



Richmond City Council

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Richmond, Virginia

OFFICE OF THE CITY AUDITOR

AUDIT REPORT # 2010-005
on the

Citywide Grants Process

December 2009

OFFICIAL GOVERNMENT REPORT

Richmond City Council

OFFICE OF THE CITY AUDITOR

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*Committed to increasing government efficiency, effectiveness,
and accountability on behalf of the Citizens of Richmond.*

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City of Richmond
City Auditor

Executive Summary

December 4, 2009

The Honorable Members of Richmond City Council
The Richmond City Audit Committee
Mr. Byron C. Marshall, CAO

Subject: Citywide Grants Process Audit

The City Auditor's Office has completed an audit of the citywide grants administration process for calendar year 2008. The audit was conducted in accordance with generally accepted government auditing standards. The overall objective of the audit was to evaluate the efficiency and effectiveness of the City's grants process.

The management of the City of Richmond, Virginia is responsible for maintaining the financial records of the City. It is also responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures.

Background:

During FY 2008, the City received approximately \$164 million in intergovernmental revenues from federal and state sources, which included grants and other restricted sources.

Findings:

The following are salient audit findings:

- Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. Based on the review, the auditors do not have reasonable assurance that:
 - Internal controls in the grants process are adequate; and
 - An accurate accounting of the City's grants is in place.
- When accepting grant funds, the City legally agrees to adhere to the conditions and terms set forth by the grantor. In order to achieve this, grant oversight must be in place at the program, department and Citywide level. There is no centralized oversight for the grants administration process. Neither the Finance nor the Budget Department verifies whether the funds were spent on allowable goods and services and whether they were properly supported by appropriate documentation. Compliance with the grant conditions is monitored at the agency level.

Delegating the monitoring function to the agencies could result in inconsistent practices due to varying levels of training provided to the agency staff. This risk was verified based upon the departmental survey responses which identified inconsistent monitoring procedures. Despite providing training and clarifying expectations in service level agreements, the departments have not fully complied with the grants policies and procedures. It was noted that the departments have:

- Circumvented the grants process by submitting applications to grantors without the proper approvals;
 - Failed to provide copies of required documentation to the Grants Office and the Special Revenue Unit; and
 - Failed to comply with other policies and procedures.
- Based upon information obtained from the grants management system, it was noted that various competitive grant applications for FY06 – FY09 funding, totaling several million dollars, were denied for various reasons, such as a lack of having a thorough plan in place and the cost benefit ratios not being competitive enough. It appears that better planning at the department level could allow a more thorough review of grant applications.
 - The current reporting structure does not allow for an efficient and effective oversight function. The units are housed under different reporting structures; the Grants Office is in the Department of Budget and Strategic Planning and the Special Revenue Unit is under the Department of Finance. Information obtained by one unit was not always shared with the other unit resulting in incomplete and inaccurate grant information.

- Numerous deficiencies and weaknesses in the City's grants process were noted during three prior audits/studies issued between February 2005 and June 30, 2007. These audits were conducted by the City Auditor's Office, an outside consultant hired by Finance and the former Office of Emergency and Management Services.

Finance management and the Grants Coordinator are aware of the issues, recognize the need to remedy them and have recently begun devising and implementing corrective actions. These steps are in the right direction and a good beginning. However, additional work is needed to improve the efficiency and effectiveness of the grants process. If timely corrective action is not taken to mitigate the risks identified during the audit process, the risks could materialize causing the City financial loss.

- Currently, a complete and comprehensive listing of all City grants is not available. The grants are separately tracked by the Grants Coordinator and the Special Revenue Manager. However, neither record is complete and up to date, nor did they capture all the grants that are posted to the General and Capital Project Funds. Without an accurate accounting of all of the City's grants, it is not possible to establish an effective monitoring program.
- To accept and appropriate grant funds, the City Council is required to adopt an ordinance. However, the ordinance process is lengthy and does not always allow for timely acceptance of grant funds. The auditor identified several FY09 grant awards totaling approximately \$500,000 for which the grantor imposed an acceptance timeframe of approximately 30 days or less. Non-compliance with that time frame would have forfeited receiving those funds. Given the short turnaround time for acceptance and expenditures, the agreements were executed and in some cases funds were expended prior to the adoption of the ordinances. Currently, the CAO is only authorized to accept funding up to \$2,000 without Council action. In order to streamline the process to accept grant funds and reduce the risk of forfeiting funds due to untimely acceptance, the dollar threshold for which the CAO can accept grant funds should be increased.

The City Auditor's Office appreciates the cooperation of the City staff during this audit. A written response to the report has been received and is included with this report.

Umesh Dalal, CPA, CIA, CIG



City Auditor

COMPREHENSIVE LIST OF RECOMMENDATIONS

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1	<i>Implement a centralized Grants Office by consolidating the Grants Office and the Special Revenue Unit under one reporting structure.</i>	12
2	<i>Devise a methodology to readily identify all grant funds.</i>	12
3	<i>Work with DIT to expediently implement Share Point and InfoBuilders.</i>	12
4	<i>Review the revenue resources currently posted to the general and special revenue funds for appropriateness using the special revenue fund definition incorporated in GASB Statement Number 54 and make the necessary changes.</i>	12
5	<i>Enhance the existing procedures to include guidance to aid the Departments and Agencies in administering and managing the grants.</i>	17
6	<i>Conduct on-going training sessions to ensure everyone has a clear understanding of policies and procedures, grants requirements, and management's expectations.</i>	17
7	<i>Ensure employees are equipped with the necessary tools and resources to efficiently and effectively research, competitively pursue and administer grant funding.</i>	18
8	<i>Conduct meetings at the beginning of the grant to ensure that departmental representatives understand grant requirements.</i>	18
9	<i>Develop a process for holding departments and agencies accountable for non-compliance with policies and grant conditions.</i>	18
10	<i>Review applications for documentation quality and compliance with grantor requirements.</i>	18
11	<i>Mandate that departments follow up with the grantor when applications are denied in order to gain insight as to why applications are denied.</i>	18
12	<i>Develop an indirect cost recovery where allowable and maintain documentation as to how the rate was derived.</i>	21
13	<i>Set up special revenue accounts in a timely manner.</i>	21
14	<i>Request the City Council to increase the dollar threshold for which the CAO can accept grant funds to \$100,000.</i>	21

Audit Overview

Introduction

The City Auditor's Office has completed an audit of the City's grants process for calendar year 2008. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Objectives

The overall objective of the audit was to evaluate the efficiency and effectiveness of the City's grants process.

Methodology

To accomplish the objective, the auditor performed the following procedures:

- Conducted interviews;
- Surveyed departmental representatives;
- Benchmarked with other localities;
- Researched best practices;
- Reviewed relevant records, policies and regulations; and
- Conducted other audit procedures as deemed necessary.

Management Responsibility

The management of the City of Richmond, Virginia is responsible for maintaining the financial records of the City. It is also responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures.

What is a grant?

A grant is a financial assistance mechanism that provides money, property, or both to an eligible entity to carry out an approved project or activity. The City of Richmond relies on grant funding from federal, state and local sources to support many important programs and services

provided to the community. These funds allow the City to extend existing services, introduce new initiatives, gain technological advances, and subsidize programmatic staffing. Grant funds are dispersed throughout the City and impact a variety of efforts including homeland security, economic development, social services, public safety, recreation, and infrastructure improvement and maintenance, among others.

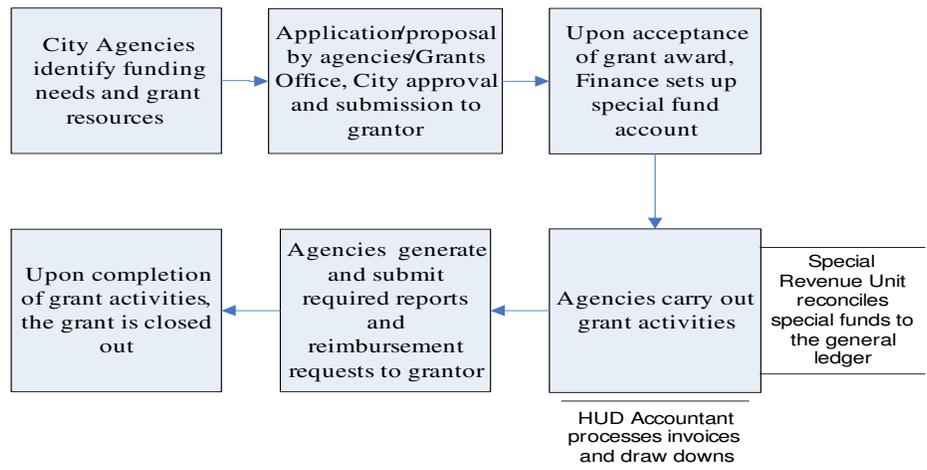
***Grants
Coordination
and
Process***

The City has a decentralized grants management process. City agencies are responsible for acquiring, administering and closing out grants. Therefore, they are required to comply with the grant requirements related to the operation and the fiscal management of the funded programs.

The grants process is initiated with the identification of a funding need and ends with the close out of the grant. The pre-award activities (e.g. proposal development and submission) and the award acceptance process are coordinated through the Grants Office in the City's Budget and Strategic Planning Department. Grant applications and agreements are routed through the Grants Office to facilitate tracking and securing the necessary approvals. In order to accept and appropriate grant funds, an ordinance must be adopted by City Council. The adopted ordinance authorizes the Chief Administrative Officer (CAO) to accept funds on the City's behalf. Upon formal acceptance of the award, a special revenue account is established by the Finance Department based upon the appropriation structure defined by the Department of Budget and Strategic Planning. Upon completion of the grant activities, including reporting requirements, the grant and its associated special revenue

account are closed out. This process is depicted in the following process flow diagram:

Grants Process Flow



Detailed Observations and Recommendations

Internal Controls

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance.

The City needs to improve internal controls over the record keeping of grants

Based upon staff interviews, departmental surveys and review of records, policies and regulations, auditors do not have reasonable assurance that:

- Internal controls in the grants process are adequate; and
- An accurate accounting of the City's grants is in place.

These matters are discussed in detail subsequently in this report.

The City is obligated to manage the grants in accordance with federal guidelines

When accepting grant funds, the City legally agrees to adhere to the conditions and terms set forth by the grantor. Pursuant to Circular A-133, the City has the fiduciary responsibility of managing the grants to ensure that funds are spent in accordance with the grantor guidelines and to ensure established outcomes and objectives are achieved. In order to achieve this, grant oversight must be in place at the program, department and Citywide level.

Compliance Monitoring

Currently, the Finance Department conducts general ledger reconciliations to ensure expenditures are properly captured and reimbursed and revenues are properly posted in special revenue funds and HUD grant funds. These procedures are not being conducted for the grants recorded in General and Capital Project funds. Neither the Finance

A centralized monitoring program is not in place to ensure proper oversight

nor the Budget Department verifies whether the funds were spent on allowable goods and services and whether they were properly supported by appropriate documentation.

Compliance with the grant conditions is monitored at the agency level. There is no centralized oversight for the grants administration process. In this situation, the agencies have been assigned responsibility for administering the grants to ensure compliance. The City has numerous agencies. Delegating the monitoring function to the agencies could result in inconsistent practices due to varying levels of training provided to the agency staff. This risk was verified based upon the departmental survey responses which identified inconsistent monitoring procedures. The procedures ranged from formal and well defined to very informal procedures. This could result in non-compliance with the grant conditions, which may not be detected and corrected in a timely manner.

A risk exists that grants may not be in compliance with all requirements

As such, if the risk materializes, it could jeopardize current and future funding and/or create a financial liability for the City. In addition, lack of proper monitoring increases the risk of fraud, waste and abuse of state and federal funds.

During the evaluations, the auditors found several issues including:

Closing of Special Revenue Fund Accounts

Special Revenue Fund accounts were not closed out timely resulting in an excessive number of open accounts. In April 2009, the Special Revenue Manager identified approximately 300 open accounts for expired grants which needed to be researched and closed. As of the release of this report, according to the DCAO for Finance and Administration, the

Department of Finance has closed 295 out of the aforementioned 300 open accounts.

According to the Assistant Controller, historically, accounts were not closed out. In FY2007, new staff was brought on board and have been continuously working on this process.

Inconsistent Accounting Practice

During FY 2008, the City received approximately \$164 million in intergovernmental revenues from federal and state sources, which included grants and other restricted sources. Of this total:

- \$120 million was posted to the General Fund;
- \$29 million was posted to the Special Revenue Funds;
- \$8 million was posted to the HUD funds; and
- \$7 million was posted to the Capital Projects Fund.

The Budget Department and City agencies utilized inconsistent practices to record grant funding. Some of the federal and state funds were recorded in the General Fund, when the nature of the funds and restrictions on the expenditures seem to warrant posting to a Special Revenue Fund. Based upon the information obtained from the Finance Department, at least \$75 million in this type of grant funding was posted to the General Fund during FY2008. The following is a sample of larger dollar value funds/programs that were posted to the General Fund.

Department	Fund/Program Name	Amount
Social Services	Foster Care	\$20,344,970
Social Services	Child Day Care	\$9,594,279
Social Services	Adoption	\$6,368,561
Commonwealth Attorney's Office	Gang Reduction and Intervention Program (GRIP)	\$4,974,548
Social Services	Auxil. Grts – Aged, Blind & Disabled	\$3,681,828

Formal policies and procedures to dictate where grant funds should be posted do not exist. According to the Director of Budget and Strategic Planning, the funds are recorded in the General Fund at the discretion of the recipient agencies/departments and/or the Budget Office using such criteria as award frequency (e.g. one time only) and where most of the expenditures are occurring from (e.g. General Fund).

Government Accounting Standards Board (GASB) Statement Number 54, which will become effective for financial statements for periods beginning after June 15, 2010, defines special revenue funds as revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Pursuant to the Statement, the proceeds from these special revenue sources should be expected to continue to comprise a substantial portion of the inflows. If a substantial portion of these revenues is not expected to be derived from restricted sources, it should be reported in the General Fund.

Early implementation of the Statement requirements is encouraged. Utilizing the statement requirements, Finance and Budget must examine the resources currently posted in the general and special revenue funds to determine if the funds are properly posted and make any necessary changes to comply with the requirements.

An accurate and complete list of the grants received by the City is not available

Lack of a Complete Grants Listing

Currently, a complete and comprehensive listing of all City grants is not available. The grants are separately tracked by the Grants Coordinator and the Special Revenue Manager. However, neither record is complete and up to date. Both records did not capture the grants that are posted to the General and Capital Project Funds. As previously indicated, some of the grant funds are not always required to go through the City's grants process. As such, documentation is not required to be submitted to the Grants Office or to the Special Revenue Unit. Thus, the funds are not readily captured in either record. According to the Special Revenue Manager and the Grants Coordinator, they are trying to obtain a better understanding of the grants that are posted to the general and capital project funds to devise a method to accurately capture the data.

Also, the auditor noted that the grants posted to the Special Revenue Funds cannot be readily distinguished from other Special Revenues. In addition to grants, Special Revenue Funds are used to track revenues that are restricted for specific purposes, such as:

- fee based programs
- special assessments
- collection of court fees

In the City's records, grant funds cannot be readily distinguished from other Special Revenue Funds

Since Special Revenue Funds have many revenue sources, distinguishing grant funds from other funds is difficult and time consuming. Currently, the Finance Department maintains a manual spreadsheet to track and identify grants. The City's financial system contains a mechanism that can be used to distinguish grants from other Special Revenue Funds but it is not currently utilized.

This observation indicates that the City does not have a proper inventory of all the grants. It appears that improving communication amongst the Grants Office, Special Revenue Unit and the departmental coordinators could alleviate this situation. Without an accurate accounting of all of the City's grants, it is not possible to establish an effective monitoring program.

System Issues

The current grants management system was developed by the Department of Information Technology (DIT) in FY2007 to manage grants, improve coordination, enhance oversight, and provide a snapshot of the City's grants landscape. However, according to the Grants Coordinator, the system is not functioning as intended. The system has many shortcomings and lacks a robust reporting feature. For instance:

- ▶ Based on conversation with the Grants Coordinator, the parameters to capture and calculate general statistics (e.g. active number of grants, value of active grants and value of City matches) were inaccurately set up. These figures include data related to all grant applications including those under development and in pending status, not just the awarded grants. This inflates the reported figures.
- ▶ Budgeted and encumbrance information is not captured in the system.
- ▶ When grants are included as a sub-account of a larger project, such as with the capital projects, the grant cannot be monitored because sub-account information is not captured by the system.

However, the Grants Coordinator is currently working with DIT to develop and implement "Share Point" and "InfoBuilders" software

to monitor and track stimulus and other grant funds. This will enable management to monitor for fiscal and programmatic compliance.

Reporting Structure

The current reporting structure does not allow for an efficient and effective oversight function. The units are housed under different reporting structures; the Grants Office is in the Department of Budget and Strategic Planning and the Special Revenue Unit is under the Department of Finance. Information obtained by one unit was not always shared with the other unit resulting in incomplete and inaccurate grant information.

Each unit is involved in different aspects of the grants process. The Grants Office is generally involved in the pre-award activities such as identifying grant funds and the Special Revenue Unit is involved in the post-award grant activities such as setting up special funds. Due to the division of efforts, neither unit oversees nor reviews the complete grants process. Lack of a centralized oversight function and a complete list of all grants received by the City may be the by-product of this organizational structure.

Establishing Accountability

In order to establish accountability and improve the efficiency of the City's grants process, a centralized grants office, under which the functions of the Grants Office and the Special Revenue Unit would be consolidated, needs to be established and implemented within the Department of Finance. In addition to providing the services currently offered by both units, the centralized grants office would also be responsible for providing oversight to monitor for program compliance. The following five-step approach suggested by the State of North

Carolina appears to be appropriate for effectively monitoring grant programs and ensuring accountability:



Source: North Carolina Office of State Internal Auditor

Develop Monitoring Plan

A monitoring plan should be developed for each grant based upon the specifications contained in the grant agreement. The plan should address the type(s), timing and frequency of monitoring efforts and documentation requirements to capture monitoring efforts. Also, the plan should address how monitoring results will be communicated and to whom.

Train Monitors

Employees should be adequately trained to carry out job duties. Baseline education and training should be established for the position. Also, work expectations should be implemented.

Monitor Grants

The grants should be monitored on a continuous basis. Monitoring efforts should be adequately documented and communicated. Monitoring can be conducted through desk audits, onsite visits, and telephone calls.

Analyze Reports

Required reports (periodic and annual) should be obtained and analyzed to ascertain that: 1) program goals and objectives have been met, 2) grant criteria/requirements have been adhered to, and 3) areas of concern have been identified and addressed.

Evaluate Performance

At the end of the grant period, the program should be evaluated to determine which expectations were met and the reasons for not meeting other expectations, if any.

Recommendations:

- 1. Implement a centralized Grants Office by consolidating the Grants Office and the Special Revenue Unit under one reporting structure.***
- 2. Devise a methodology to readily identify all grant funds.***
- 3. Work with DIT to expediently implement Share Point and InfoBuilders.***
- 4. Review the revenue resources currently posted to the General and Special revenue funds for appropriateness using the Special Revenue Fund definition incorporated in GASB Statement Number 54 and make the necessary changes.***

***Outstanding
Prior Audit
Issues***

*The Finance
Department has
initiated corrective
actions to address
prior audit
recommendations*

Numerous deficiencies and weaknesses in the City's grants process were noted during three prior audits/studies issued between February 2005 and June 30, 2007. These audits were conducted by the City Auditor's Office, an outside consultant hired by Finance and the former Office of Emergency and Management Services. Finance management and the Grants Coordinator are aware of the issues, recognize the need to remedy them and have recently begun devising and implementing corrective actions. Upon hiring the new Special Revenue Manager, Finance implemented monthly general ledger reconciliations for the special funds to determine if expenditures and revenues are properly captured and posted. They have also developed written grant financial management procedures. These steps are in the right direction and a good beginning. However, additional work is needed to improve the efficiency and effectiveness of the grants process. If timely corrective action is not taken to mitigate the risks identified during the audit process, the risks could materialize causing the City financial loss. Also, delayed actions may have prevented the City from maximizing grant revenues and ensuring fiscal stewardship of grant funds. The following actions need to be taken:

***Resolution of
Grant Deficit***

It was noted in prior audits that expenditures were not properly captured and reimbursed and/or revenues were not properly posted. Also, during our audit period it was noted that reimbursements were not always properly applied for, resulting in the remaining expenditures being charged to the General Fund. Based upon figures obtained from the Finance Department, deficits totaling at least \$100,000 were charged to the General Fund in each of FY08 and FY09. This figure excluded funding for mandated services or funds that required a local match.

***Departmental
Cooperation***

Various City agencies and departments are involved in the grants process. In order to successfully pursue, implement and administer grants, assistance and cooperation is needed from all parties involved. The grants policies and procedures were implemented to:

Departmental cooperation is a key for proper grant management

- Protect the City's interest in obtaining grant funds;
- Establish appropriate protocol;
- Allow for control in the oversight and administration of grants; and
- Create levels of accountability and facilitate the coordination of a citywide grants process.

A process for proper enforcement is needed to demand compliance from the departments

However, despite providing training and clarifying expectations in service level agreements, the departments have not fully complied with the grants policies and procedures. Based upon discussions with the Grants Coordinator and Special Revenue Manager along with the review of selected grants files, it was noted that the departments have:

- Circumvented the grants process by submitting applications to grantors without the proper approvals.
- Failed to provide copies of required documentation to the Grants Office and the Special Revenue Unit.
- Failed to comply with other policies and procedures.

For instance, based upon documentation obtained from the Grants Office, it was noted that the Department of Public Works submitted grant applications without obtaining the CAO's approval for at least three consecutive years (2006-2008) despite the fact that emails and memos were submitted to departmental staff to notify them of the issue and reiterate the City's grants submission process.

- In September of 2006, 17 applications were submitted under the approval of the Department Director rather than by the CAO's approval.
- In September of 2007, 29 applications were submitted under the approval of the Department Director rather than by the CAO's approval.
- In September 2008, 41 applications were submitted under the approval of the Department Director rather than by the CAO's approval.

Upon establishing a centralized oversight function, ongoing compliance monitoring needs to be conducted.

Furthermore, compliance with policies and procedures is not adequately enforced by the City and there are no consequences for non-compliance. According to the Grants Coordinator, numerous memos have been sent to the departments outlining non-compliance issues.

Pursuit of Grant Funding

Currently, for the following reasons the City is not as competitive as it could be to pursue and maximize grant funding:

- Adequate training is not provided to departmental staff to ensure that employees are equipped with the necessary tools to efficiently and effectively research and pursue grant funding. A formal grants training program is not in place. According to the Grants Coordinator, the Grants Office provides technical and grant writing assistance only when requested by the departments and agencies. However, pursuant to the City's Grants Policies and Procedures Manual, the City agencies and departments are

***More guidance
can be provided to
departments for
effective research
of available grant
opportunities***

responsible for all aspects of the grants process including planning for grant acquisitions and preparing and submitting grant proposals.

- The auditor noted that neither the departments nor the Grants Office performed a thorough review of their grant applications to ensure compliance with the grantor requirements and to ensure documentation quality. As such, applications which did not meet the City's documentation quality expectations and/or failed to meet the proposal/application requirements were approved and submitted to the grantors. In some cases, the departments bypassed the Grants Office and submitted the applications to the grantor without proper approval.

Better efforts could have potentially helped the City obtain additional grant funding over the past three years

- Based upon information obtained from the grants management system, it was noted that various competitive grant applications for FY06 – FY09 funding, totaling several million dollars, were denied for various reasons, such as:
 - Lack of having a thorough plan in place, and
 - Cost benefit ratios not being competitive enough.

Better planning at the department level could allow a more thorough review of grant applications

- According to the Grant Coordinator, ideally the Office would like to review the entire grant application for documentation quality and compliance with grantor requirements. However, this is not always possible for several reasons as follows:
 - Due to time constraints caused by the short turn-around submission timeframe imposed by the grantor, a thorough review by his Office may not be feasible.

- According to the Grants Coordinator, the applications submitted to the CAO for approval are not always fully completed. The Coordinator provides an overview of the grant (via memo) along with the required signature pages, which must be signed by the CAO.
- According to the Grants Coordinator, some departments work on the application up until the last hour of the submission date. It is apparent that planning for this process needs to be improved significantly. According to the Grants Policies and Procedures Manual, the agencies are required to conduct annual strategic planning to produce a prioritized list of needs that can potentially be met with grant funding.
- Based upon the survey responses received from the departments and agencies, it was noted that follow-up procedures with the grantors to ascertain why the applications were denied and identify weaknesses and areas for improvement were not always conducted. Current policies and procedures do not require the departments to follow up with the grantors.

Recommendations:

5. ***Enhance the existing procedures to include guidance to aid the Departments and Agencies in administering and managing the grants.***
6. ***Conduct ongoing training sessions to ensure everyone has a clear understanding of policies and procedures, grants requirements, and management's expectations.***

- 7. Ensure employees are equipped with the necessary tools and resources to efficiently and effectively research, competitively pursue and administer grant funding.*
- 8. Conduct meetings at the beginning of the grant to ensure that departmental representatives understand grant requirements.*
- 9. Develop a process for holding departments and agencies accountable for non-compliance with policies and grant conditions.*
- 10. Review applications for documentation quality and compliance with grantor requirements.*
- 11. Mandate that departments follow up with the grantor when applications are denied in order to gain insight as to why applications are denied.*

Other Observations

Indirect Cost Recovery

Indirect costs are incurred for common objectives that cannot be readily assigned to a particular program or activity. Indirect costs include:

- a) The costs originating in each department or agency of the governmental unit carrying out Federal awards and
- b) The costs of central governmental services. Typical examples of indirect costs may include general administrative expenses of the grantee department or agency, accounting and personnel services performed within the grantee department or agency, depreciation or use allowances for buildings and equipment, and the costs of operating and maintaining facilities.

Currently, the City is recovering indirect costs for the Department of Social Services programs to help offset centralized services costs incurred on behalf of the Social Services Department. Approximately, \$700,000 was recovered in each FY08 and FY09. The City could potentially recover additional indirect costs by developing an indirect recovery rate for departments that have grants that allow for such costs. Similar to the recovered amounts for Social Services, the additional recovered amounts could be used to offset centralized services incurred for other allowable programs as well as costs associated with grants administration and management within the departments. Funds could also be used to acquire resources to implement a centralized oversight function. The collection of indirect costs could reduce the amount of available funding for some programs. However, for programs that do not spend the entire grant award, request for reimbursement of indirect costs could result in additional revenue.

***Approval for
Grant
Acceptance***

Even upon the successful application/proposal submissions, the current policies and procedures can hinder the timely acceptance of the grant awards. To accept and appropriate grant funds, the City Council is required to adopt an ordinance. However, the ordinance process is lengthy and does not always allow for timely acceptance of grant funds. It can take the City Council up to 30 days to act on an ordinance after it has been introduced, which does not include the time it takes the departments to draft the request, obtain the required administrative approvals, and forward the ordinance and resolution request to the appropriate agencies/departments. The request alone must be forwarded to the CAO's Office one month prior to the date the ordinance is to be introduced to Council. Upon introduction to Council, the requests must be reviewed by the Finance Committee, which only meets monthly.

The delays in the process could result in the City having to either forfeit funds due to the untimely acceptance of funds or cause staff to circumvent the process to accept the funds. The auditor identified several FY09 grant awards totaling approximately \$500,000 for which the grantor imposed an acceptance timeframe of approximately 30 days or less. Non-compliance with that time frame would have forfeited receiving those funds. Given the short turnaround time for acceptance and expenditures, the agreements were executed and in some cases funds were expended prior to the adoption of the ordinances.

Currently, the CAO is only authorized to accept funding up to \$2,000 without Council action. In order to streamline the process to accept grant funds and reduce the risk of forfeiting funds due to untimely acceptance, the dollar threshold for which the CAO can accept grant funds should be increased. Based upon information obtained from the Finance

Department and the auditor's query of ordinances issued to accept funding in FY2008 and FY2009, only one grant award of \$2,000 or less was identified. Approximately, 60% of the ordinances issued in FY2009 to accept funds were for amounts \$100,000 or less.

Record Keeping

Special funds must be set up in accounting records prior to incurring grant expenditures. It was noted that the Special Revenue Funds are not always set up in a timely manner. The initial grant expenditures during the grant period are recorded in the prior fiscal year's records and transferred once appropriate new accounts are set up. Unless the corresponding transfers are processed:

- budget overruns, which result in write-offs, are incurred;
- transactions could be charged to the incorrect period, and
- incorrect reimbursement or untimely requests could occur, which have all been historically noted.

Procedures to address this issue have been drafted and incorporated into the grants management policies and procedures manual. However, the policy has not been approved and implemented.

Recommendations:

- 12. Develop an indirect cost recovery rate where allowable and maintain documentation as to how the rate was derived.***
- 13. Set up Special Revenue Fund accounts in a timely manner.***
- 14. Request the City Council to increase the dollar threshold for which the CAO can accept grant funds to \$100,000.***

**MANAGEMENT RESPONSE FORM
CITYWIDE GRANTS AUDIT - 2010-005**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
1	<i>Implement a centralized Grants Office by consolidating the Grants Office and the Special Revenue Unit under one reporting structure.</i>	Y	The Financial Operations Portfolio (FOP) recommends that the process be revised to enhance communication among stakeholders and centralized oversight and accountability, rather than simply consolidating staff. The development of the SharePoint grants management and collaboration system will enable document sharing and collaboration among finance, budget and departments. For each project funded by a grant award, SharePoint will provide collaboration and document sharing environment and Info Builders or other applications will draw and data from financial and other appropriate systems. There will also be a requirement for manual data entry by agency project staff so that activities and outcomes can be tracked. Policies and procedures will be revised to guide and mandate use of the system for all grants, whether they be in the Special Fund, Enterprise Fund, Capital Fund, or General Fund. Policies will include review and authorization of grant reports by FOP staff prior to submission to the grantor. Once the system is completed and policies are in place, we will have a robust system for tracking grant related data, conducting desk reviews, sharing documents, and sending automated reminder emails to grants managers. Once complete, the system will allow the Mayor and other stakeholders to have available comprehensive information about the status of grant funds and the projects they support. Quarterly training on the new system will be available to City employees.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	City-wide		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	<i>Devise a methodology to readily identify all grant funds.</i>	Y	Currently all grant funds are readily identifiable through the Advantage Financial Ledger System. The Financial Operations Portfolio agrees that the identification process could be better and more efficient and effective. To aid in simplifying the identification of grant funds, we may consider options such as smart-coding fund numbers or using more specific fund number ranges. While working through the stimulus grant reporting process, the FOP will be restructuring the accounts to provide more detailed reporting.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Jeannine McConnell/Special Revenue Manager		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**MANAGEMENT RESPONSE FORM
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#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	<i>Work with DIT to expediently implement Share Point and InfoBuilders.</i>	Y	As a byproduct of the City's Recovery Act process, this is currently being implemented including interfaces between the City's accounting systems. The tracking and reporting system will use SharePoint as the user interface and Information Builders or other applications for data collection. For each project funded by a grant award, SharePoint will provide collaboration and document sharing environment and Info Builders or other applications will draw and data from financial and other appropriate systems. There will also be a requirement for manual data entry by agency project staff so that activities and outcomes can be tracked. The SharePoint environment has been completed; additional elements will be added on an ongoing basis to produce a robust system for tracking grant related data which will allow the Mayor and other stakeholders to have available comprehensive information about the status of grant funds and the projects they support.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Chris Johnston/Grant Coordinator (Lead) and City-		Completed
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	<i>Review the revenue resources currently posted to the general and special revenue funds for appropriateness using the special revenue fund definition incorporated in GASB Statement Number 54 and make the necessary changes.</i>	Y	These changes will be implemented in the City's Financial systems by the implementation date of the standard, which is for financial reporting for the year-end June 30, 2011.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Meghan Brown/Assistant Controller		On or Before November 2011 (CAFR)
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

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#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
5	<i>Enhance the existing procedures to include guidance to aid the Departments and Agencies in administering and managing the grants.</i>	Y	The Financial Operations Portfolio will develop guidance for more proficient administration and management of the grants. This will coincide with the new SharePoint grants management and collaboration system. The basic system is completed, these updated and enhanced procedures will be included in the on-going training.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	City-wide		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
6	<i>Conduct on-going training sessions to ensure everyone has a clear understanding of policies and procedures, grants requirements, and management's expectations.</i>	Y	The Financial Operations Portfolio has implemented a training program and will continue to develop and provide training on a regular basis. We will also collaborate with the agencies to provide some individual training as employees are replaced. This will be most applicable if the next training session is more than 4-6 months out.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Chris Johnston/grant Coordinator & Jeannine McConnell/Special Revenue Manager		March 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
7	<i>Ensure employees are equipped with the necessary tools and resources to efficiently and effectively research, competitively pursue and administer grant funding.</i>	Y	The Financial Operations Portfolio will continue to hold periodic training sessions to orient employees to the eCivis Grants Network Grants Locator, a robust grant research tool currently available to all employees upon request. FOP will provide periodic grant writing training to help improve skills among City staff and ultimately improve the City's competitiveness and promote a strategic approach to grant seeking. FOP will revise the grant policies and procedures to guide grant management practices and provide periodic training to on those grant management procedures. Additionally, the FOP has professional grant writers available to provide grant writing services. This is a valuable resource available to City agencies to help strengthen the quality and competitiveness of grant applications.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	City-wide		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**MANAGEMENT RESPONSE FORM
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#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
8	<i>Conduct meetings at the beginning of the grant to ensure that departmental representatives understand grant requirements.</i>	Y	Current grant policies and procedures require development of an implementation plan for each grant awarded to the City. Implementation plans should include a spending plan, a project timetable, a list of project staff roles and responsibilities, and a meeting with the Financial Operations Portfolio. The FOP proposes to enforce the required development of implementation plans by withholding approval of the Advantage RB and EB transactions for the grant account if an implementation plan is not attached to the EB form. This effectively will prevent any spending until an implementation plan is received and approved by the Grant Coordinator and filed with the EB form.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Chris Johnston/Grant Coordinator		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
9	<i>Develop a process for holding departments and agencies accountable for non-compliance with policies and grant conditions.</i>	Y	Holding departments and agencies accountable for non-compliance will need to be discussed and addressed with senior management to devise a method.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	City-wide		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**MANAGEMENT RESPONSE FORM
CITYWIDE GRANTS AUDIT - 2010-005**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
10	<i>Review applications for documentation quality and compliance with grantor requirements.</i>	N	The Financial Operations Portfolio feels strongly that grant applications denied for funding by the grantor is primarily as a result of fierce competition for limited grant funds rather than failure to meet grant eligibility requirements or due to poor document quality. This is especially true for those grant applications that have been reviewed by the FOP staff. To this end FOP Staff conduct reviews of all grant applications provided by agencies with enough advance time to conduct such a review. In the past, staff has significantly edited, completely rewritten, or asked for specified revisions of a number of grant applications. The issue is that most grant applications are submitted at the last minute and FOP staff does not have an opportunity to review them until after they are submitted to the funder. The FOP will enforce the existing grant policy and procedure requirement that a copy of the completed application or the most recent complete draft of the application if the application has not been finalized is completed and policies are in place, we will have a robust system for tracking grant related data, conducting desk reviews, sharing documents, and sending automated reminder emails to grants managers. Once complete, the system will allow the Mayor and other stakeholders to have available comprehensive information about the status of grant funds and the projects they support. Quarterly training on the new system will be available to City employees. department Director by the CAO.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Chris Johnston/Grant Coordinator		Completed
	IF IN PROGRESS, EXPLAIN ANY DELAYS		
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
11	<i>Mandate that departments follow up with the grantor when applications are denied in order to gain insight as to why applications are denied.</i>	Y	The Financial Operations Portfolio will revise the policies and procedures manual to include the requirement that departments follow up with the grantor when applications are denied in order to gain insight as to why applications are denied. The proposed policy will also require that the feedback from the grantor be provided to FOP staff in writing. Further, this requirement will become part of periodic grant training.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Chris Johnston/grant Coordinator & Jeannine McConnell/Special Revenue Manager		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

**MANAGEMENT RESPONSE FORM
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#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
12	<i>Develop an indirect cost recovery where allowable and maintain documentation as to how the rate was derived.</i>	Y	The Financial Operations Portfolio believes this is an appropriate recommendation. However, a cost/benefit analysis will have to be performed before determining whether a city-wide indirect cost rate is advantageous.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	City-wide		June 2010
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
13	<i>Set up special revenue accounts in a timely manner.</i>	Y	Processes are already implemented to set-up new accounts for grants that are mandated or approved. Financial Operations will set up a budget for half the amount of budget for mandated or continuous programs until the award letter is received by the City. This is intended to eliminate improper posting expenses to a prior years account.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Jeannine McConnell/Grant Manager		Completed in June 2009
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
14	<i>Request the City Council to increase the dollar threshold for which the CAO can accept grant funds to \$100,000.</i>	Y	Financial Operations, upon request by the CAO, prepared and submitted a memorandum in August making the case for this threshold increase. On October 12, 2009, City Council adopted an ordinance number 2009-159-167 increasing the dollar threshold for which the CAO can accept grant funds to \$25,000.
	RESPONSIBLE PERSON/TITLE		TARGET DATE
	Chris Johnston/Grant Coordinator		Completed
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION