Grants Administration

City of Tulsa
Internal Auditing
January 2008

Grants Administration

City of Tulsa

Internal Auditing

_____
Ron Maxwell, CIA, CFE
Chief Internal Auditor

_____
Phil Wood, CIA, CFA
City Auditor

AUDIT TEAM:
Cathy Criswell, CIA, CPA
Kelly Brader
Tina McIntosh
Seth Potter

SUMMARY OF AUDIT PROJECT

Scope:
Review procedures related to acquiring, accounting and reporting for grants citywide.

Objectives:
- Review compliance with laws, regulations, policies and procedures for acquiring, accounting and reporting for grants
- Determine whether accounting for grant receipts and expenditures is accurate, complete, and timely
- Determine whether grant reports are accurate, complete, and timely

Overall Risk Exposure: (Low, Moderate, High)
High

Risk exposure is high primarily due to significant changes in grant administration. Changes include turnover in key management positions, reorganization of departments, and new regulatory requirements. Some issues in this report have existed for several years. Change negatively affected the City's ability to deal with them effectively.

Conclusion: (Unsatisfactory, Satisfactory-needs improvement, or Unsatisfactory)
Unsatisfactory

Project Results:

- The financial controls for grant awards, program income and interest income are sound.
- Grants are sought by various City departments often without cost and risk analysis completed.
- Various departments duplicate monitoring and accounting efforts performed by Finance-Grants Accounting Division.
- Communication of essential grant transactions and written correspondence to all involved parties is incomplete.
- Information systems maintained by Working In Neighborhoods Department are not reconciled to accounting records.
- Monitoring is not consistently performed to ensure compliance with grant objectives and requirements.
- Subrecipient performance measures are not maintained or administered by monitors.

Audit Contacts:
- Susan Neal, Director, Community Development and Education Initiatives
- Michael Kier, Director, Finance Department
- Don Cannon, Council Administrator

INTRODUCTION

The City of Tulsa receives grant funding from federal and state agencies used to provide City services to the citizens of Tulsa. Getting grants administration right is essential to ensure the citizens realize the maximum benefit from grant funding.

Well-developed grant practices include first-rate financial management and regulation, transparency, accountability, credibility, and making the right decisions based on merit. Grants administration must work within the legal and regulatory framework of the city, state and federal laws. There are administrative challenges to effectively managing grants and grant programs, which require the City, grantor agencies, and subrecipients to work together to ensure the success of their programs.

A well-developed grants program designed to reflect the total life cycle of a grant will allow the City an opportunity to effectively and efficiently administer grant programs for the citizens. The following chart represents the life cycle of a grant. Each of the steps in the grants life cycle should be properly managed.
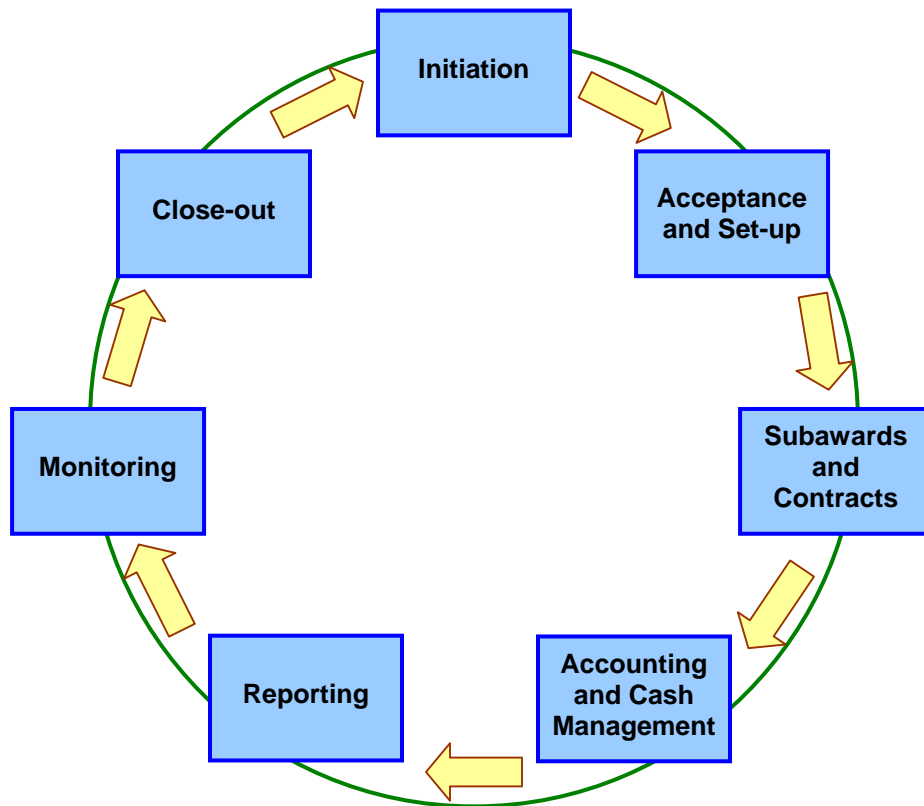
Audit Findings, Recommendations and Management Responses

AUDIT FINDING 1
The grant initiation process is disorganized and does not include risk assessment and cost/benefit analysis.

SUMMARY:
Executive Order 2003-07, Procedures for Processing Grant Applications and Awards, allows each department to develop grant applications and process awards. One of seven departments interviewed actively seeks grants. Other departments do not have a function for actively locating grants. There is no concentrated effort for identifying and seeking potential grant funds. Grant funds are important because they allow the City to offer assistance to and provide services to the citizens, which may not be otherwise available. With less funding available each year for adding services or supplementing current services, grant awards are becoming more essential for the City.

The grant initiation process does not include formal processes for considering external and internal risk factors. A risk assessment process provides a means to analyze whether there are negative consequences associated with accepting a potential grant. For example, if considering whether to apply for a grant to fund a computer system, consideration should be given to whether the City has the ability to implement and support it.

Cost/benefit analysis should be done before applying or accepting a potential grant. This type of analysis will provide information regarding whether accepting a potential grant will cost more than it will provide in benefits to citizens. Current procedures do not include a complete cost analysis. Matching requirements are required to be considered by executive order, but that is normally the extent of the analysis. For example, if considering whether to apply for a grant to build a structure, cost analysis should also include how much maintenance of the structure will cost.

RECOMMENDATION:
Management should consider centralizing grant initiation duties and establish a grants administration office. The centralized grants administration office could provide administrative support in grant project planning, identifying grant sources and completing grant applications. In addition, this function could support other departments by providing grant compliance monitoring, grant-related financial information, close-out and audit assistance, and other needs.

RESPONSE:

Please see response on page 12 of this report.

AUDIT FINDING 2

The Community Development Block Grant (CDBG) allocation process contributes to increased administrative cost.

SUMMARY:

The Program Review Committee uses a scoring process for CDBG grant applications. The committee submits the applications and scores to the Fund Allocation Committee. The Fund Allocation Committee determines funding levels and the full Council makes the final funding allocations. Councilors sometimes override the scoring results and opt to fund additional programs they support. Consequently, this increases the number of subrecipients which must be monitored. The more programs that are funded, the greater the cost is to administer them.

Grant funding allocations are as low as $5,000 and as high as $784,943. Regardless of how small or large the allocation, staff must monitor all subrecipients according to grant requirements. Risk of grant noncompliance escalates with increasing number of subrecipients.

RECOMMENDATIONS:

- City Council should adopt a CDBG grant award scoring process acceptable to all City Councilors. Only the grant applicants who receive appropriate scores should be funded.
- City Council should consider reducing the number of subrecipients funded each year, which will result in reduced administrative costs. Reducing administrative costs will allow more direct funding to be provided to benefit low-to moderate income individuals.

RESPONSE:

Please see response on pages 13 and 14 of this report.

AUDIT FINDING 3
Various departments are duplicating monitoring and record keeping efforts.

SUMMARY:
According to Executive Order 2003-07, the Finance Department is responsible for financial planning, cash management, and reporting. In this role, they perform accounting and budget monitoring services for various departments. However, there are other departments within the City that duplicate some duties performed by Grants Accounting.

Assigning the work to one department would increase efficiency and reduce costs. There would be less opportunity for granting agencies and management to receive conflicting grant information.

RECOMMENDATION:
Management should consider centralizing grant accounting activities, grant reporting, and grant budget monitoring. The centralized function could act as the audit and financial liaison and provide other grant support needs for City departments.

RESPONSE:

Please see response on page 12 of this report.

AUDIT FINDING 4
Some grant data is inaccurate, not reconciled, and not accessible by some staff.

SUMMARY:
Grant allocations, grant expenditures, and program income are input and stored in three separate databases: the City of Tulsa's accounting system, Integrated Disbursement and Information System (IDIS), which is a system required by the U. S. Housing and Urban Development Department (HUD), and an in-house database maintained by the Working in Neighborhoods (WIN) Department. All databases should contain the same information because they are recording the same transactions. The databases have not been reconciled since the inception of IDIS in 1998.

Reconciliations are an essential process which should be completed on all databases at least once a month. Reconciliations provide tools for tracking program budgets, program income, grant close outs and to detect discrepancies. Waiting until the end of a program year or longer will make reconciliation more difficult, resulting in time consuming and costly research to resolve differences. Not reconciling also increases the risk of issuing inaccurate and incomplete financial and grant reports.

Only one WIN staff member has been trained on use of the IDIS. WIN Planners do not have adequate access or training on IDIS to ensure proper expenditure coding and that grant budgets are not overspent. In addition, most WIN staff members do not know how to access accounting information or how to understand it. Adequate access to financial information is critical for all staff administering grants to ensure transactions are accurate and budgets are not overspent.

RECOMMENDATIONS:
- The IDIS should be reconciled to accounting records. It is imperative to continue reconciling the databases each month to ensure accuracy of information supplied to the granting agencies and other interested parties.
- WIN staff should be provided limited access to IDIS so they can complete their monitoring duties. In-depth IDIS training should be provided to WIN staff. WIN staff should also be trained to use information available from the City of Tulsa accounting system.
- The in-house database should be discontinued. If access is properly granted and training provided, there will be no need for an in-house database.

RESPONSE:

Please see response on page 12 of this report.

AUDIT FINDING 5

Monitoring of subrecipient performance and assets purchased with CDBG grant funds is not regularly completed to ensure grant compliance.

SUMMARY:

HUD grants require monitoring of subrecipients to ensure the activities provided meet national objectives. The national objectives are to benefit low-to-moderate income persons, prevent or eliminate slums or blight, or meet community development needs having a particular urgency. When the City provides grants funds to subrecipients, it is important the subrecipients establish performance objectives that align with the national objectives. WIN Planners are assigned subrecipients to monitor at least once a quarter, but currently are spending too much time processing subrecipient financial transactions rather than monitoring subrecipient performance. One subrecipient, Tulsa Development Authority (TDA), has not been monitored in the past.

HUD regulation 24 CFR 84.34 sets forth requirements for equipment purchased with grant funds. Included is a requirement for equipment purchased by subrecipients with grant funds to be monitored on a regular basis. HUD also requires a master listing of assets be maintained and a physical inventory be completed every two years. The planners are only making casual observations of the equipment and have not conducted an inventory in the past. Planners were not aware of all the grant requirements for assets.

RECOMMENDATIONS:

- A WIN Planner should be assigned and begin monitoring the activities of TDA immediately. Monitoring of TDA should be completed quarterly.
- In-depth training should be provided for all staff administering grants. The training should include grant regulations and monitoring of performance measures and benchmarks.
- Monitoring guidelines need to be designed and followed on a consistent basis. Management should review the effectiveness of the monitoring activities to ensure goals and objectives of grant awards are being achieved.
- A physical inventory of equipment purchased with HUD funds should be completed immediately and any discrepancies resolved. A master listing of equipment purchased with HUD funds should be designed and maintained on a regular basis and reconciled at least every two years.

RESPONSE:

Please see response on page 12 of this report.

AUDIT FINDING 6

Subrecipients fail to submit reimbursement requests with proper documentation and cash reports as required.

SUMMARY:

Contracts require subrecipients to submit reimbursement requests and cash reports by the 5th of each month. Subrecipients submit this information to WIN Planners in various formats. Planners must review documentation to ensure expenditures are allowable. Planners then code payments, obtain management approval, and forward documentation to Accounts Payable for payment. Planners are receiving submissions daily, monthly, bi-monthly, and even multiple months one time a year. TDA, which is a subrecipient of grant funds, is allowed to have their own manager approve payments from CDBG funds and submit them directly to Accounts Payable, bypassing the WIN Department. These inconsistent processing procedures lead to inefficiencies and complications.

The City does not require subrecipients to use a standardized reimbursement system. Many of the subrecipients use inefficient or out of date accounting systems. Administration would be more efficient if subrecipients were required to use a modern, standardized system.

RECOMMENDATIONS:

- As recommended in Finding 3 above, processing of financial transactions should be centralized.
- Processing procedures for reimbursement should be standardized. All subrecipients should be required to meet the submission and reporting deadline of the 5th of each month. This would be better enabled through adoption of a required electronic system to be used by all subrecipients. Use of a standardized system would improve consistency, reduce paperwork and lost invoices, improve documentation, and avoid duplicate payment requests. Management should consider establishing this requirement for the 2009-2010 fiscal year. This would allow City staff to gain knowledge of the system and, in turn, educate the subrecipients on the system.
- All CDBG payments, including TDA activities, should be reviewed by grants monitoring personnel.
- Management should also consider a policy to address late submissions. If submissions are late, staff should meet with the subrecipient to discuss a corrective action plan. If the subrecipient fails to follow the corrective action plan management should consider other measures, such as sanctions, to bring the sub-recipient into compliance.

RESPONSE:

Please see response on page 12 of this report.

AUDIT FINDING 7
Rehab Finance Group duties are not handled properly

SUMMARY:
The WIN Rehab Finance Group duties include assisting individuals in completing loan applications, processing loan applications, approving loan applications, processing and approving invoices, releasing payments, and collection activities on past due accounts. Allowing an employee to both approve loans and collect payments increases the risk that a payment may be handled inappropriately. Segregating duties is an important approach to ensure errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Segregation of duties provides two main advantages 1) an intentional fraud is more difficult as it requires collusion of two or more individuals, and 2) it is more likely innocent errors are found promptly.

Loan payments are processed by the Real Estate and Economic Development Department and the Finance Department. Neither of these departments provides a report to the Rehab Finance Group. The Rehab Finance Group employees do not have the training to access the financial system to track loan payments and balances. Therefore, the Rehab Finance Group is not aware of loan delinquencies on a timely basis. As a result, collection efforts are not completed on a routine or regular basis. The outcome is potential loss of program income and inactive loans in IDIS and the City's accounting system.

RECOMMENDATION:
- Segregation of loan initiation and approval, payments, collection efforts, contractor invoice approvals, and payment distribution should be initiated.
- Rehab Finance Group employees should regularly review financial records to determine which loans are delinquent and begin collection efforts. This will allow for delinquent loans to be appropriately addressed.
- In-depth training should be provided to Rehab Finance employees on the finance and IDIS systems.
- A loan aging report should be considered for development and communication to individuals monitoring loan payment performance and individuals responsible for loan collections.

RESPONSE:

Please see response on page 12 of this report.

AUDIT FINDING 8

There is no formal method for distributing written correspondence and reports from regulatory agencies beyond the party to whom they are addressed.

SUMMARY:

We observed during an Economic Development Sub-Committee meeting on October 2, 2007 that recent correspondence from a regulatory agency was not distributed to the City Council. Having incomplete information puts the City at risk of misinformed decisions and poor working relationships. The result could be a reduction of funding and support by regulatory agencies.

RECOMMENDATION:

Management should create a policy and procedures for distributing correspondence and reports from regulatory agencies to all affected parties.

RESPONSE:

Please see response on page 12 of this report.

Audit Finding 9

There is no process to ensure program income at the IDIS activity level is fully expended prior to requesting and using new entitlement funds for the activity.

Summary:

Title 24, which governs CDBG funding, requires any program income at the IDIS activity level be expended before additional cash withdrawals for the activity are made from the U.S. Treasury. Grants Accounting employees request reimbursements (drawdowns) for the previous month's grant expenses from HUD. Grants Accounting employees do not check program income records before processing drawdown requests. There is no process to ensure that program income for the activity is fully expended each month prior to requesting entitlement funds from HUD.

Recommendation:

A process should be established to ensure total program income for the activity is recorded and used prior to requesting and expending entitlement funds.

RESPONSE:

Please see response on page 12 of this report.

Management Response

The following response was received from Susan Neal by email on February 15, 2008:

> In response to the City Auditors draft of our grants and CDBG processes, I offer my complete and wholehearted concurrence. I would note that the deficiencies identified are long-standing and I welcome the opportunity to be part of an administration that is going to proactively address them.
>
> Susan Neal

The following response was approved by the City Council on April 3, 2008:

In response to the Internal Auditors' draft audit of the City of Tulsa's grants administration processes, particularly with regard to Audit Finding 2, the City Council offers the following consensus statement, adopted by the Council on April 3, 2008.

The Council applauds the Internal Auditors' examination of long-standing procedural challenges in the administration of grants. The Council also commends the Administration's diligence in addressing these challenges directly and systematically, and recognizes that the issues identified in the draft audit report have developed over the course of decades.

The Council generally concurs with Audit Finding 2, with the possible exception of the following statement. "*Councilors sometimes override the scoring results and opt to fund additional programs they support. Consequently, this increases the number of subrecipients which must be monitored.*"

As the draft audit report notes, the staff-level Program Review Committee (PRC) evaluates applications, based on a set of criteria, and provides an evaluation report on each program to the Fund Allocation Committee (FAC)/City Council. The PRC does not attempt to allocate grant funds or otherwise demarcate programs as "funded" or "not funded."   There are, therefore, no funding recommendations for the FAC/City Council to override, and there is no basis for comparison to conclude that the FAC's/City Council's determinations *necessarily* increase the number of subrecipients.

With regard to the two recommendations specifically related to the City Council's discretion to allocate CDBG funds, we address each, in turn.

1. **"City Council should adopt a CDBG grant award scoring process acceptable to all City Councilors. Only the grant applicants who receive appropriate scores should be funded."**

The Council generally concurs that funding allocations should be made by reference to criteria that are as clear, widely accepted, and consistently applied, as possible. The Council also acknowledges the guidance of the U.S. Department of Housing and Urban Development in this regard, as follows:

> *"Grantees should establish criteria for selecting subrecipients and CBDOs and assessing risk. The criteria should be used to determine whether a prospective subrecipient has the necessary systems in place to carry out the proposed project/activity and to comply with applicable rules and regulations.*
>
> *At a minimum, the criteria should include:*
>
> - *Eligibility of the activity under CDBG;*
> - *Compliance with a CDBG national objective;*
> - *Consistency with the priorities and specific objectives established in the Consolidated Plan;*
> - *Prior experience with CDBG and/or other grant programs;*
> - *Prior experience in the community;*
> - *Prior experience in the type of project/activity being proposed;*
> - *Organization's administrative and financial capacity to carry out the proposed activity; and*
> - *Appropriateness of the design of the proposed project or program delivery approach."[1]*

---

[1] HUD Office of Block Grant Assistance, "Basically CDBG – Course Training Manual, Chapter 2.3.8 – Evaluating Applications" (http://www.hud.gov/offices/cpd/communitydevelopment/training/basicallycdbgmanual/chapter2.pdf).

The Council also recognizes that the application of scoring criteria inherently involves subjective judgments, and that a staff evaluation and scoring process, no matter how well designed and consistently applied, can never entirely displace the informed discretion of public officials.

As stated in the Citizen Participation Plan for the City of Tulsa:

> *The City Council serves as the determining body in matters related to the Consolidated Plan and associated housing and community development programs for the City of Tulsa, including Guaranteed Loan Funds. This body is composed of nine elected members representing nine council districts and makes final determinations regarding funding allocations.*

The role of the City's diverse, representative governing body is consistent with the intent of the 'block grant' approach to federal community development programs, which emphasizes *local* control and discretion.[2]

Consistent with our Charter responsibility and the trust placed in us by our constituents, each Councilor must ultimately apply his or her unique knowledge of community needs, and of each potential subgrantee's capacity to meet those needs. PRC evaluations are a valuable analytical tool to help us in that regard.

2. **"City Council should consider reducing the number of subrecipients funded each year, which will result in reduced administrative costs. Reducing administrative costs will allow more direct funding to be provided to benefit low-to moderate income individuals."**

The amount of CDBG funding awarded to the City of Tulsa has declined considerably over the last several years, necessitating more and more difficult subgrant allocation decisions. The elimination of even the smallest subgrants can have devastating impacts on the kinds of important community services that tend to fall into gaps left by traditional governmental and charitable funding programs.

Notwithstanding these challenges, the Council concurs with the goal of reducing administrative burdens and costs, wherever possible, and acknowledges that we have an important role to play in that regard.

---

[2] See, e.g., Presidential Statement on the Housing and Community Development Act of 1974 (August 22, 1974) ("*This bill climaxes years of efforts to replace the rigid programs of the past with a more flexible approach by sweeping away seven categorical grant programs such as urban renewal and Model Cities and replacing them with a single 'block grant' program for community development. This new approach will put Federal funds to work on behalf of our cities and towns far more effectively than before by ... replacing Federal judgments on local development with the judgments of the people who live and work there.... In a very real sense, this bill will help to return power from the banks of the Potomac to people in their own communities. Decisions will be made at the local level. Action will come at the local level. And responsibility for results will be placed squarely where it belongs — at the local level.*") (http://www.presidency.ucsb.edu/ws/index.php?pid=4632).

Report Distribution List

Mayor
Councilor, District 1
Councilor, District 2
Councilor, District 3
Councilor, District 4
Councilor, District 5
Councilor, District 6
Councilor, District 7
Councilor, District 8
Councilor, District 9
City Auditor
City Attorney
Controller
Council Administrator
Council Secretary
Deputy Mayor
Director of Community Development & Education Initiatives
Finance Director
General Counsel
Real Estate Management Director
Senior Administrative Services Officer
TDA Chairman
External Auditor
Mayor's Audit Committee