



INTERNAL AUDIT

Grant Policy Compliance Audit

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Executive Summary

The City Auditor has conducted a Grant Policy Compliance audit. This audit was conducted under the authority of Resolution #2013-51 and in accordance with the Annual Audit Plan approved by the City Council in Resolution #2016-54. This audit primarily examined the policies, procedures, and practices being used in those areas that benefit financially from grants – federal, state, and local.

City staff are generally following the City's Grant Policy & Procedures Manual. Some documentation was missing or hard to locate. Adherence and accountability to the City's Grant Policy could be improved by streamlining it, making it more readily accessible, and providing annual refresher training. Ideally, the addition of a Grant Coordinator would make the process more organized and efficient.

The details of the overall findings and recommendations are discussed in this report.

Objective

The objective of this audit according to the Annual Audit Plan was to determine if there is compliance with the City's grant policy.

Scope and Methodology

The City Auditor reviewed the documentation for all the current grants (FY16) for FY14-16 as specified in the City's Grant Application, Acceptance & Reporting Policy and Procedures Manual. The financial transactions for these grants as well as the City's Single Audit Reports were also reviewed for the same timeframe.

Eight Federal grants and three State grants were reviewed. The total amount awarded for these grants is \$11,082,606 and in FY16 \$5,195,176 was expended. The majority of these dollars are for the Texas Community Development Block Grant (CDBG) Disaster Recovery Program.

As part of the audit, the following was done:

- Reviewed the Grant Application, Acceptance & Reporting Policy and Procedures Manual
- Reviewed the Single Audit Act, OMB Circular A-133
- Reviewed the Single Audit Report completed by Weaver and Tidwell, LLP, for FY14-16
- Reviewed all grant documentation to ensure all approvals had been received
- Verified that all grant funding was reflected in the budget
- Reconciled receipts and payments collected to the financial system/general ledger
- Evaluated the design and effectiveness of the grant policy
- Surveyed the staff involved in the grant policy regarding their thoughts on the process

Generally, City staff is adhering to the internal grant policy. Most of the required grant documentation was located, but the folders are somewhat disorganized and difficult to navigate. Finance could also improve oversight and compliance with policy requirements, which would be aided by streamlining the current policy.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The sampling methodology is discussed in Exhibit A and the reliability and integrity of information is discussed in Exhibit B.

Background

A grant is a way the government funds ideas and projects to provide public services and stimulate the economy. Grants support critical recovery initiatives, innovative research, and many other programs. A grant is one of many different forms of government financial assistance. Government financial assistance is a broad term to refer to the many ways the US government redistributes resources to eligible recipients.

The grant process follows a linear lifecycle that includes creating the funding opportunity, applying, making award decisions, and successfully implementing the award. The specific actions along the lifecycle are grouped into three main phases – Pre-Award, Award, and Post-Award.

League City has been able to benefit from several Federal and State grants that help with Police and Fire department tasks and initiatives, as well as recovery initiatives and community development activities.

The operational/requesting department and Finance have distinct roles and responsibilities, but it is important that they work together and keep each other apprised of the status of the grant(s). The Grant Application Pre-Approval Form must be completed by the requesting department and receive all signatures before moving forward with an application. The Budget Office is one of the required signatures, so the grant can be reviewed for fiscal impact. The signed form as well as other documentation must be provided to Finance to keep in the central Grants file directory. The requesting departments handle the operational tasks related to grant management, such as grant application and reporting. Finance will assist with the financial pieces, such as budgeting and reimbursement requests. It is very important that the requesting departments work closely with Finance and communicate any grant requests, so the budget is correct, payments and reimbursements are timely and correct, and all necessary documentation is retained and kept centrally.

Findings and Recommendations

During the audit, certain areas for improvement were identified. The audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Findings and Recommendations section presented in this report may not be all-inclusive of areas where improvement might be needed.

Based on the City's current grant policy, the following items were checked:

1. City Manager Approval
2. City Council Approval (>\$50K)
3. Reflected in Budget
4. Pre-Approval Form
5. Assigned Grant Project Manager
6. Signed Grant Application
7. Award Letter
8. Signed Resolution/Contract
9. Signed Contract (Original)
10. Contractor Verification
11. Operational Reports
12. Budget Amendment Requests
13. Reimbursement Requests
14. Draw Down Requests

Out of the 11 grants, the following items were missing:

1. 3 City Manager Approvals
The City has had most of these grants for several years, so while there might not be a formal acknowledgement of the City Manager's approval, he is aware of these grants. But, according to City policy, all solicitation of grant funding, regardless of the amount, must have prior approval of the City Manager. The Award amount for these three Police grants is \$34K collectively.
2. 1 Expense Budget in FY14
The award amount for this CDBG grant was \$354K.
3. 6 Pre-Approval Forms
As previously stated, most of these grants have been used for several years and applying for them is an annual task. Regardless of whether applying for the grant is a routine process, the policy states that before applying for a grant that the requesting department must complete a Grant Application Pre-Approval Form.
4. FY14 documentation for the 3 State grants
All documents were found, but they were not in the Grants folder that Finance manages.

Management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches to the following recommendations:

1. Revising the City's grant policy could help clarify roles and responsibilities and the required documentation.

The current Grant Application, Acceptance & Reporting Policy and Procedures Manual was last revised 10/1/13. The policy is a bit lengthy and the requirements seem to be more robust than necessary in some areas.

Recommendations:

Revising the policy and providing some clarification and simplification could be beneficial to all parties that are involved in the grant process.

Management Response:

Management agrees with the Auditor's assessment of the current grant policy. The policy will be updated in FY2018.

Target Date: April 1, 2018

Responsible Party: Finance Director

2. Training should be provided on a recurring basis to ensure that all staff is aware of their role and responsibility within the grant process.

The City has a detailed grant policy. Nine employees involved in the grant policy were surveyed and three of the nine (33%) were unaware of and/or unable to access the policy. Four of the nine employees (44%) had either never reviewed the policy or it had been longer than a year since it was reviewed.

Recommendations:

Finance should keep the policies in a central location where all employees can readily access them. Mandatory grant policy training and acknowledgement of the policy should occur on at least an annual basis. This can be accomplished using an online tool to ask a few questions and then an electronic acknowledgement can be obtained and kept for records.

Management Response:

The current grant policy is archived in policy tech. An email is sent to the appropriate employees any time the policy is updated which asks them to read the policy and 'mark as read' as acknowledgement of the changes.

A procedure will be included in the new grant policy on which event(s) trigger an acknowledgement being requested from employees with grant related job duties. Also, included in the new policy will be guidelines requiring acknowledgement from employees reviewing the policy annually.

A procedure for the introduction of the grant policy and acknowledgement of receipt by new employees will also be created. Identifying new employees with job duties involving grants will require collaboration with user departments.

Face-to-face training on the grant policy will be held upon completion and approval of the revised policy.

Target Date: April 1, 2018

Responsible Party: Finance Director

3. Having a dedicated Grant Coordinator could be helpful administratively for the City's current grants as well as helpful in securing additional grants.

Finding available grants as well as properly applying for grants can be a complicated process, especially for those who are not trained in that area and have other job priorities. Out of the nine employees surveyed, five (56%) do not feel like they are applying for and taking full advantage of all the grants that are available.

Recommendation:

Hiring a Grant Coordinator could help relieve some pressure off Finance and the requesting department's staff, keep the files and documents more organized, and possibly add to the City's grant portfolio. Audit understands that this is an ideal recommendation and that it may not be possible due to budget constraints.

Management Response:

A full-time Grant Coordinator dedicated to the record keeping, compliance of the policy, training of staff and assisting user departments in applying for additional grants would be ideal.

This is a budget issue and will be brought forward in the next budget cycle.

Target Date: Summer 2018

Responsible Party: Finance Director

EXHIBIT A

Sampling Methodology

All eleven of the current (FY16) Federal and State grants were reviewed, documentation and financial transactions out of AS400.

A Grant Policy Questionnaire was provided to all employees, Finance support and from the requesting departments, who are involved in the grant process for the FY16 grants regarding their thoughts on the policy and the process.

EXHIBIT B

Reliability and Integrity of Information

Findings 1-3 are inquiry and observation based, but they are supported by the documentation review results of the grant files.