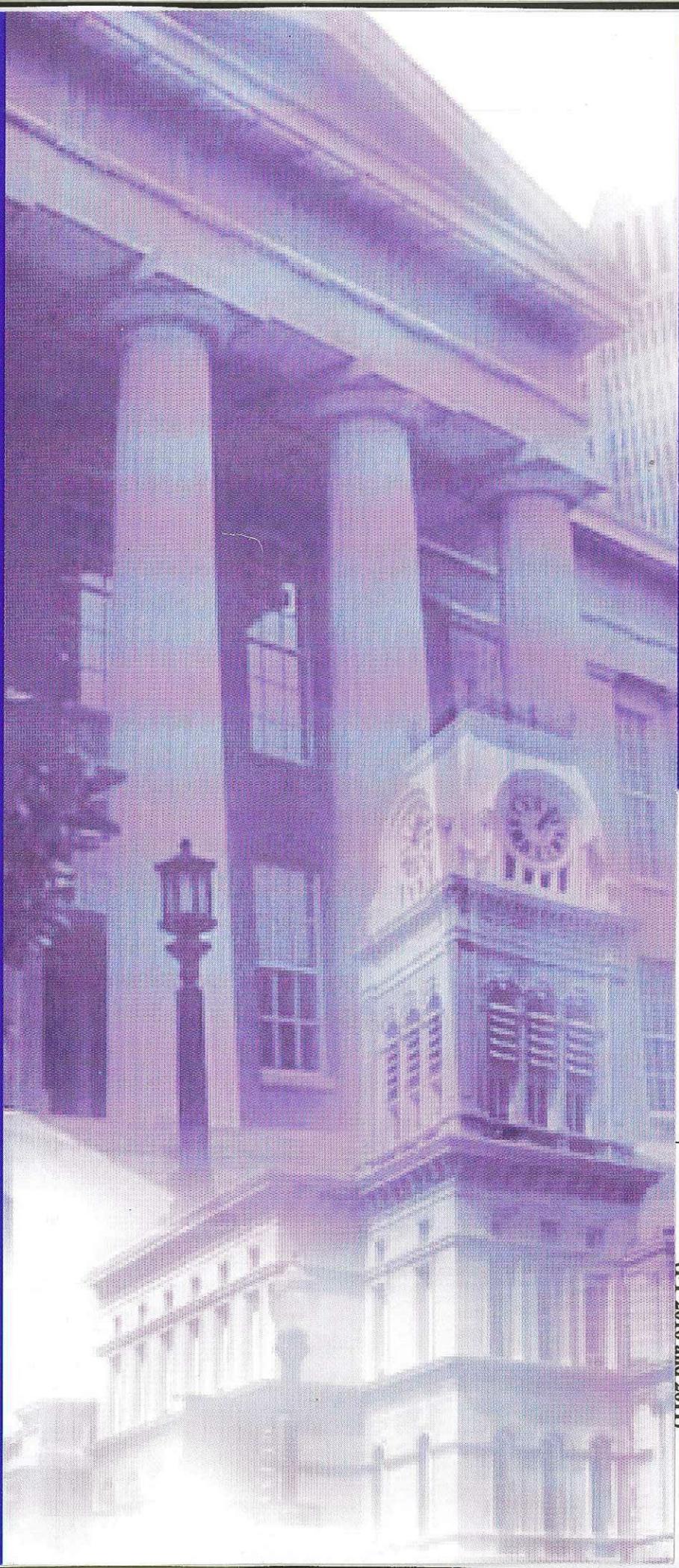




Greg Fischer  
Mayor

Louisville Metro Council

The Office of Internal  
Audit provides independent,  
objective assurance and  
consulting services  
that adds value to and  
improves Louisville  
Metro Government.



# Office of Internal Audit

Louisville Metro Council

Neighborhood Development Fund  
Grants  
(FY 2010 and 2011)

# Report

## Louisville Metro Council

### Neighborhood Development Fund Grants (Fiscal Years 2010 and 2011)

June 2012

Office of Internal Audit



Louisville Metro Council

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Neighborhood Development Fund  
Grants  
(FY 2010 and 2011)

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OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

GREG FISCHER

MAYOR

JIM KING

PRESIDENT METRO COUNCIL

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

**Transmittal Letter**

June 26, 2012

The Honorable Jim King  
President of Louisville Metro Council  
City Hall  
Louisville, KY 40202

**SUBJ: Review of Neighborhood Development Fund Grants**

**Introduction**

At your request, the Office of Internal Audit conducted a review of the Neighborhood Development Fund (NDF) grants for fiscal years 2010 and 2011. The objective of the review was determining if the grant funds were used as intended and in compliance with their respective grant agreements. The request for the review was made due to the lack of monitoring in place for these grant funds. It should be noted that under the new administration (*beginning January 2011*) the Office of Management and Budget (OMB) has begun to monitor the NDF grants awarded to non-Metro entities. In March 2011, OMB issued policies and procedures which address the monitoring of NDF grants awarded to non-Metro entities.

**Scope**

The Office of Management and Budget mailed 145 letters to NDF grant recipients that were processed through the department during fiscal years 2010 and 2011. This initial population was reduced due to a variety of circumstances (e.g., grants had not reached completion during the engagement; or were not administered through OMB). Ultimately, the Office of Internal Audit reviewed 117 grants totaling more than \$1.9 million in funding.

The focus of the review was to determine if the grant funds were used as intended and in compliance with the grant agreement. Financial activity and supporting documentation was reviewed, including timesheets, payroll records, cancelled checks, bank statements, invoices and receipts for the purchase of goods/services. It should be noted that

determining the worthiness or value of the grant funded activities was not an objective of the review.

The review was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. The ability to determine if all grant funds were used as intended and in compliance with the grant agreement was impaired by several issues. The impairments are detailed in the Results section of this report.

### **Summary of Results**

It could not be determined if all NDF grant funds processed through OMB during fiscal years 2010 and 2011 were used as intended and in compliance with the grant agreements. This was primarily due to a lack of sufficient documentation of grant funded activities and inconsistencies encountered within individual grant agreement's work program and budget. There were a number of cases where the expenditures appeared to coincide with the general purpose of the agreement, but were not listed as part of the detail in the grant agreement's work program and budget.

- Of the 117 grants reviewed, 55 had sufficient documentation for the use of the grant funds. Sufficient documentation provides assurance that expenditures were incurred and paid by the grantee. The documentation included invoices, receipts, cancelled checks, payroll reports and timesheets.
- The remaining 62 grants reviewed did not have sufficient documentation for the total grant amounts awarded. These had issues of missing proof of payment, unallowable expenditures or insufficient documentation to account for the grant funds. There were also instances of inconsistency and vague criteria within the grant agreement's work program and budgets, to the extent that determination whether activity was allowable / unallowable was wholly subjective.
- Without regard to missing proof of payment or documentation issues, 13 grantees submitted expenditure documentation that totaled less than their grant award amount. The total amount of funds identified as unreported expenditures and the funds were not returned to Louisville Metro was \$39,815.

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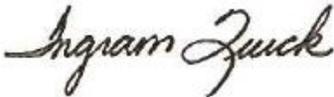
## Conclusion

With respect to 62 of the 117 NDF grants reviewed for fiscal years 2010 and 2011, some issues regarding adequacy of documentation or compliance with the grant agreement's work program and budget were encountered. These types of issues can be expected in the review of grants that have not been actively monitored. This does not mean that funds were not used as intended or that expenditures did not align with the general purpose of the agreement. Detailed results are located in the Results section of this report.

The Office of Internal Audit does not have the authority to make the final determination of any necessary remedial action. Specific results by grant have been provided to OMB to determine the extent of action needed with each grant recipient. The report was shared with both OMB and Metro Council. Both entities were provided the report and asked to respond to their corresponding recommendations. It is important to recognize the necessity of this approach, primarily because of the cross-departmental nature of the NDF grant activity. Unilateral actions by one entity would not adequately address the issues noted.

Each entity's corrective action plans are included in their respective Recommendations section of this report. The corrective action plans demonstrate a commitment to addressing the issues noted. The Office of Internal Audit will continue to work with both entities to ensure the actions taken are effective in addressing the issues noted.

Sincerely,



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Ingram Quick, CIA, CFE  
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee  
Louisville Metro Council  
Director of the Office of Management and Budget  
Louisville Metro External Auditors

## **Results**

Results of the review are presented beginning on the following page. The results are presented in the following order.

- I. Unreported Expenditures
- II. Missing Proof of Payment
- III. Unallowable Expenditures
- IV. Unable to Determine
- V. Grant Agreement Duration
- VI. Pass - Through Funds
- VII. Other Issues

Metro Council Recommendations

Office of Management and Budget Recommendations

## **I. Unreported Expenditures**

Expenditure documentation was requested to verify Neighborhood Development Fund (NDF) grant funds were used as intended and in compliance with the grant agreement. There were a number of grantees who submitted expenditure documentation that totaled less than their grant award amount. The grant agreement states that any unspent funds held by the grantee shall be returned to Louisville Metro, if not used in accordance with the work program, prior to *(one month after the last effective day of the grant agreement)*.

- Of the 117 grants reviewed, 13 (11%) did not provide expenditure documentation to support the total grant award amount and the remaining expenditure documentation has not been submitted to Louisville Metro.
  - The total amount of unreported expenditures was \$39,815.

## **II. Missing Proof of Payment**

Expenditure documentation submitted was reviewed to verify the grantee provided complete and accurate records of all grant funded activity. Due to the lack of adequate documentation, it could not be determined if expenditures incurred by the grantee were actually paid. Adequate expenditure documentation includes the amount, date, type of payment, description of the item(s) purchased and payee. Adequate expenditure documentation for payroll related expenditures includes timesheets as well as cancelled payroll checks or signed receipts for payroll payments made in cash.

- Of the 117 grants reviewed, 33 (28%) had instances in which the grantee did not provide adequate documentation to support that expenditures submitted were paid by the grantee. The total amount of expenditures in which proof of payment was not provided was approximately \$238,547.
  - Nineteen grants had instances in which a billing/invoice was submitted indicating an expense incurred; however payment documentation (i.e., receipt, canceled check) was not submitted.
  - Eight grants had instances in which the cancelled check or receipt submitted did not agree to the expenditure documentation (i.e., billing, invoice).
  - Four grants had instances in which the grantee submitted payroll records (i.e., earnings statement, timesheet) but was unable to provide documentation indicating the payroll was disbursed.
  - Three grants had instances in which the grantee submitted an attestation of expenditures for grant funded activity; however the grantee did not provide any supporting documentation such as receipts or invoices.

### **III. Unallowable Expenditures**

The specific requirements for expenditure activities allowed or unallowed are unique to each NDF project and are found in the provisions of the grant agreement. Expenditure documentation submitted by the grantee was reviewed to determine whether grant funded activity was allowable and in compliance with the grant agreement's work program and budget. There were instances where the expenditure activity did not appear to coincide with the general purpose of the grant agreement and significantly differed from the budgeted categories within the work program and budget.

- Of the 117 grants reviewed, 3 (3%) contained expenditure documentation that was not in accordance with the provisions of the grant agreement.
  - The unallowable expenditures activity totaled \$6,567.

### **IV. Unable to Determine**

The work program and budget should document the intended purpose of the grant, state specific activity for which the funds will be used, list the project's goals and objectives, and a detailed listing of budgeted categories (e.g., salaries, office supplies, etc.). Due to the inconsistency and vague criteria of the grant agreement's work program and budget, it could not be determined with certainty that grant funds were used as intended. Detailed, consistent work program and budgets are an essential element of the overall internal control structure and effectiveness of the grant administration.

- Of the 117 grants reviewed, 32 (27%) had instances in which it could not be determined whether the expenditure activity was in accordance with the provisions of the grant agreement.
  - There were instances in which expenditure activity appeared to coincide with the general purpose of the agreement but did not match the budgeted categories within the work program and budget.
  - There were instances in which the work program and budget did not distinguish Louisville Metro funds from non-Metro funds.
  - There were instances in which the expenditure documentation did not provide a description of the goods or services purchased.
  - There were instances in which the work program and budget did not agree to the grant award amount.
  - There was an instance in which there were multiple work program and budgets for the same grant agreement.

## **V. Grant Agreement Duration**

Expenditure documentation submitted by the grantee was reviewed to ensure the expenditure activity occurred within the duration of the grant agreement. There were a number of grants that contained expenditure activity outside of the grant agreement duration.

- Of the 117 grants reviewed, 47 (40%) grants contained expenditure activity which occurred prior to the start of the grant's duration.
- Of the 117 grants reviewed, 31 (26%) grants contained expenditure activity which occurred after the grant agreement duration.

## **VI. Pass-Through Funds**

Of the 117 grants reviewed, 6 (5%) contained expenditure documentation from entities that differed from the grant award recipient. While grant funds were initially deposited into a single bank account for a specific entity, expenditures paid by check were traced to a separate banking account for a different entity. Although expenditure activity agreed to the general purpose of the agreement, the pass through of funds to a sub-recipient was not disclosed within the grant agreement.

## **VII. Other Issues**

A potential conflict of interest may exist involving the grant to the Petersburg - Newberg Improvement Association and District 2 Councilwoman Barbara Shanklin. The Councilwoman was a board member and one of two individuals whom signed checks on behalf of the grantee. The Councilwoman's relationship as a board member with the requesting organization *was disclosed* on the grant applications and grant agreements for both fiscal years reviewed, but the relationship *was not disclosed* on the Request for Neighborhood Development Funds attached to the ordinances appropriating the funds.

- During the review period, Councilwoman Shanklin signed 113 checks on behalf of the grantee totaling approximately \$29,600.
- The Office of Internal Audit examined expenditure documentation for the organization to verify funds were used as intended. Due to a lack of sufficient documentation and inconsistencies encountered within grant agreements' work program and budget, it could not be determined with certainty if all grant funds were used as intended.

## **Metro Council Recommendations**

Metro Council personnel should take corrective action to address the issues noted. Specific recommendations include the following.

### **IV. Unable to Determine**

- ✓ The Metro Council, as part of its Neighborhood Development Funds (NDF) policy and procedures should require the applicants for NDF funds to include in their letter of application a detailed work program and budget for the project to be funded. A final version of the work program and budget should be attached to the ordinance approving and funding the project and have the approval signature of the Council member allocating the funds. This will provide a basis for monitoring projects and give those monitoring the grants a clear indication of the Council member's intent.
- ✓ Metro Council member's staff in-charge of NDF applications should solicit the assistance of the Office of Management and Budget to help produce an acceptable and inclusive standard work program and budget for NDF projects. The staff should be trained in determining whether work program and budgets submitted are adequate in terms of detail and clarity. The budgets should breakdown the allocation into categories and generally agree to the application.

### **V. Grant Agreement Duration**

- ✓ The objective of each NDF project should be explicitly stated in the grant agreement. If grant funds are to be used for expenditures incurred prior to the grant's effective date, the grant agreement should specifically state this as the intended use of the funds.

### **VI. Pass - Through Funds**

- ✓ The NDF grant procedures should ensure that the objective of each NDF project is explicitly stated in the grant agreement. All uses of NDF funds should be addressed, including awards for pass – through to sub recipients. If grant award funds are intended to pass from the grantee to a sub recipient, the grant agreement should specifically state this as the intended use of the funds.

### **VII. Other Issues**

- ✓ Council members having the fiduciary authority to sign checks on behalf of the grantee may represent a conflict of interest. Any council member, legislative assistant or family member of a Council member or legislative assistant should disclose any relationship with any requesting organization. No such persons should have the fiduciary authority to sign checks or other documents on behalf of the grantee. We understand this has been addressed in the new policies and procedures adopted by the Louisville Metro Council in December 2011.

### **Metro Council Corrective Action**

In March of 2011, Metro Council President Jim King formally requested the Office of Internal Audit conduct a review of all Neighborhood Development Fund (NDF) Grants dispersed during fiscal year's 2010 and 2011. After requesting an Internal Audit on NDF expenditures, the Metro Council retained an outside firm, Mountjoy, Chilton and Medley, LLC, to conduct an audit on the Metro Council Policy and Procedures that included the NDF process. From the audit recommendations, the Council adopted an updated version of Policy and Procedures in December of 2011 that included revisions to the NDF application process.

#### **IV. Unable to Determine**

The Council agrees there are instances where the work plan and budget requested may not be fully funded and in these cases it would improve the process to have the primary Council member allocating the funds to sign the final version of the work program and budget before submitting to the Office of Management and Budget (OMB). Improvements include; a more comprehensive explanation of the proposed work plan and budget, updated internal NDF forms to clarify specifics of the program along with Council member signature approval, eligible and ineligible activities, constitutional constraints that govern appropriate expenditures; an outline detailing the specific responsibilities of all parties involved; and attaching the final version of the work program and budget to the Ordinance approving and funding the project. Most notably, incorporated into the Metro Council Policy and Procedures is language that formally designates the review and monitoring of NDF Grants as the responsibility of the Office and Management and Budget.

The Council further agrees a change to the NDF forms or grant agreement may be necessary to minimize any confusion to the grantee and we will work with OMB to propose a change to those documents. Given the new procedures from OMB regarding the disbursement of funds to grantees, there may be instances where the work plan and budget requested may not be fully funded and/or receive their apportionment in quarterly installments as opposed to lump sums. Therefore, it is imperative that a breakdown of the allocation into categories regarding the distribution of payments be clearly detailed in the grant agreement to avoid any unnecessary confusion. It would improve the process to have the primary Council member allocating the funds sign the final version of the work program and budget before submitting to OMB.

Annual training on NDF expenditures is expected for all Council members and Legislative Assistants/Aides regarding the application process, eligible activities and public purpose. The Metro Council will also conduct a Bi-Annual Review of Policy and Procedures to ensure compliance moving forward.

#### **V. Grant Agreement Duration**

The Metro Council constantly seeks ways to improve transparency, and agree the objective of each NDF project should be clearly stated in the grant agreement including if there are expenses incurred prior to the grant's effective date. The grant agreement is created by OMB with the approval of the County Attorney's Office. Changes to the NDF grant agreement are required to be completed by OMB and should be included in their guidelines for evaluating the NDF grant agreements.

## **VI. Pass - Through Funds**

All pass-through funds from grantee to sub-recipient are expected to be disclosed in the grant agreement with an explanation stating the intended use of those funds. Revisions to the NDF procedures and applications, effective December 2011, reflect strict new procedures that require disclosure of the use of pass-through funds and the organization(s) to whom those funds would be passed. It also clarified that an entity intending to use a sub-grantee would be required to monitor proper use of those funds and report that information back to OMB. In April 2012, the Appropriations Committee made additional revisions to the NDF application form to reflect the more stringent requirements. All NDF applications submitted are required to use the new forms with the stricter disclosure of pass-through funds and monitoring requirements.

## **VII. Other Issues**

In December of 2011, the Metro Council approved changes to the NDF Policy and Procedures that include requiring any Council member, legislative assistant/aide or family member of a Council member or legislative assistant/aide to disclose any relationship with any requesting organization including Metro Government agencies. Additional changes included prohibiting such persons from serving as a grant recipient; as an officer of the grant; or have the fiduciary authority to sign checks, or other documents on behalf of the grantee.

The only remaining action item is to work with OMB and the County Attorney's Office to change the NDF application and/or grant agreement to reflect an appropriate standard work program and budget for NDF projects to continue to increase transparency and accountability.

## **Office of Management and Budget Recommendations**

Office of Management and Budget personnel should take corrective action to address the issues noted. Specific recommendations include the following.

### **I. Unreported Expenditures**

- ✓ Procedures for grant funds left unspent at the end of the grant agreement period should be developed. This may include lapsing the funds or allowing the grantee an extension to expend the remaining grant funds. Care should be exercised to ensure a “use or lose it” mentality is not developed.
- ✓ A central database of all organizations awarded Neighborhood Development Fund (NDF) grants should be maintained. Information on the compliance status of the grantees should be maintained. In order to be awarded any future funding, the grantee must be in good standing. This includes returning unspent funds and fulfilling all reporting requirements.
- ✓ Reporting requirements should be included in the grant agreement and enforced. Expenditure documentation showing the grantee incurred the expenditure and proof of payment should be required. For grants awarded for operating expenses, these reports could be required on a quarterly basis and be the trigger for release of quarterly installments.
- ✓ There should be one centralized office that administers and monitors all NDF grants regardless of the amount. Fragmenting this responsibility weakens the controls in that there may be a lack of consistency.
- ✓ There should be full-time monitors responsible for performing financial reviews of the NDF grant activity. The financial review includes reviewing supporting documentation for the quarterly reports. At a minimum, the monitor should review invoices/timesheets, cancelled checks, bank statements and rosters to ensure completeness and funds were used as intended.
- ✓ The Office of Management and Budget (OMB) should work with the grant recipients to ensure that all grant funds are accounted for or returned to Louisville Metro. The details of the unspent funds have been provided to OMB for review and determination of the extent of any remedial action needed.

### **II. Missing Proof of Payment**

- ✓ Adequate payment documentation (cancelled checks, bank statements) should be maintained to provide assurance that expenditures incurred were actually paid.
- ✓ Grantees should provide sufficient documentation to support the actual expenditure (e.g., invoice, receipt, time sheet, etc.). Billings/invoices, attestations, and earning statements that are not accompanied by proof of payment are a weak form of support and should not be solely relied upon.
- ✓ Organizations receiving Louisville Metro grant funds should be required to establish a separate bank account for grant funded activity. This is considered a better business practice and would bring some transparency and accountability to the NDF activity.
- ✓ For larger organizations, with complex financial systems, establishing a separate bank account may not be practical. However, a financial system has the capability to account for sub-accounts which allows for specific program activity to be segregated. This would allow for more efficient reconciliation and monitoring of grant activity.

### **III. Unallowable Expenditures**

- ✓ There should be full-time monitors responsible for reviewing the NDF grant activity. At a minimum, the monitor should review invoices / timesheets, cancelled checks, bank statements, and rosters to ensure completeness and funds were used as intended. Monitoring and oversight, including site visits and financial reviews, is an integral part of the internal control structure for grant activity.
- ✓ Monitors should work with the grant recipients to ensure that all grant funds are allowable and in compliance with the work program and budget. A comparison of actual expenditures with the work program and budget should be performed.
- ✓ Any modifications to the work program and budget should be properly documented and approved by appropriate personnel. Procedures for making adjustments to the work program and budget should be documented. This will help ensure that expenditures are allowable, and funds are used as intended.
- ✓ The County Attorney should be contacted for assistance in developing procedures to make any agreed upon modifications to the work program and budget within the grant agreement.
- ✓ The details of the unallowable expenditures were provided to OMB for review and determination of the extent of any remedial action needed.

### **IV. Unable to Determine**

- ✓ Metro Council member's staff in-charge of NDF applications should solicit the assistance of OMB to help produce an acceptable and inclusive standard work program and budget for NDF projects. The staff should be trained in determining whether work program and budgets submitted are adequate in terms of detail and clarity. The budgets should breakdown the allocation into categories and generally agree to the application.
- ✓ Another alternative may be that OMB staff assigned to monitor NDF funded projects should be brought in immediately from the initial phase as an active participant in the application process.
- ✓ When submitting expenditure documentation the grantee should identify the specific budget expense category within the work program and budget to which the expenditure applies. This will assist the monitor in determining whether the goods / services are allowable per the agreement.
- ✓ Potential NDF grant applicants should be required to attend training prior to submitting their application for approval. The training should provide guidance on the level of detail and clarity required for the work program and budget included in the grant application. In addition, the training should explain the reporting requirements once funds are expended and the level of expenditure documentation required in such reports.

### **V. Grant Agreement Duration**

- ✓ The objective of each NDF project should be explicitly stated in the grant agreement. If grant funds are to be used for expenditures incurred prior to the grant's effective date, the grant agreement should specifically state this as the intended use of the funds.
- ✓ Extensions of the grant's duration should be approved by appropriate Louisville Metro personnel and properly documented.

## **VI. Pass - Through Funds**

- ✓ The NDF grant procedures should ensure that the objective of each NDF project is explicitly stated in the grant agreement. All uses of NDF funds should be addressed, including awards for pass-through to sub recipients. If grant award funds are intended to pass from the grantee to a sub recipient, the grant agreement should specifically state this as the intended use of the funds.

## **Office of Management and Budget Corrective Action**

The Neighborhood Development Fund Grants Report, issued by the Office of Internal Audit in June 2012, was completed upon the request from the Louisville Metro Council (“Council”). This report is addressed to the Council, but many of the recommendations included in the report have an impact on the Office of Management and Budget (“OMB”); therefore, this office is providing the following responses:

### **I. Unreported Expenditures**

1. OMB’s NDF Policies and Procedures (“NDF Policies”) as well as the NDF Grant Agreement (“grant agreement”) both state that a Grantee is responsible to repay any grant funding received, but not spent by the end of the award period. The Grantee is instructed in the grant agreement to return the unspent funds to the Office of Management and Budget.

The NDF policies and the grant agreement allow a provision for the Grantee to request an extension of the grant period if the Grantee will not be able to spend the grant funding within the grant period. The Grantee must request the extension in writing to OMB prior to the end of the original grant term. OMB will grant one extension for up to 90 days.

2. OMB’s division of Grants Compliance (“Grants Compliance”) is responsible for maintaining a database of all NDF grants issued by Fiscal Year. Information on each Grantee’s compliance status is maintained in this database. Currently, OMB provides compliance status information to Council offices upon request. OMB will begin sending monthly compliance reports to the appropriate Council personnel effective July 1, 2012.

3. Financial reporting and expenditure documentation requirements are included in the grant agreement and include instruction on quarterly reporting and proof of payment. These requirements are enforced through the compliance review completed for each approved grant.

4. Grants Compliance is responsible for administering payment and monitoring all approved NDF grants, regardless of the amount.

5. Grants Compliance’s function in the NDF process is to perform financial reviews to ensure NDF funding is properly supported with adequate documentation. The mission is not to provide programmatic assurances within a Grantee’s service delivery, but to ensure compliance with all financial requirements stipulated in the grant agreement. OMB has two full-time accountants dedicated to help provide these assurances.

6. As identified in response #1, the NDF policies and the grant agreement stipulate to the Grantee that unspent funding should be returned to the Office of Management and Budget. Grants Compliance will continue to send letters to Grantees upon the close out of the grant to request repayment of unspent funding when appropriate.

In the event of the collection of repayments becomes problematic, OMB’s Cash Management policy and procedures allows for request to be made to the County Attorney for collection.

### **II. Missing Proof of Payment**

1. The grant agreement stipulates that adequate payment documentation should be maintained by the Grantee to provide assurance that expenditures incurred were actually paid. Grants Compliance requires documentation such as cancelled checks or

bank statements be provided with the financial reporting in order to determine compliance and close out the grant.

2. The grant agreement stipulates that adequate expenditure documentation should be maintained by the Grantee to provide assurance the expenditures were incurred. Grants Compliance requires documentation such as invoices, receipts and time sheets are provided with the financial reporting in order to determine compliance and close out the grant.

3. OMB's intention is not to establish controls within an organization's internal control structure or cause hardship for the Grantee. However, care is taken to ensure each grant agreement is monitored through the desk review process to ensure compliance with the financial requirement stipulated within the grant agreement. Proper support documentation (copies of cancelled checks, bank statements, receipts, and invoices) provides evidence of transparency and accountability.

4. Please see the response of #3 above.

### **III. Unallowable Expenditures**

1. Grants Compliance's function in the NDF process is to perform financial reviews to ensure NDF funding is properly supported. The mission is not to provide programmatic assurances with the way a Grantee performs its service delivery, but to ensure compliance with all financial requirements stipulated in the grant agreement. OMB has two full-time accounts dedicated to help provide these assurances.

2. The Grants Compliance accounts perform desk reviews on NDF activity that has already occurred. It is not the goal of OMB to monitor the Grantee's programmatic activities. However, the Grants Compliance accountants work very closely with the Grantees to provide guidance and training in the type of documentation needed to ensure compliance with the grant agreement. Communication typically includes phone calls, emails, and letters.

3. Procedures for modifying the Work Program and Budget are identified in the NDF Policies as well as the grant agreement.

4. OMB does route any amendments or modification to the grant agreements to the County Attorney. The process for routing of grant agreements is outlined in the NDF policies; however, OMB will add language to the NDF policies to include amendments and modifications.

5. OMB has reviewed the details of the unallowable expenditures and agrees with the amount identified in this report. OMB will discuss the appropriate remedial action with the County Attorney's Office to satisfy this recommendation.

### **IV. Unable to Determine**

1. OMB has recommended to the appropriate staff at the Council that the Work Program and Budget used in the grant agreement also be used as the Work Program and Budget in the NDF Application Packet. This will provide consistency for the Grantees and help ensure the allocation of funds is consistent with the application. OMB participated in the April 2012 NDF training that was provided to all Council personnel.

2. Grants Compliance's responsibility is to ensure expenditures are in compliance with the executed grant agreement. This assurance is performed after the grant application process is complete and the grant agreement is signed by the Grantee. However, once all grant documents are received in OMB for processing, the compliance accountants review both the application work program and budget and the

grant agreement work program and budget to ensure the two agree. If there are any discrepancies, the compliance accountant contacts the appropriate council office and/or Grantee to gain clarification prior to proceeding with issuance of payment.

3. OMB agrees that it would be helpful for the grantee to identify the specific budget expense category within the work program and budget to which the expenditure applies in the financial reporting. The financial reporting template, which is provided to the Grantee for guidance on submitting financial reporting, will be updated to include this instruction.

4. OMB is willing to provide financial reporting training for all potential NDF grant recipients. The training would be held twice a year, once in the spring and once in the fall. The training would include a review of the grant agreement, the work program and budget and all required financial documentation need in order to satisfy compliance. Metro Council is responsible for alerting Grantee's of all training offered concerning NDF funding.

#### **V. Grant Agreement Duration**

1. OMB agrees that the grant agreement should accurately reflect the time period of expenditure for which the grant will be applied.

The grant agreement identifies an award period that begins with the approval of the grant and ends with June 30 of the fiscal year in which the grant is approved. Grants Compliance can find expenditures that have occurred prior to the grant approval date compliant if it has been disclosed in the application process that the Grantee is requesting a reimbursement grant. If this information is disclosed in the application process, and Council approves the grant, it then indicates to OMB that Council was aware of the reimbursement status at the time of approval.

OMB recommends that the NDF Grant Application should be updated to include a section where the Grantee has an opportunity to disclose the following circumstances:

- The Grantee is applying for funding as a reimbursement of expenditures that have occurred prior to the application date, or
- The Grantee is applying for funding as a reimbursement of expenditures that will probably be incurred after the application date, but prior to the Council approval date.

Additionally, OMB will add a clause to the grant agreement that will allow reimbursement of expenditures that have occurred prior to the start of the award period to be considered compliant as long as the expenditures are consistent with the scope of the approved grant, and it was disclosed through the application process that the request for funding was reimbursement based.

2. The NDF Policies and the grant agreement have been updated to include guidance on requesting and implementing an extension to the grant's original duration. Expenditures occurring after the grant period ends should not be reimbursable as the Grantee has an option to request an extension.

#### **VI. Pass - Through Funds**

1. Metro Council NDF policies and procedures have been updated to require disclosure of pass-through activities. The OMB NDF policies and grant agreement will also be updated to reflect this provision.

Office of Internal Audit

Phone: 502.574.3291

[www.louisvilleky.gov/InternalAudit/](http://www.louisvilleky.gov/InternalAudit/)