

November 9, 2016

REPORT #: 2017-01

Bob Elliot, Director
Finance Department

Dear Bob,

Enclosed is the final report for the Limited Review of Grant Administration in Public Safety Departments. Internal Audit would like to thank you and the staff in the Departments of Finance, Fire and Police for the support and assistance provided to us.

Should you have any questions, please feel free to contact me.

Thank you,



Eileen Donahue,
Internal Audit Manager

Enclosure

CC: Yasmin Beers, Assistant City Manager
Robert Castro, Police Chief
Greg Fish, Fire Chief
Michele Flynn, Assistant Director of Finance
Jay Kreitz, Police Business Administrator
Scott Ochoa, City Manager
Julie Schaeffer, Public Safety Business Administrator
City Council
Audit Committee

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INTERNAL AUDIT

Limited Review of Grant Administration in Public Safety Departments

November 9, 2016

Background

In accordance with Internal Audit’s fiscal year 2016-17 audit plan, Internal Audit performed a limited review of the processes in place for administering grants in the public safety departments: Police and Fire.

The City (*grantee*) often receives grants from other governments and organizations (*grantor*) to support their programs and activities. A grant agreement is essentially a legal contract between a grantor and a grantee and is subject to specific requirements, oversight, and audit. The grantee promises to engage in certain activities or procure certain goods, and the grantor agrees to transfer funds to the grantee to pay for the costs incurred. By accepting the grant agreement the City legally agrees to adhere to the conditions and terms set forth by the grantor.

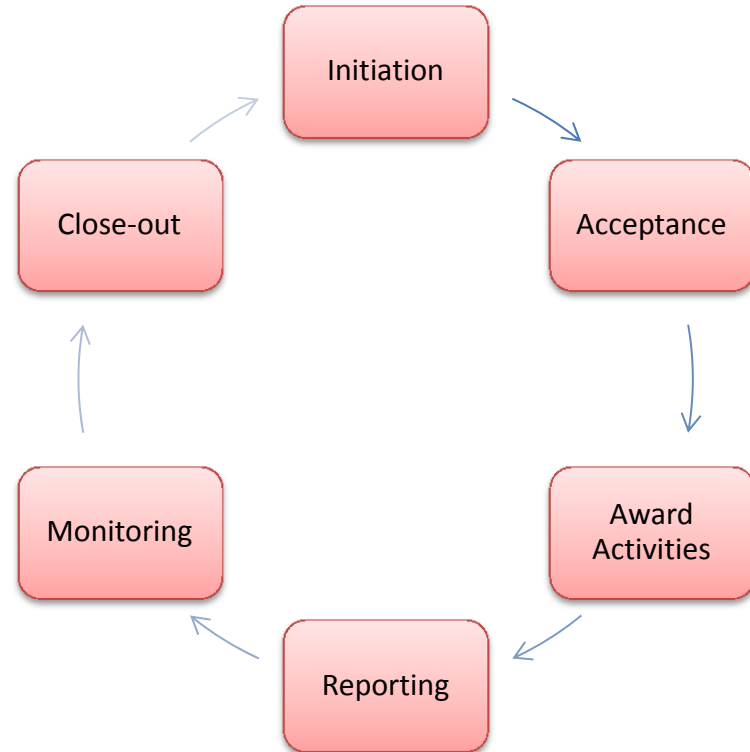
Grants require a formal application to the grantor and are awarded annually in amounts determined by the grantor. Most often the City must invoice the grantor for reimbursement of the expended funds. Specific requirements of the grant agreement often include submission of special performance and financial reports.

Expenditures of grants are subject to the City’s normal purchasing policies and is processed and recorded as any other purchase.

The Fire and Police Departments seek grants that will assist them in achieving their mission of providing public safety to the community of Glendale. Department personnel manage all grant activity from identifying and

initiating a grant application through close-out of the grant award. The Finance Department provides financial and procurement assistance.

The common stages of a grant award is shown below.



Objective, Scope and Methodology

Our objective was to review the grant administration practices for selected departments and assess whether controls are adequate to ensure grants are managed effectively, expenditures are supported by proper

documentation, and reimbursement requests are submitted timely and accurately.

This review included gaining an understanding of internal controls through inquiry, examining grant documents, and testing of grant related transactions. We performed limited testing of Police and Fire grants submitted for City Council approval between July, 1, 2014 through June 30, 2016; focusing detailed attention on those grants with expenditures \$100,000 or greater.

Grants reviewed in detail are listed below with amounts awarded to the City.

<u>Name of Grant</u>	<u>Department</u>	<u>Award \$</u>
2013 Urban Area Security Initiatives (UASI) Grant Program	Police	\$473,750
	Fire	\$229,250
2014 Urban Area Security Initiatives (UASI) Grant Program	Police	\$153,170
	Fire	\$598,507
2015 Office of Traffic Safety (OTS) Grant Program	Police	\$429,000
2016 Office of Traffic Safety (OTS) Grant Program	Police	\$440,000
Real Estate Fraud Prosecution Trust Fund	Police	\$120,000
National Institute of Justice 2014 DNA Backlog Grant	Police	\$100,000

In order to accomplish the objectives, Internal Audit performed the following procedures:

- Reviewed relevant documents; policies, procedures, and requirements related to grant management.
- Conducted interviews with department staff responsible for managing grants.
- Obtained and examined selected grant agreements and supporting financial documentation.

Summary of Results

Our test work involved gathering and testing information on the administration of grants in the Fire and Police Departments to evaluate whether controls are adequate for effectively managing grants, financial records are supported by proper documentation, and reimbursement requests are submitted timely and accurately.

It was determined that both the Fire Department and the Police Department follow a decentralized approach to grant management with more than one individual in each department performing grant management responsibilities dependent on the grant program.

This decentralized approach relies extensively on the knowledge and skills of the individuals assigned to manage the grant awards to ensure appropriate grant oversight. There is very little documentation available on the City's requirements for submitting grant applications, accepting awards, ensuring compliance with grant provisions, seeking reimbursement, reporting, and closing grants. By following

a decentralized approach some of the conditions of the City’s grant framework do not follow good practice guidance for administering grants effectively and are addressed by Observations #1- #4.

Evidence observed and collected supports the individuals administering grants are maintaining sufficient grant documentation and are familiar with most grant provisions.

Much of the test work conducted over the expenditure records and reimbursement requests support the grant managers in the departments:

- use the grant funds for allowable activities and allowable costs;
- obtain proper approvals for procurement and payment of transactions;
- properly report purchases by budget line item;
- expend grant funds in the appropriate time period;
- comply with grant requirements for equipment purchases;
- procure items timely in relation to the grant period; and
- seek reimbursement timely.

However, some administrative weaknesses, in the areas noted above, were identified from the examination of specific grant records, see Observation #5.

Improvements for weaknesses identified are summarized by risk rating in the charts that follow and included in the Observation, Recommendation, and Management Response Section of this report.

Priority 1
Critical control weakness that exposes the City to a high degree of combined risks.
○ None noted
Priority 2
Less than critical control weakness that exposes the City to a moderate degree of combined risks.
○ None noted
Priority 3
Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks.
<ul style="list-style-type: none"> ○ Institute centralized grant oversight unit ○ Redevelop citywide grants policy and procedures ○ Track grant information through database ○ Manage external monitoring of grants ○ Improve administrative practices

Item	Observation	Recommendation	Management Response
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 3</p>	<p>1. The City lacks a dedicated centralized grant oversight unit for providing reliable up-to-date information on grant requirements and acting as a primary resource for employees managing grants.</p> <p>Instead, grant management is decentralized within departments and sections. Employees performing the role of grant administrator are doing so in addition to other job duties and with very little grant training.</p> <p>With a decentralized approach there is higher risk employees will not be properly informed of grant requirements, practices will be fragmented, and the City could lose grant funding due to non-compliance.</p>	<p>It is recommended a centralized grant oversight unit be created, most likely, in the Finance Department to provide an advisory role for departments managing grants to ensure consistent and efficient practices. Responsibilities of the unit could include:</p> <ul style="list-style-type: none"> • Redevelopment of a citywide grants policy and procedures (see Observation #2) • Development of a citywide grant database (see Observation #3) • Development of a grant proposal library and grant templates • Assisting with evaluation of new grants for acceptance • Facilitation of grant approvals during execution of agreements • Training for those overseeing and directly administering grants • Tracking of external monitoring (see Observation #4) <p>In addition, the unit could also expand by assisting departments with administrative support in grant compliance monitoring, financial reporting, revenue drawdowns, and grant close-out.</p>	<p>Finance Department management agrees with the recommendation that a centralized grant oversight function is necessary.</p> <p>However, full implementation will take several years and will require approval from the City Manager’s Office and City Council. Therefore an implementation date will not be set.</p> <p>In the interim, the Finance Department will determine the steps necessary for progression and establish a long-term strategic goal to implement a centralized grant oversight function.</p>

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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 3</p>	<p>2. Based on discussions with staff managing the Fire and Police grants it was identified there is limited reliable citywide grants guidance as reflected below:</p> <ul style="list-style-type: none"> • A formal comprehensive grants policy that clearly addresses the responsibilities for staff managing the grants lifecycle is not in place. • The administrative policy for grant accounting , Policy 3-18, is outdated and no longer accurate. • Employees responsible for managing grants do not maintain documented inclusive policies and procedures for ensuring proper and consistent treatment of grants. Employees are educated in grant administration through non-directed hands-on experiences. <p>Without formal written policies and procedures available citywide there is a risk that staff are not effectively managing the grants received and may not be sufficiently aware of specific City and/or grant requirements; for example, some</p>	<p>It is recommended the Finance Department management update the grant accounting policy and add more grant lifecycle elements in order to maintain an effective internal control framework for meeting the priorities of the City and objectives of grants.</p> <p>At a minimum, components recommended by the Government Finance Officers Association should be included in the grants policy for the following areas:</p> <ul style="list-style-type: none"> • Grant identification • Grant application • Grant acceptance • Approval and notification • Strategic alignment • Funding analysis • Evaluation for initiation or renewal • Grant closing • Grant administrative, operational support, and training <p>After redevelopment of the grants policy, procedures can also be established for administration of</p>	<p>Finance Department management agrees with the recommendation to improve the citywide grants policy. The anticipated completion date is December 31, 2018.</p> <p>The Fire Department agrees with the recommendation and will develop an internal policy and procedures based on grants unique to the department. The anticipated completion date is December 31, 2018.</p> <p>Police Department management agrees with the recommendation and understands the importance of written internal policies and procedures. Currently, the grant policies and procedures that are in place are not documented. Available resources to document the policies and procedures are limited, therefore, implementation of this recommendation will be contingent on the assignment of additional resources to the business office. The anticipated completion date is December 31, 2018.</p>

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	<p>employees may be initiating grant agreements without proper authority. Further, under the current contract policy it is unclear if department heads have implied authority to unilaterally approve grants below specific amounts, such as \$15,000.</p> <p>The lack of an all-encompassing grants policy also increases the likelihood of a negative financial event for the City from disallowed costs, penalties for misuse and/or suspension of future grants.</p>	<p>grants in common practice areas such as:</p> <ul style="list-style-type: none"> • Accounting for grant expenditures • Reconciliation of records • Financial and performance reporting • Monitoring of grant activities <p>Additionally, the Business Administrators in the Fire and Police Departments should work with the individuals managing grants in their respective departments and develop internal policies and procedures that align with the specifics of the terms and conditions of each grant agreement.</p>	

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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 3</p>	<p>3. There is no centralized database maintained for collecting grant information and tracking the status of grants from application through close.</p> <p>In departments, grant records are not stored in a single location. Each grant administrator is responsible for maintaining grant documentation and organizing grant files. The level of support retained is not consistent.</p> <p>Thus, information developed for reporting to City officials on grants is gathered from segregated sources and may not be complete and accurate.</p>	<p>It is recommended the Finance Department management develop a citywide grant database to provide comprehensive grant information for tracking and monitoring grants. Suggested elements to consider in the database follows:</p> <ul style="list-style-type: none"> • Application submitted • Grantor name • Grant awarded • Grant denied • Grant regulations • Description of project and key activities • Required assurances • Expected outcomes • Grant start date • Grant end date • Grant budget including modifications • Financial reports • Performance reports • External monitoring reports • Close-out date • CFDA title and number • Award number and year 	<p>Finance Department management agrees with the recommendation. As well, this concept was previously discussed internally with the expectation that the Revenue Section will take on this responsibility with the implementation of the financial segment of Munis expected July 2018.</p> <p>The anticipated completion date is December 31, 2018.</p>

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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 3</p>	<p>4. Based on inquiries it was noted some grant programs are externally monitored by the grantor and a written report is issued. However, these reports are often given directly to the individual managing the grant and not distributed to upper management.</p>	<p>It is recommended the Finance Department management develop a process for collecting reports completed on City grant programs from external sources and evaluate the results for the identification of issues impacting programs citywide.</p>	<p>Finance Department management agrees with the recommendation and will include a process for the collection of external reports into the grant database under observation #3.</p>
	<p>Further, the external monitoring reports are not collected in a central location for tracking citywide.</p>	<p>In additions, efforts should be implemented to regularly monitor the corrective actions of issues raised through external reports.</p>	<p>The anticipated completion date is December 31, 2018.</p>
	<p>As a result, it is unclear if issues identified from external monitoring are being corrected timely or if systemic issues are present that should be addressed citywide.</p>		

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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 3</p>	<p>5. Test work of the grant documents and supporting financial records in departments identified the following practices that combined are not considered effective administrative practices:</p> <p><i>Fire Department –</i></p> <ul style="list-style-type: none"> Although efforts were made to expend the full grant awards some available revenues from the UASI grants for purchases of approved equipment, supplies and training of first responders were not fully utilized leaving \$98,800 and \$424,000 unexpended in FY 13 and FY 14, respectively. <p><i>Police Department –</i></p> <ul style="list-style-type: none"> Allowable costs of grant awards are not always sought for reimbursement; in one example, excise taxes were not claimed due to the method of capturing grant expenditures. Some grant managers submitting reimbursement requests are not accessing the financial system of record for the grant project to verify the accuracy of expenditures. Instead these individuals rely on 	<p>To improve the effectiveness of grant management the following is recommended:</p> <p><i>Fire Department –</i></p> <ul style="list-style-type: none"> Management should continue to make every effort to commit to maximizing the resources available from the UASI grant by utilizing the funds available on allowable purchases of the program. <p><i>Police Department –</i></p> <ul style="list-style-type: none"> The Business Administrator should develop a procedure that reimbursement requests submitted to the grantor be supported by the grant expenditures recorded in the accounting system. The Business Administrator should provide training to the individuals preparing reimbursement requests on the proper sources of financial information to use for claiming reimbursements requests. The Business Administrator with the assistance of grant managers should reconcile the grant financial records at least 	<p>The Fire Department agrees with the recommendation and provides the following comments:</p> <ul style="list-style-type: none"> Management will continue to make appropriate efforts to use the available revenues from grants. Additionally, new grant awards have significantly extended performance periods which allows for full expenditure. Further, Fire will continue to track and monitor the available funds throughout the grant period. Quarterly updates will be provided to the Finance Department on the reconciled status of grant projects. Grant reimbursements will be processed as specified by the grant award after all supporting documentation required for submission is available. <p>The anticipated completion date is November 30, 2016.</p> <p>Police Department management agrees with the recommendation. However, there is limited resources in the business office, therefore, implementation of this</p>

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	<p>knowledge they have on grant activities, costs billed, and information provided by the Business Administrator. As a result, there are instances where claim reimbursements submitted to the grantor do not reflect the financial system of record. For example, it was identified that contractual services were submitted for reimbursement months before payment by the City which is not allowed per the grant agreement.</p> <ul style="list-style-type: none"> Grant managers are not performing reconciliations between grant expenditures recorded in the financial system, reimbursement requests, and revenues collected. As a result, differences exist in the financial records of the grant projects that are not identified timely for proper resolution. Procurement requests are not always established at the onset of the grant period which creates delays in fulfilling the objectives of the grants and although not identified, can lead to unacceptable procurement 	<p>quarterly by comparing expenditures to revenues anticipated and collected. Discrepancies should be documented and if necessary adjusted through future reimbursement requests or communicated to the Finance Department for adjustment out of the grant project.</p> <ul style="list-style-type: none"> Purchases of equipment and capital outlay that are allowed through grants should be initiated at the onset of the grant period in order to efficiently use the funds and allow for unexpected delays. <p><i>Fire Department & Police Department combined –</i></p> <ul style="list-style-type: none"> The Business Administrators in Fire and Police should communicate at least quarterly with the Finance Department to propose adjustments to grant projects for unreimbursed costs. Specific attention should be given to the correcting entries by account, and if applicable by program. The Business Administrators in Fire and Police should develop a 	<p>recommendation is contingent on the assignment of additional resources. In addition, discussions will need to occur between Police and Finance to identify the method to follow to assure timely processing of expenses (especially overtime) to meet grant reporting mandates.</p> <p>The anticipated completion date is December 31, 2018.</p>

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	<p>practices.</p> <p><i>Fire Department & Police Department combined –</i></p> <ul style="list-style-type: none"> • Unallowed costs such as liability insurance are not adjusted out of the grant project financial records until the end of the fiscal year or project close-out which leads to the perception of mismanagement due to the reconciling differences and increases the time necessary to resolve discrepancies. In addition, when the expenditures and revenues in the grant are balanced; proper information is not always communicated to the Finance Department for processing adjustments to the correct account. As a result, differences may exist between the financial reports submitted to the grantor and the City’s financial system of record by account. • UASI grant reimbursement requests are not processed monthly as allowed per the grant agreement. This lack of processing is further magnified 	<p>procedure to bill the UASI grants monthly for expenditures incurred.</p>	

Item	Observation	Recommendation	Management Response
	<p>due to the grantors extended timeframe for reimbursing costs. As a result the City is providing the cash flow to support the program which extends to the following fiscal year.</p>		