1,000 or more that are funded with Municipal funds.”

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

3. **Written Approvals Not Obtained.**

- a. **Finding.** The NECC Board did not monitor the Boys & Girls Club to ensure written approval was received from the Grant Administrator before engaging in certain activities. Specifically;
- *Expended Grant Funds on Travel* - The Boys & Girls Club did not receive prior written approval from the Grant Administrator when grant funds were used to pay \$138.89 for airfare with a \$210.00 per diem for a training trip to Fairbanks. The grant contract states that “Written approval must be obtained from Grantor prior to expending grant funds for . . . Travel outside the Municipality of Anchorage.” According to the Boys & Girls Club management, they did not receive written approval because they considered the trip as training.



- *Exceeded Budget Categories* - The Boys & Girls Club exceeded budget categories without written approval from the Grant Administrator as stipulated in the grant contract. Specifically, our review of the 2018 Statement of Activity revealed that actual expenditures in eight budget categories exceeded budgeted amounts. For example, the budget for wages was overspent by \$5,071.87. The grant contract states that “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 ten percent (10%) or five hundred dollars (\$500.00), whichever is smaller, must be approved in writing by Grantor.” According to the Boys & Girls Club management, they did not receive written approval because they had never been required to do so in the past and they were not aware of the contract requirement. Internal Audit Report 2006-01 reported a similar finding.

- b. **Recommendation.** The Grant Administrator should ensure the NECC Board monitors its sub-contract with the Boys & Girls Club to ensure compliance with the grant contract requirements regarding written approval.
- c. **Management Comments.** Management concurred and stated, “To avoid confusion as to which revenue source the expenditure is charged against, the Department will require financial and budget reports to delineate if the expenditure is being paid with revenue from municipal grant funds or from non-municipal grant funds. This will allow the new Contract Administrator the opportunity to notify the Grantee to reassign expenditure not allowed under the terms of the grant to another a non-municipal revenue stream. The Department will further require the Grantee to provide a narrative column to its Budget to Actual Report for the purpose of explaining their variance.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Purchases Without Three Competitive Price Quotes.**

- a. **Finding.** The NECC Board did not monitor the Boys & Girls Club to ensure they obtained three competitive price quotes for purchases. For example, in 2016, a \$2,100 purchase was made for a color multifunction printer with an annual \$600 maintenance contract. In another case, in 2018, a \$1,000 purchase was made on padding for the basketball court. 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.” In addition, the grant contract states that “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.” According to the Boys & Girls Club management, three quotes were not obtained for these purchases because they were acquired from preferred vendors offering competitive prices. Internal Audit Report 2006-01 reported a similar finding.
- b. **Recommendation.** The Grant Administrator should ensure the NECC Board monitors its sub-contract with the Boys & Girls Club to ensure that they receive three competitive price quotes from three potential suppliers for items or contracts over \$500 purchased with grant funds.
- c. **Management Comments.** Management concurred and stated, “The Grant Reporting requirements for competitive bids will be updated to current Municipal Procurement policies that require competitive bids in excess of \$5,000.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.



**5. Unauthorized Expenditures.**

- a. **Finding.** The NECC Board did not monitor the Boys & Girls Club to ensure grant funds were not used on unauthorized expenditures. Specifically, our review found that there were three instances where grant funds were used for food and drinks for the Boys & Girls Club staff, such as \$13.98 for food at one employee training meeting, a \$68.00 employee luncheon, and a \$5.50 employee appreciation drink purchase. In addition, grant funds were used to cover a \$33.54 cash shortage for a purchase with a missing receipt. The grant contract states that “No funds made available to Grantee under this grant agreement may be used for...Entertainment costs.” According to the Grant Administrator, employee-related expenses for food and drink are prohibited. In addition, the grant contract states that “Grantee shall use any and all monies awarded under this agreement only to perform the services, functions, or activities described in Appendix A.” According to the Boys & Girls Club management, they were unaware of what constituted entertainment expenditures. They also stated that the cash shortage was made during an employee emergency, so they never required the receipt to prove the expenditure.
- b. **Recommendation.** The Grant Administrator should ensure the NECC Board monitors its sub-contract with the Boys & Girls Club to ensure that they use grant funds only for approved expenditures under the grant contract.
- c. **Management Comments.** Management concurred and stated, “To avoid confusion as to which revenue source the expenditure is charged against, the Department will require financial and budget reports to delineate if the expenditure is being paid with revenue from municipal grant funds or from non-municipal grant funds. This will allow the New Contract Administrator the opportunity to notify the Grantee to reassign expenditure not allowed under the terms of the grant to another a non-municipal revenue stream.”

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

6. **Equipment Purchased with Grant Funds Not Inventoried.**

- a. **Finding.** The NECC Board did not monitor the Boys & Girls Club to ensure that an inventory list of items purchased with Municipal grant funds was maintained. As a result, an inventory report was never filed with the annual reports to the Grant Administrator as required by the grant contract. During our review, we identified several items that required asset tags per Municipal Policy and Procedure (P&P) 24-13, *Fixed Asset and Infrastructure Accountability*. However, a physical inspection of the NECC facility revealed no items were tagged representing ownership by the Municipality. The grant contract states that "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 Contract Administrator with the annual reports." Furthermore, P&P 24-13 states that "It is the policy of the Municipality to properly record the acquisition of fixed assets; to maintain accurate fixed asset records whether purchased, donated, or constructed; to safeguard the assets against loss, and to present accurate information on reportable fixed assets in the Municipal Comprehensive Annual Financial Report." According to the Boys & Girls Club management, while there is an inventory of all items purchased with all funding sources, they did not keep a separate inventory of items purchased with grant funds and did not label purchased items at the NECC to show ownership by the Municipality. Internal Audit Report 2006-01 reported a similar finding.
- b. **Recommendation.** The Grant Administrator should ensure the NECC Board monitors its sub-contract with the Boys & Girls Club to ensure that they develop a comprehensive inventory list of all items purchased with grant funds and tag assets accordingly to show Municipal ownership.



- c. **Management Comments.** Management concurred and stated, "To avoid this omission in the future, the new Contract Administrator has been given a checklist to request copies of invoices for equipment purchases of \$1,500 or higher to tag and enter into the Asset database."
- 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 July 2, 2019.

Audit Staff:  
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