



Greg Fischer
Mayor

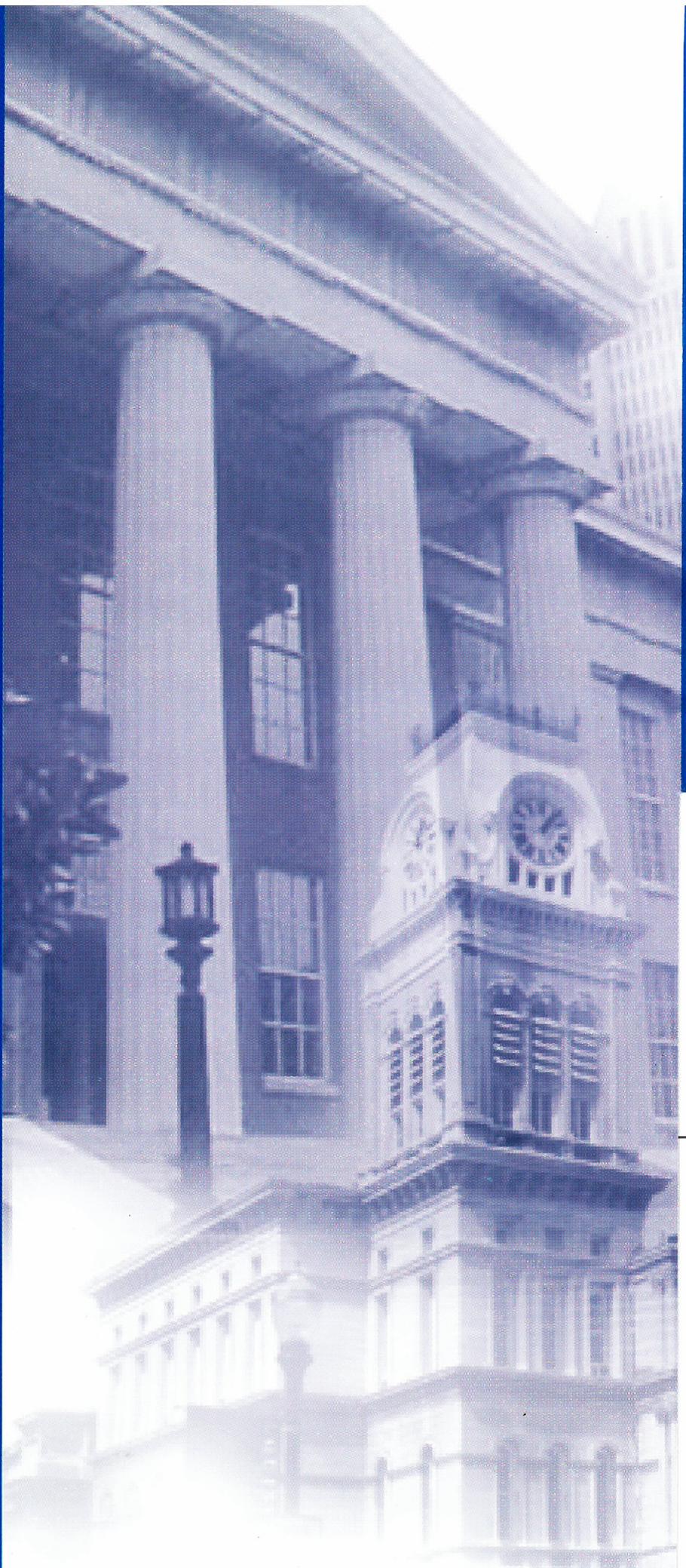
Louisville Metro Council

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

Economic Development

External Agency Grants



Audit Report

Economic Development

External Agency Grants

August 2015



Table of Contents

Executive Summary 2

Transmittal Letter 3

 Introduction..... 3

 Scope..... 4

 Opinion 4

 Corrective Action Plan..... 5

 Internal Control Rating 6

 Background..... 7

 Summary of Audit Results..... 7

Observations and Recommendations 9

 1) Grant Compliance..... 10

 2) Grant Monitoring..... 12

 3) General Administrative 13

Executive Summary

PROJECT TITLE

Economic Development External Agency Grants

OBJECTIVE AND SCOPE

The objective was to perform a review of Economic Development External Agency Grants. The operating policies, procedures and records related to the activity were reviewed with particular attention given to the grant monitoring process. The primary focus was the fiscal and operational administration of the activity. This includes grant compliance as well as how activity is processed, recorded, monitored, and reported. The objective was to obtain assurance that the risks are adequately mitigated.

This was an assurance review based on best practices and internal policies and procedures for the operational administration of the Economic Development External Agency Grants. The review included grant monitoring activity related to grants issued during fiscal year 2014 (July 1, 2013 to June 30, 2014). Five grants, awarded during fiscal year 2014, were selected for review. All expenditure activity for the selected grants was assessed to determine compliance with the applicable Grant Agreement and corresponding Work Program and Budget as well as applicable policies and procedures. Determining the worthiness or value of the services provided was not an objective and was not part of the review. The details of the scope and methodology of the review are addressed in the Observations and Recommendations.

INTERNAL CONTROL ASSESSMENT

Needs Improvement

RESULTS

Opportunities exist for improving the internal control structure for the Economic Development External Agency Grants. Examples include the following.

- **Grant Compliance.** There were noncompliance issues noted regarding the selected Economic Development External Agency grants.
 - There were instances in which grant funds were expended upon services that were not specifically detailed in the Work Program and Budget.
 - There were instances where compliance could not be determined due to the lack of adequate documentation.
- **Grant Monitoring.** There were issues noted with the administration of Economic Development External Agency Grant monitoring activity.
 - There were instances in which there was not sufficient evidence to prove that the primary and secondary review of quarterly financial reports had been performed.
 - There were instances in which the quarterly financial reports could not be located resulting in the inability to perform related audit procedures.
- **Policies and Procedures.** There were issues noted in which conflicting directives were noted within the administrative documents that guide operations.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

DAVID TANDY
PRESIDENT METRO COUNCIL

Transmittal Letter

August 4, 2015

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

Subject: Audit of the Economic Development External Agency Grants

Introduction

An audit of the Economic Development External Agency Grants (EAG) was performed. The operating policies, procedures and records related to the activity were reviewed with particular attention given to the grant monitoring process. The primary focus was the fiscal and operational administration of the activity. This includes grant compliance as well as how activity is processed, recorded, monitored, and reported. The objective was to obtain assurance that the risks are adequately mitigated.

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.

As a part of the audit, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

A thorough understanding of the Economic Development External Agency Grants (EAG) activity was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling, and reporting of activity. Testing of activity was also performed to determine the effectiveness of the controls.

External Agency Grants activity and applicable policies and procedures were reviewed. The review included grant monitoring activity related to grants issued during fiscal year 2014 (July 1, 2013 to June 30, 2014). Five grants, awarded during fiscal year 2014, were selected for review. All expenditure activity for the selected grants were assessed to determine compliance with the applicable Grant Agreement and corresponding Work Program and Budget as well as applicable policies and procedures. Determining the worthiness or value of the services provided was not an objective and was not part of the review.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not identify all weaknesses because it was based on selective review of procedures and data.

Opinion

It is our opinion that the internal control structure for the Economic Development External Agency Grants (EAG) activity needs improvement. The internal control rating is on page 6 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Grant Compliance.** There were noncompliance issues noted with the Economic Development External Agency Grants reviewed.
 - There were instances in which expenditure activity appeared to coincide with the general purpose of the agreement but did not match the budgeted categories detailed within the Work Program and Budget.
 - There were instances where compliance could not be determined due to the lack of adequate documentation.
- **Grant Monitoring.** There were issues noted regarding the administration of the Economic Development External Agency Grant monitoring process.

- There were instances in which there was not sufficient evidence to prove that the primary review and secondary review (dual review) of quarterly financial reports and corresponding expenditure documentation had been performed.
- There were instances in which the quarterly financial reports could not be located resulting in the inability to perform related audit procedures.
- **Policies and Procedures.** There were issues noted in which conflicting directives were noted within the administrative documents that guide operations. Discrepancies between the documents increase the risk of miscommunication, noncompliance, and improper monitoring of grant compliance.

Corrective Action Plan

Representatives from Economic Development have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with Economic Development to ensure the actions taken are effective to address the issues noted.

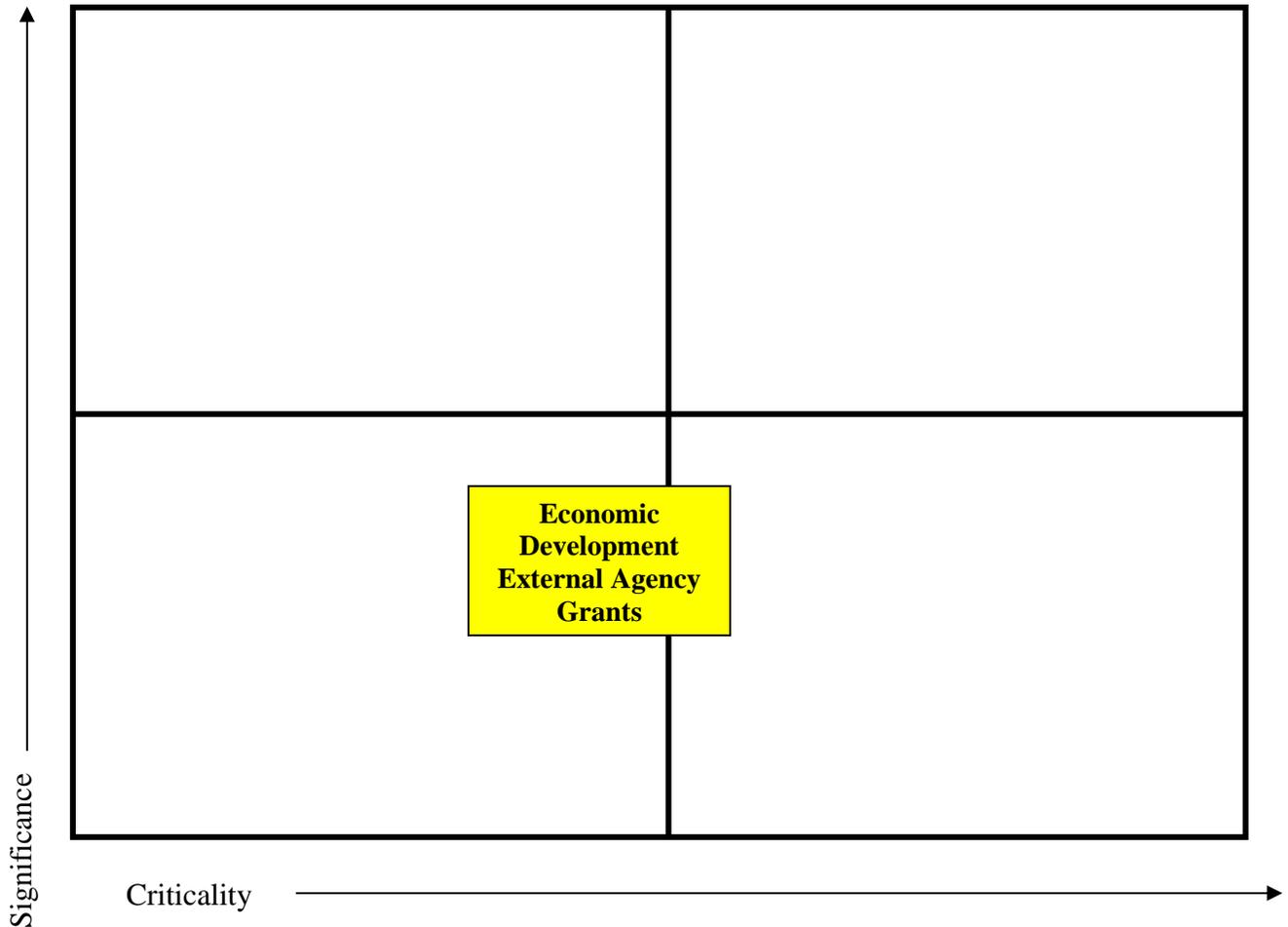
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of Economic Development
Louisville Metro External Auditors
Louisville Metro Council President

Internal Control Rating



<u>Legend</u>			
<i>Criteria Issues</i>	<u>Satisfactory</u> Not likely to impact operations.	<u>Needs Improvement</u> Impact on operations likely contained.	<u>Inadequate</u> Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Background

Economic Development External Agency Grants are comprised of funding provided to external agencies throughout Metro Louisville for purposes of offering programs or services that advance the long-range vision and goals established by Louisville/Jefferson County Metro Government. In order to receive funding a non-profit organization must offer a program or service that meets one or more of the following criteria: provide quality arts and cultural attractions to the community, increase awareness and appreciation of various art mediums, or broaden and diversify the demographics of those who participate in arts and cultural attractions. This funding is generalized as the Arts Fund.

During fiscal year 2014, 36 external agencies received funding by way of Economic Developmental External Agency Grants in support of 43 programs totaling approximately \$547,000.

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 previously conducted any reviews Economic Development- External Agency 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 Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. 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.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to Economic Development on June 11, 2015. It was determined that a formal exit conference was not necessary.

The views of Economic Development officials were received on July 31, 2015 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.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The Office of Internal Audit extended the timeframe for response from Economic Development. The Economic Development’s response was provided within the agreed upon timeframe.

Observations and Recommendations

Scope and Methodology

The Economic Development External Agency Grants were reviewed. A thorough understanding of the operating policies, procedures and records for the activity was obtained through interviews of key personnel and examination of supporting documentation. Particular attention was given to the grant monitoring process. The primary focus was the operational administration of the activity. This includes grant compliance as well as how activity is processed, recorded, monitored, and reported. The objective was to obtain assurance that the risks are adequately mitigated.

The review included grant monitoring activity related to all 43 grants for each quarter during fiscal year 2014 (July 1, 2013 to June 30, 2014). Five grants, awarded during fiscal year 2014, were selected for review. All expenditure activity and corresponding expenditure documentation including, but not limited to bank statements, invoices, and payroll journals were assessed to determine compliance with the applicable Grant Agreement and corresponding Work Program and Budget as well as applicable policies and procedures. Determining the worthiness or value of the services provided was not an objective and was not part of the review.

The examination would not reveal all non-compliance issues because it was based on selective review of data.

Observations

Issues were noted with the Economic Development – External Agency Grants activity. As a result, the effectiveness of the internal control structure needs improvement. Opportunities to strengthen the controls include the following.

- 1) Grant Compliance
- 2) Grant Monitoring
- 3) General Administrative

Details of these begin on the following page.

1) Grant Compliance

There were five fiscal year 2014 External Agency Grants which were reviewed to assess compliance with the Grant Agreement, Work Program and Budget, and applicable policies and procedures. There were a total of 106 expenditures reported for the grants by way of quarterly financial reports. There were noncompliance issues noted with the grants selected for review. This does not mean that funds were not used as intended or that expenditures did not align with the general purpose of the grant. Specifics include the following.

- **Work Program and Budget Compliance.** The Grant Agreement and corresponding Work Program and Budget (WPB) stipulate the intended purpose of the grant. It also details specific goods and services for which the funds may be used. There were instances in which grant funds were expended upon services that were not detailed in the WPB. There were instances in which expenditure activity appeared to coincide with the general purpose of the agreement but were not in accordance with the budgeted categories detailed within the Work Program and Budget.
 - There were 10 of 106 instances in which the funds were expended on services that were not detailed in the WPB. The expenditures were for paid personnel. However, they were paid for a position that was not specified within the Work Program and Budget. Per the Grant Agreement, “The agency is not to use funds listed above for anything other than the position listed without approval from Metro Louisville Economic Development Staff.”
- **Inadequate Expenditure Documentation.** 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 may include timesheets as well as canceled payroll checks or signed receipts for payroll payments made in cash.
 - There were 63 of 106 instances in which expenditure documentation for paid personnel was not adequate. The WPB specifies the position(s) that may be paid as well as the required hourly rate. There was not sufficient documentation, such as a timesheet, to determine the hourly rate of pay and/or the amount of time spent on grant funded programming. As a result, compliance with the WPB could not be determined.
 - There was 1 of 106 instances in which the expenditure documentation for contract labor was not adequate. A contract and proof of payment were included in the expenditure documentation. However, the amount of the payment could not be agreed to the terms detailed within the contract.
 - There was 1 of 106 instances in which the expenditure documentation for client assistance was not adequate. Per the policies and procedures, the grantee may present expenditure documentation based on the internal cost of providing assistance to clients. The required documentation includes a fee schedule, which details the internal cost, the client(s) served, and an internal document that details who, what, when, and where regarding the assistance provided. The grantee did not provide detail regarding the clients served.

- There were 2 of 106 instances in which the expenditure documentation submitted was not adequate, because the grantee reimbursed an employee in an amount that was not properly supported with the required expenditure documentation. Per the policies and procedures, the receipt, an internal request form, and banking details must be submitted for reimbursement. Although all items were submitted the receipts did not agree to the banking details and the internal request form.

Recommendations

Appropriate personnel should consider the following recommendations concerning the Economic Development Departmental External Agency Grants.

- ✓ The policies and procedures should be updated to include the following:
 - The required expenditure documentation should be adequate to determine compliance with the Grant Agreement and corresponding Work Program and Budget. Specifically, as it relates to expenditures for paid personnel, the expenditure documentation should prove that rate of pay and hours worked are in accordance with the terms of the Grant Agreement.
 - Specific information regarding when and if it is ever appropriate for the grant monitor to authorize submission of expenditure documentation that is not in accordance with the policies and procedures. It should also address how such instances should be documented.
- ✓ The grant monitor(s) should be trained in regards to how to adhere to EAG Policies and Procedures specific to acceptable expenditure documentation.

Economic Development's Corrective Action Plan

Economic Development concurs with and will implement the recommendations related to Grant Compliance. In addition, Economic Development notes the following:

Grant Compliance - Findings related to Work Program and Budget compliance and Inadequate Expenditure Documentation are both related to the lack of proper review and cross-checking of the program's Work Program & Budget with the quarterly report, as well as cross-checking supporting documentation for expenditure of funds with the quarterly report.

Corrective Action: The quarterly reports are reviewed by two (2) staff, and the Department of Economic Development will provide training for grants administration for these individuals, as well as implement a checklist for items to review upon receipt of quarterly reports. Staff also will add language to the Arts Fund Policies & Procedures related to required expenditure documentation.

2) Grant Monitoring

- **Dual Review.** Grant monitoring consists of a primary review and secondary review (dual review) of quarterly financial reports and corresponding expenditure documentation submitted by the grantees. Sufficient evidence of proper dual review includes the initials of the reviewers and the date of the review.
 - There were 37 of 172 instances in which there was not sufficient evidence to prove that dual review had been completed. Per the EAG Policies and Procedures, evidence of dual review should be documented on the Quarterly Report as well as on a Monitoring Tracking Spreadsheet. Due to a combination of a lack of evidence on the Quarterly Report and inconsistent information within the Monitoring Tracking Spreadsheet, it could not be concluded that dual review occurred.
 - There were 2 of 172 instances in which the Quarterly Report could not be located. As a result it could not be determined if grant monitoring was performed as required by the EAG Policy and Procedures.

Recommendations

Appropriate personnel should consider the following recommendations concerning Economic Development Departmental External Agency Grants.

- ✓ The grant monitor(s) should be trained in regards to how to adhere to EAG Policies and Procedures specific to performing a primary and secondary review. Topics to be considered during training include documentation of dual review, proper maintenance of tracking tools (i.e. Monitoring Tracking Spreadsheet), and when dual review is required.

Economic Development's Corrective Action Plan

Economic Development concurs with and will implement the recommendations related to Grant Monitoring. In addition, Economic Development notes the following:

Grant Monitoring - While our policy is to have dual review of all quarterly reports and support documentation, it was not proven in all reviewed files that it occurred.

Corrective Action: The checklist used for reviewing quarterly reports and support documentation will be reviewed to ensure all pertinent documentation is identified, and will be instituted as a tool to use with every quarterly report. Also, training for grants administration mentioned above should include how to conduct dual review, where appropriate, maintenance and tracking tools.

3) General Administrative

- **Administrative Inconsistencies.** The Economic Development External Agency Grant (EAG) Policies and Procedures used to process and administer grants are not consistent and often in direct conflict with the terms of the Grant Agreement, Work Program and Budget, and the External Agency Funding Art Grants Handbook (Handbook). Discrepancies between the three administrative documents increase the risk of miscommunication, noncompliance, and improper monitoring of grant compliance. Examples include the following:
 - The Work Program and Budget and the EAG Policies and Procedures, both include Consultant Fees among unallowable costs. Consultant Fees are not included among the unallowable costs per the Handbook.
 - Personnel Cost associated with taxes, benefits, and/or other deductions are unallowable per the Handbook and EAG Policies and Procedures. However, the Work Program and Budget does not disallow those personnel costs. The Work Program and Budget specifies that paid personnel expenditures should include benefits, FICA, and Workman's Comp, etc.

Recommendations

Appropriate personnel should consider the following recommendations concerning the Economic Development External Agency Grants.

- ✓ Ensure that a clear, consistent, and adequate grant monitoring process is in place, as it is the primary control in safeguarding against non-compliance. The grant monitoring process should include the following:
 - Clear, consistent, and specific directives to grantees and grant monitors regarding the standards and guidelines that must be followed in order to be "compliant" with the Grant Agreement and applicable policies and procedures. This may be accomplished by ensuring that administrative documents such as the External Agency Funding Art Grants Handbook (Handbook), EAG Policies and Procedures, and the Grant Agreement and Work Program and Budget are in agreement.

Economic Development's Corrective Action Plan

Economic Development concurs with and will implement the recommendations related to General Administration. In addition, Economic Development notes the following:

General Administration - Discrepancies were found between the program documents that govern this program, including the Policies and Procedures, Grant Agreement, Handbook and Work Program and Budget.

Corrective Action: Rebecca Fleischaker, Department of Economic Development's Deputy Director, who oversees the administration of the Arts Fund program, has

conducted a thorough comparison between all of the above named documents and has corrected inconsistencies, especially where noted in the list of Unallowable Costs in the Policies and Procedures, Handbook and Work Program & Budget. This finding has been resolved.



The purpose of this survey is to solicit your opinion concerning the quality of the Economic Development External Agency Grant Audit Report. Please feel free to expand on any areas that you wish to clarify in the comment area at the end. Please return the completed survey electronically to IAUDITIMB@Louisvilleky.gov or to ATTN: Internal Audit 609 W. Jefferson St Louisville, KY 40202. We sincerely appreciate your feedback.

Survey

1. The audit report thoroughly explained the scope, objectives, and timing of the audit.

 Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

2. The audit report reflects knowledge of the departmental/governmental policies related to the area or process being audited.

 Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

3. The audit report is accurate and clearly communicated the audit results.

 Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

4. The audit recommendations were constructive, relevant, and actionable.

 Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

5. **Was there anything about the audit report that you especially liked?

6. **Was there anything about the audit report that you especially disliked?

Office of Internal Audit

Phone: 502.574.3291

www.louisvilleky.gov/InternalAudit/