
OFFICE OF THE CITY AUDITOR

PERFORMANCE AUDIT OF THE CITY'S GRANT DRAWDOWN AND CLOSEOUT PROCEDURES

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**March 15, 2002
Report No. 352**

Memorandum



March 15, 2002

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of the grant drawdown and closeout procedures used by the City in administering grant funds.

In our opinion, controls and procedures are adequate to provide a reasonable basis for the administration of grant funds throughout the City. However, certain departments need to improve the efficiency of grant drawdown and closeout procedures. In addition, the Office of Financial Services should improve grant accounting and administrative processes. Related opportunities for improvement are presented in this report.

It is our practice to include management responses immediately following each opportunity for improvement (recommendation) in our reports. Management did not provide responses within the required time period; therefore, we are issuing this report with management responses following the report.

We appreciate the cooperation of City staff during our examination.

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for
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City Auditor

c: Teodoro J. Benavides, City Manager

**PERFORMANCE AUDIT OF THE CITY'S GRANT
DRAWDOWN AND CLOSEOUT PROCEDURES**

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INTRODUCTION

Authorization

We have conducted a performance audit of the grant drawdown and closeout procedures used by the City in administering grant funds. Generally, the Office of Financial Services (OFS) has Citywide oversight and related reporting responsibilities for grants. Individual departments have primary responsibility for identifying and applying for grants, as well as directly managing and administering those grants.

This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

The objectives of our audit were to determine the effectiveness of the City's procedures for receiving grant monies and closing out grant funds from federal and state agencies. Our audit included an evaluation of the systems and procedures utilized by individual City departments and the OFS to administer state and federal grants received.

Our audit was conducted in accordance with generally accepted government auditing standards and, accordingly, included tests of the accounting records and other procedures that we considered necessary in the circumstances.

We reviewed grant funds that were active during the period starting October 1, 1998, and ending September 30, 2000. However, our review of documentation and processes relating to the grant proceeds drawdown procedures and the closeout of grants was not restricted to this audit period.

Overall Conclusion

In our opinion, controls and procedures are adequate to provide a reasonable basis for the administration of grant funds throughout the City. However, certain departments could improve the efficiency of grant drawdown and closeout procedures. In addition, the OFS should improve grant accounting and administrative processes.

Background

Administrative Directive (AD) 2-19 is the primary reference for procedures relating to grants and their administration. The responsibilities of the individual departments and the OFS, as related to the receipt and expenditure of grant funds, are contained in this AD. In addition to AD 2-19, the RESOURCE Information Guide (Chapter 5) provides instructions relating to the proper accounting procedures to process transactions relating to grant revenues and expenditures.

INTRODUCTION

To identify and isolate the use of the grant funds for approved purposes, most grants are assigned a unique fund number that is used during the entire term of the grant. Due to the difficulties we encountered in segregating grant funds from other special revenue funds within the RESOURCE system, we expanded our work to include the identification all fund types within this fund group.

Grant activity and status were reviewed with the grant administrator for each applicable City department. In addition to noting the commencement date, we determined whether the fund had a positive or negative cash balance and whether the grant had been closed with the grantor agency. We also reviewed the status of inactive grant funds with departmental administrators.

The staff of the OFS initiated a project to close numerous funds from the RESOURCE accounting system. The funds to be reviewed included all City funds. The closeout effort continued at the conclusion of our fieldwork.

MANAGEMENT'S ACCOMPLISHMENTS

During fiscal year 1999-2000, the City of Dallas maintained 223 federal and state grants with expenditures of approximately \$57.4 million. Based on an independent audit, the City complied, in all material respects, with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs.

OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, practices, and procedures that should be improved. Our audit was not intended to be a detailed study of every system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. State or federal grants are not uniquely identified within RESOURCE, and documentation offering and authorizing acceptance of grants is not centrally filed.

We identified deficiencies in the oversight/administration of grant funds:

- Grant funds are not separately identified within the RESOURCE accounting system or in control lists maintained by the OFS or the City Controller. The Controller's Office maintains a Federal and State Grant Activity Schedule that is reviewed and modified annually. However, we could not verify that this activity schedule includes all grants.
- The documents that offer and authorize acceptance of the various grants awarded to the City are not currently maintained in a centralized location. AD 2-19 (Para. 4.1.9) states that Budget and Management Services is responsible for establishing and monitoring financial and accounting records.
- The RESOURCE listing of all funds is not reviewed at predetermined intervals to identify and delete grants that are eligible to be closed (e.g., inactive grants, grants for which final reports have been issued). This issue is addressed in detail in *Opportunity for Improvement No. 2*.

We initially identified 34 special revenue funds, which appeared to be grant funds, that were not included in the City's Annual Single Audit reports for federal and state awarded grants. Special revenue funds include various fund types, including trusts and grants. We subsequently determined two of these funds to be trust funds, rather than grant funds. The City Controller's Office has stated that 23 of these funds are intergovernmental agreements (other than grants), seven are inactive grants, and four are current grants. The Auditors have not been provided supporting documentation to substantiate that 23 of the identified funds were not grants. With regard to the seven inactive grants, since they were not closed, they should have been reported in the Single Audit.

RESOURCE is not designed to identify grants as a unique fund class or separately identify federal and state awarded grants. The City has not developed an alternate procedure to ensure all grants are uniquely identified. Needed documentation for each grant fund should include the grant award, Council Resolution authorizing the acceptance of the award and creation of the fund, a designation of the fund type, and any other pertinent information.

Effective management controls require that there is appropriate authorization to establish each City fund and that these funds are aggregated at the lowest required/needed

OPPORTUNITIES FOR IMPROVEMENT

reporting level (i.e., state and federal grants as compared to all special revenue funds). These controls should require that accounting for all funds:

- Minimizes the risk of misclassifying fund types, either at a primary (e.g., special revenue funds) or secondary (e.g., grant funds) classification level.
- Ensures each fund is classified by fund type at the appropriate, lowest needed level.
- Maximizes financial accountability and effectiveness.

The City uses funds and account groups to report its financial position and the results of operations. Fund accounting is designed to ensure legal compliance with the terms and conditions of each grant and improve financial management. These objectives can be accomplished by segregating transactions related to certain government functions and activities within the appropriate level fund type.

Inadequate or inaccurate identification and classification of funds increases the risk of errors in the financial reporting structure of the City.

We recommend that the Chief Financial Officer formally establish and maintain:

- Source document files that support the funding agency grant award and the City's acceptance of the award.
- Controls to ensure each fund is properly classified at the level needed for accountability and reporting purposes.

2. Numerous grant funds are inactive and should be closed.

A review of the 154 federal and state grants included in the September 30, 1999, Single Audit reports indicated that 81 grant programs had been finalized, but had not been removed from the accounting records. We noted that 10 of those 81 grant funds were closed after September 30, 2000.

Specific policies and procedures for closing grant funds are outlined in AD 2-19 (Section 5.4). While the departments that have responsibility for administering the individual grants are required to ensure that all project activities have ceased, the OFS is responsible for coordinating the fund closeout process. Continuing to keep inactive grant funds open decreases the efficiency of administration and increases the risk of errors in recording financial transactions.

We recommend that the Chief Financial Officer coordinate the grant monitoring activity with each department having grant management responsibility. These departments, in coordination with the OFS, should complete the appropriate grant fund closures.

OPPORTUNITIES FOR IMPROVEMENT

3. Some departments do not initiate timely draw requests for grant funds.

The OFS is directly responsible for making draws from the U. S. Department of Housing and Urban Development (HUD) for the Community Development Block Grant program. This program is the City's most significant grant program. The City's Housing Department (Housing) and the Department of Environmental and Health Services (EHS) receive additional grant funding from HUD. While the OFS usually draws funds from HUD on a daily basis, Housing and EHS routinely process fund draws only twice each month. The on-line process to draw HUD funds can be accessed conveniently and is readily available to these departments.

Negative cash balances frequently persist for other grant funds for a period of 2-3 months before money is received from the grantor. The negative cash balances for the following funds are illustrative:

- Fund 0847, the 1998-99 Texas Department of Health WIC Program had a negative cash balance of \$173,476 as of March 31, 2000, and \$91,821 as of February 28, 2001. The decrease in the negative cash balance was due to reclassification of various expenses.
- Fund OF32, a NRA Challenge Grant for 1992-93, had a negative cash balance of \$78,530 as of March 31, 2000, and February 28, 2001.
- Fund 0636, a Texas Parks and Wildlife grant, had a negative cash balance \$49,478 as of March 31, 2000, and \$56,521 as of February 28, 2001,

While the terms of some grant agreements may not permit immediate replenishment of grant expenditures advanced by the City, most grant agreements permit funding on a monthly basis. Procedures have not been developed to ensure that City funds advanced for HUD and other grant programs are kept at a minimum as required by AD 4-13. Without such procedures, regulations may be ignored. Procedures should require monthly assessment of compliance with AD 4-13 and subsequent department notification if the department does not receive funding reimbursement from the agency on a timely basis. Extended delays in funding are usually caused by departments failing to submit draw requests in a timely manner.

In accordance with the provisions of AD 4-13, individual departments should initiate requests for grant funds as quickly as permitted under the grant guidelines. To the extent practicable, advance funding by the City should be minimized. Advancing money to grants diminishes interest earnings. In addition, negative cash balances that are maintained for an extended period may indicate expenditures for which reimbursement is problematic. The City's current procedures do not provide for disapproval of expenditures that will cause the fund to exceed authorized City funding limits.

OPPORTUNITIES FOR IMPROVEMENT

We recommend that the Chief Financial Officer:

- Develop and implement procedures that reasonably ensure compliance with the drawdown provisions of Administrative Directive 4-13. Such procedures should also provide for prompt notification of the applicable department director if drawdowns are not received in a timely manner.
- Investigate individual grant funds that have carried negative cash balances for an extended period of time. If it is determined that certain expenditures are not eligible for reimbursement by the grantor, those amounts should be individually charged to the department that is responsible for administration of the grant.