



Greg Fischer
Mayor

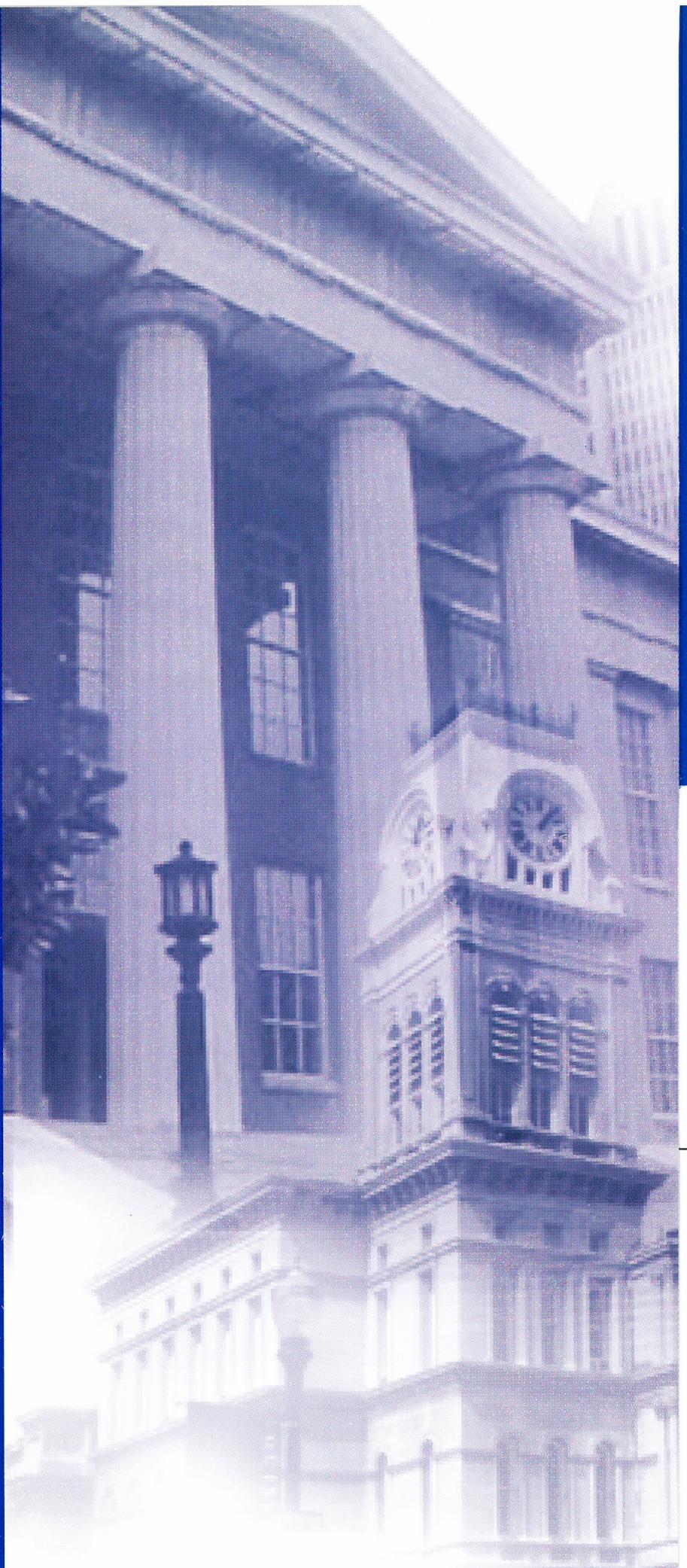
Louisville Metro Council

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

**Community Services and
Revitalization**

External Agency Fund Grants



Audit Report

Community Services and Revitalization

External Agency Fund Grants

February 2014

Office of Internal Audit



Community Services and
Revitalization

External Agency Fund Grants

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Executive Summary

PROJECT TITLE

Community Services and Revitalization – External Agency Fund Grants

OBJECTIVE AND SCOPE

The Community Services and Revitalization's (CSR) External Agency Fund grants were reviewed. The focus of this review was determining if grant funds were used as intended in accordance with the respective grant agreements. This was a scheduled audit.

Four grantees were selected for review. All expenditure activity for the selected grantees from fiscal year 2012 through second quarter fiscal year 2013 was reviewed to verify compliance with the applicable grant agreement. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

RESULTS

It is our opinion that overall the grant funds reviewed were used as intended. However, there was some noncompliance issues identified. The compliance exceptions included the following.

- **Grant Compliance.** There were issues noted in determining the grantee's compliance with the grant agreement and work program and budget. There was also a lack of supporting documentation to support the invoices.
 - **Unreported Expenditures.** There was one instance where the grantee submitted expenditure documentation that totaled less than their grant award amount.
 - **Duplicate Reporting of Expenditure.** There was one instance where the expenditure was reported twice by the grantee on their quarterly financial report.
 - **Missing Proof of Payment.** There were a number of instances where it could not be determined if the expenditure incurred by the grantee was paid due to the lack of adequate documentation.
 - **Grant Agreement Duration.** There were a number of instances where expenditure activity occurred outside of the grant agreement duration.
 - **Budgeted Categories.** There were a number of instances where expenditure activity did not agree to budgeted categories within the work program and budget; however, the activity appeared to coincide with the general purpose of the grant agreement.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

February 18, 2014

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of the Community Services and Revitalization – External Agency Fund Grants

Introduction

The Office of Internal Audit conducted a review of the Community Services and Revitalization (CSR) External Agency Fund grants for fiscal year 2012 and the first two quarters of fiscal year 2013. The objective of the review was determining if the grant funds were used as intended and in accordance with the grant agreement.

The audit 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.

Scope

Expenditure activity for a selected sample of CSR External Agency Fund grants was reviewed. The objective was to obtain reasonable assurance that the grant funds were used as intended and in compliance with the grant agreement. It should be noted that determining the worthiness or value of the grant funded activities was not an objective of the review.

Grant funds awarded by CSR were accounted for by reviewing financial activity reports along with the related supporting documentation. Documentation reviewed included timesheets, payroll records, invoices, check images, bank statements, quarterly financial reports and receipts for the purchases of goods and services. The review period included fiscal year 2012 and the first two quarters of fiscal year 2013.

It is our opinion that overall the grant funds reviewed were used as intended. However, there was some noncompliance issues identified. It should be noted that the majority of noncompliance issues took place in fiscal year 2012, prior to CSR implementing new monitoring procedures. The compliance exceptions included the following.

- **Grant Compliance.** There were issues noted in determining the grantee's compliance with the grant agreement and work program and budget. There was also a lack of supporting documentation to support the invoices.
 - **Unreported Expenditures.** There was one instance where the grantee submitted expenditure documentation that totaled less than their grant award amount. The grant agreement states that any unspent funds held by the grantee need to be returned to Louisville Metro Government.
 - **Duplicate Reporting of Expenditure.** There was one instance where the expenditure was reported twice by the grantee on their quarterly financial report.
 - **Missing Proof of Payment.** There were a number of instances where it could not be determined if the expenditure incurred by the grantee was paid due to the lack of adequate documentation.
 - **Grant Agreement Duration.** There were a number of instances where expenditure activity occurred outside of the grant agreement duration.
 - **Budgeted Categories.** There were a number of instances where expenditure activity did not agree to budgeted categories within the work program and budget; however, the activity appeared to coincide with the general purpose of the grant agreement.

Corrective Action Plan

Representatives from Community Services and Revitalization have reviewed the results and are committed to addressing the issues noted. The corrective action plan is included in this report in the Observations and Recommendations section. We will continue to work with Community Services and Revitalization to ensure the actions taken are effective to address the issues noted.

Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of Community Services and Revitalization
Louisville Metro External Auditors
Louisville Metro Council President

Background

Community Services and Revitalization (CSR) External Agency Fund grants are comprised of funding to external agencies to do work throughout Metro Louisville to provide different support services that Louisville Metro Government does not have the resources to do itself. These programs must meet one of the following criteria to receive funding: Crisis Prevention, Vulnerable Population, Employment Training and Education, or Youth. This funding is generalized as the Family Services Fund (including Youth) and the Association of Community Ministries (ACM). Social services funded by Louisville Metro Government serve the most vulnerable populations, help low-income citizens become self-sufficient through education and employment, provide a safety net to prevent crisis such as hunger or eviction and provide quality programs to enrich teenagers during out of school time.

For the fiscal year 2012, there were 105 programs receiving CSR External Agency Fund grants totaling approximately \$3,018,500. For the fiscal year 2013, there were 101 programs receiving CSR External Agency Fund grants totaling approximately \$2,862,800.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of appropriations for Community Services and Revitalization External Agency Fund grants.

III. Statement of Auditing Standards

The audit was performed 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.

IV. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

V. Views of Responsible Officials / Action Plan

The final draft report was issued to CSR on January 15, 2014. An exit conference was held at the Metro Development Center (444 S. 5th Street) on January 15, 2014. Attending were Robin Grammer, Marilyn Edwards, Laura Grabowski, Heather Plowman and Virginia Peck representing CSR and Ingram Quick and Jason Byrd representing Internal Audit. Final audit results were discussed.

The views of CSR officials were received on February 14, 2014 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

Observations and Recommendations

Scope and Methodology

The Community Services and Revitalization's (CSR) External Agency Fund grants were reviewed. The focus of this review was determining if grant funds were used as intended in accordance with the respective grant agreements.

Four grantees were selected for review. All expenditure activity for the selected grantees from fiscal year 2012 through second quarter fiscal year 2013 was reviewed to verify compliance with the applicable grant agreement. Expenditure documentation such as invoices, canceled checks, timesheets, and bank statements will be reviewed. The expenditures made for goods / services with grant funds were reviewed to determine conformance with the grant agreement's work program and budget. Determining the worthiness or value of the services provided was not an objective and was not be part of the review.

Observations

Overall the CSR External Agency Fund grants reviewed were used as intended. There were some compliance exceptions noted, they are detailed in the following section of the report.

1) Grant Compliance

Details begin on the following page.

1) Grant Compliance

There were four grantees included in the review with a total of 1,285 expenditures recorded in their quarterly financial reports submitted during the review period. There were issues noted in determining the grantee's compliance with the grant agreement and work program and budget. There was also a lack of supporting documentation to support the quarterly financial reports. This does not mean that funds were not used as intended or that expenditures did not align with the general purpose of the grant agreement. Specifics include the following.

- **Unreported Expenditures.** There was one grantee that did not submit expenditure documentation to support the total grant award amount and the remaining expenditure documentation has not been submitted to Community Services and Revitalization. The grant agreement states that any unspent funds held by the grantee need to be returned to Louisville Metro, prior to *(one month after the last effective day of the grant agreement)*. The total amount of unreported expenditures was \$2,207.
- **Duplicate Reporting of Expenditure.** There was an expenditure reported and accounted for twice on the grantee's quarterly financial report. The total amount of the expenditure that was reported twice by the grantee was \$72.
- **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 documentation for payroll related expenditures includes payroll journals, bank statements as well as canceled payroll checks.
 - There were 674 instances in which the grantee did not provide adequate documentation to support that expenditures submitted were actually paid by the grantee.
 - There were 459 instances in which the grantee submitted a billing / invoice indicating an expense incurred; however, payment documentation (i.e., receipt, canceled check) was not submitted.
 - There were two instances in which the canceled check or receipt submitted did not agree to the expenditure documentation (i.e., billing, invoice).
 - There were 197 instances in which the grantee submitted payroll records (i.e., earnings statement, timesheet) but was unable to provide documentation indicating the payroll was disbursed.
 - There were 16 instances in which the grantee provided payroll records that did not agree to the payroll expenditures reported on the quarterly financial report.

- **Grant Agreement Duration.** Expenditure documentation submitted along with the quarterly financial report was reviewed to ensure activity occurred within the duration of the grant agreement. There were six instances in which expenditure activity occurred prior to the start of the grant’s duration. The grant agreement did not explicitly state that the intended use of funds was for a reimbursement of expenditures.
- **Budgeted Categories.** The grant agreement’s work program and budget documents the intended purpose of the grant, states specific activity for which the funds will be used, lists the project’s goals and objectives and provides a detailed listing of budgeted categories (e.g., salaries, office supplies). There were issues noted with the grant agreement’s work program and budget that were reviewed.
 - There were a number of instances where the expenditure activity did not agree to budgeted categories within the grant agreement’s work program and budget. There was no documentation provided to signify that modifications to the work program and budget were formally reviewed. However, the activity appeared to coincide with the general purpose of the grant agreement.
 - There was an instance in which there were multiple work program and budgets for the same grant agreement. This resulted in uncertainty in determining whether expenditure activity was allowable / unallowable.
- **Other Issues.** Community Services and Revitalization has documented policies and procedures which detail the requirements of the grantee receiving the External Agency Funds. There were issues noted that were not in compliance with the documented policies and procedures.
 - The policies and procedures state that if a small equipment purchase is made (e.g., computer, camera) the agency should fill out an inventory form and submit to Community Services and Revitalization along with a picture of the item procurement. There was one instance where the grantee made a small equipment purchase but did not submit the additional documentation.
 - The policies and procedures state that the “total client services” budgeted line item (includes Metro and Non-Metro dollars) within the work program and budget must equal a minimum of two thirds of the grantees cash budget (this does not include any in-kind contributions). There was one instance where the “total client services” budgeted line item was less than two thirds of the total cash budget.

Recommendations

Appropriate personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Community Services and Revitalization should work with the grant recipients to ensure that all grant funds are accounted for or those unaccounted for be returned to Louisville Metro Government. The details of the unreported expenditures have been

provided to Community Services and Revitalization for review and determination of the extent of any remedial action needed.

- ✓ Adequate payment documentation (canceled checks, bank statements) should be obtained to provide assurance that expenditures incurred were actually paid.
- ✓ Grantees should provide sufficient documentation to support the actual expenditure. 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. Adequate receipt documentation includes cancelled check or receipt that notes the amount, date, type of payment, description of the item(s) purchased and payee.
- ✓ Adequate payroll documentation should be maintained to provide assurance that the employee is being paid in accordance with the grant agreement. Adequate expenditure documentation for payroll related expenditures includes payroll journals, bank statements as well as canceled payroll checks.
- ✓ The objective of each External Agency Fund grant 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 funds.
- ✓ Community Services and Revitalization should work with the grantee to help produce an acceptable and inclusive work program and budget for External Agency Fund grants. Appropriate personnel should determine whether work program and budgets submitted are adequate in terms of detail and clarity.
- ✓ 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.
- ✓ Ensure that the quarterly financial reports are complete, accurate and in accordance with the grant agreement, the work program and budget, and with current policies and procedures before releasing additional payments to the grantee.
- ✓ The formal policies and procedures for External Agency Fund grants should be documented with current practices, distributed, and discussed with all staff involved in the external agency grant process.

Community Services and Revitalization's Corrective Action Plan

The Department of Community Services and Revitalization appreciates the work conducted by the Internal Auditor and staff during this review of the External Agency Fund (EAF) grant program. CSR shares the vision of transparency and accountability and is committed to completing the corrective actions recommended by Internal Audit.

During much of the period of review, the EAF program, which funds over 100 programs and over 75 agencies, was managed primarily by one CSR staff member. Over the past 12 months, a portion of three staff members' time has been redirected by CSR to provide additional support to the program. Many of the issues noted by Internal Audit were addressed during the third quarter of FY13 when CSR completed a major revision of the EAF policies and procedures. The revisions increased the level of documentation review and added a second reviewer to the documentation approval process. This intensified review process has resolved many of the issues noted in this audit. CSR will continue to ensure that staff and agency partners are properly trained in documentation submission and review.

All of the recommendations suggested by Internal Audit have been completed by CSR with the exception of one. The formal policies and procedures are in the process of being updated to include current practices. Once completed, the revised version will be distributed and discussed with all staff involved in the external agency process. CSR estimates the completion date of this recommendation to be October, 2014.

In regards to the observations identified in this report, CSR has the following responses.

#1 – Grant Compliance:

Unreported Expenditures:

It is part of CSR's standard procedures to request unspent funds from agencies after the end of the fiscal year. CSR will review the procedures with staff and ensure that all unspent funds are requested as prescribed.

Duplicated Reporting of Expenditures:

CSR has instituted new policies and procedures surrounding backup documentation requirements. In addition, CSR has added a second reviewer for the reports submitted by the EAF agencies. These additional safeguards will prevent the recurrence of this type of error.

Missing Proof of Payment:

As part of the new policies and procedures, proof of payment is now required for each funded line item in an agency's contract. This process was instituted in the third quarter of FY13, which was not covered by this audit. CSR has worked with both OMB and Internal Audit staff on the development of the new policies and procedures.

Grant Agreement Duration:

Review of the grant agreement and expenditure dates has been incorporated into the review process to prevent future errors.

Budgeted Categories:

The contract budget is a projection by the agency and tends to shift slightly throughout the grant period. The agencies are allowed to revise expenditures minimally throughout the year with approval by the program manager. CSR is committed to documenting this approval process and will ensure proper staff and agency training to ensure alignment.

Other Issues:

CSR regrets the error made in relation to property inventory and will ensure proper staff training to reduce future errors.

The policies and procedures have been revised to reflect the correct wording: “total client services budgeted line item (includes Metro and Non-Metro dollars) within the work program and budget must equal a minimum of two thirds of the grantees’ Metro grant award (this does not include any in-kind contributions).” Using the corrected wording, the affected budget met the criteria.

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