



Greg Fischer  
Mayor

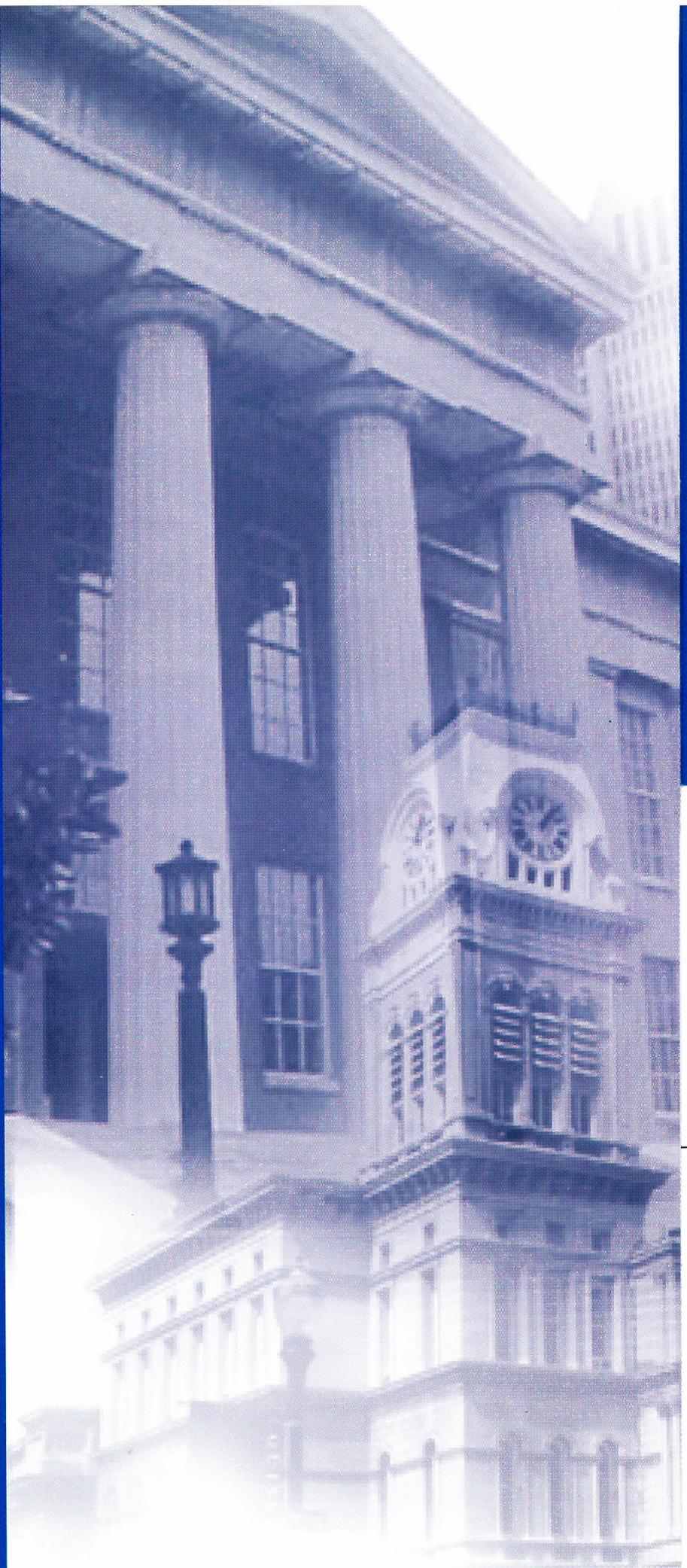
Louisville Metro Council

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 Government

Grant Monitoring Process



# Audit Report

## Louisville Metro Government

### Grant Monitoring Process

October 2016



**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 ..... 8

**Observations and Recommendations ..... 10**

    1) Policies and Procedures ..... 11

    2) Duplicate Expenditures ..... 14

    3) Grant Monitoring Process..... 16

    4) Grant Compliance..... 18

## Executive Summary

PROJECT TITLE	
Louisville Metro Government – Grant Monitoring Process	
OBJECTIVE AND SCOPE	
<p>The objective was to perform a review of the Louisville Metro Government Grant Monitoring Process. The primary focus was to perform an assessment of the processes used to monitor grants at the various grant monitoring agencies within Louisville Metro Government, including those within the Office of Management and Budget (OMB), Community Services, Economic Development, and Public Health and Wellness (PHW). The review included a comprehensive examination of the policies and procedures that guide each grant monitoring agency. Additionally, grant-funded expenditures were reviewed in order to assess compliance with the respective grant agreements, Work Program and Budgets, and applicable policies and procedures. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in each respective process.</p> <p>This was an assurance review based on the policies and procedures that guide the grant monitoring process for Neighborhood Development Fund grants (OMB), External Agency Fund grants (Community Services and Economic Development), and Healthy Hometown grants (PHW) as of July 31, 2015. The review included activity that occurred during fiscal year 2015 (July 1, 2014 through June 30, 2015). The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.</p>	
INTERNAL CONTROL ASSESSMENT	SECTION
Needs Improvement	Grant Monitoring Process
RESULTS	
<p>Opportunities exist for improving the internal control structure related to the Louisville Metro Government Grant Monitoring Process. Examples include the following.</p> <ul style="list-style-type: none"><li>• <b>Policies and Procedures.</b> Key differences among the various Louisville Metro Government grant monitoring agencies were noted.</li><li>• <b>Duplicate Expenditures.</b> There were instances in which the same expenditure was paid through multiple funding sources.</li><li>• <b>Grant Monitoring Process.</b> There were issues regarding the timeliness of quarterly report submissions and a lack of evidence of monitoring and approval.</li><li>• <b>Grant Compliance.</b> There were issues regarding compliance with the Work Program and Budget, inadequate expenditure documentation, and unallowable expenditures.</li></ul>	



OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

GREG FISCHER  
MAYOR

MAY R. PORTER, CHIEF AUDIT EXECUTIVE

DAVID YATES  
PRESIDENT METRO COUNCIL

**Transmittal Letter**

October 21, 2016

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

**Subject: Audit of the Louisville Metro Government – Grant Monitoring Process**

**Introduction**

An audit of the Louisville Metro Government Grant Monitoring Process was performed. The primary focus was to perform an assessment of the processes used to monitor grants at the various grant monitoring agencies within Louisville Metro Government, including the Office of Management and Budget (OMB), Community Services, Economic Development, and Public Health and Wellness (PHW). The review included a comprehensive examination of the policies and procedures that guide each grant monitoring agency. Additionally, grant-funded expenditures were reviewed in order to assess compliance with the respective grant agreements, Work Program and Budgets, and applicable policies and procedures. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in each respective process.

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 processes used to monitor grants was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel and examination of supporting documentation. The policies and procedures that guided monitoring of Neighborhood Development Fund grants (OMB), External Agency Fund grants (Community Services and Economic Development), and Healthy Hometown grants (PHW) as of July 31, 2015 were reviewed.

A sample of grant-funded expenditures was reviewed in order to assess compliance with the respective grant agreements, Work Program and Budgets, and applicable policies and procedures. The review included activity that occurred during fiscal year 2015 (July 1, 2014 through June 30, 2015). Instances in which a grant recipient receives a grant award from more than one grant monitoring agency were identified and examined for potential duplicate expenditures. Determining the worthiness or value of the services provided was not an objective, and was not reviewed. The details of the scope and methodology of the review are 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 data.

### **Opinion**

It is our opinion that the internal control structure for the Louisville Metro Government Grant Monitoring Process 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.

- **Policies and Procedures.** Key differences among the various Louisville Metro Government agencies were noted.
- **Duplicate Expenditures.** There were instances in which the same expenditure was paid through multiple funding sources.
  - There were instances in which general fund grant expenditures were duplicated between grants resulting in overpayments to grantees in the amount of \$1,124.
  - There were instances in which expenditures were duplicated between general fund and sub-recipient grants resulting in overpayments to grantees in the amount of \$502.
- **Grant Monitoring Process.** There were issues regarding the grant monitoring process.

- There were instances in which there was not sufficient evidence that dual review of the selected grants occurred.
- There were instances in which the quarterly report was not received on or before the deadline specified within the grant agreement.
- **Grant Compliance.** There were issues regarding compliance with the Work Program and Budget, inadequate expenditure documentation, and unallowable expenditures.
  - There were instances in which funds were expended for goods or services that were not detailed in the Work Program and Budget.
  - There were instances in which expenditure documentation was inadequate.

**Corrective Action Plan**

Representatives from the Office of Management and Budget, Community Services, Economic Development, and Public Health and Wellness have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendation section. We will continue to work with the grant monitoring agencies to ensure the actions taken are effective to address the issues noted.

Sincerely,

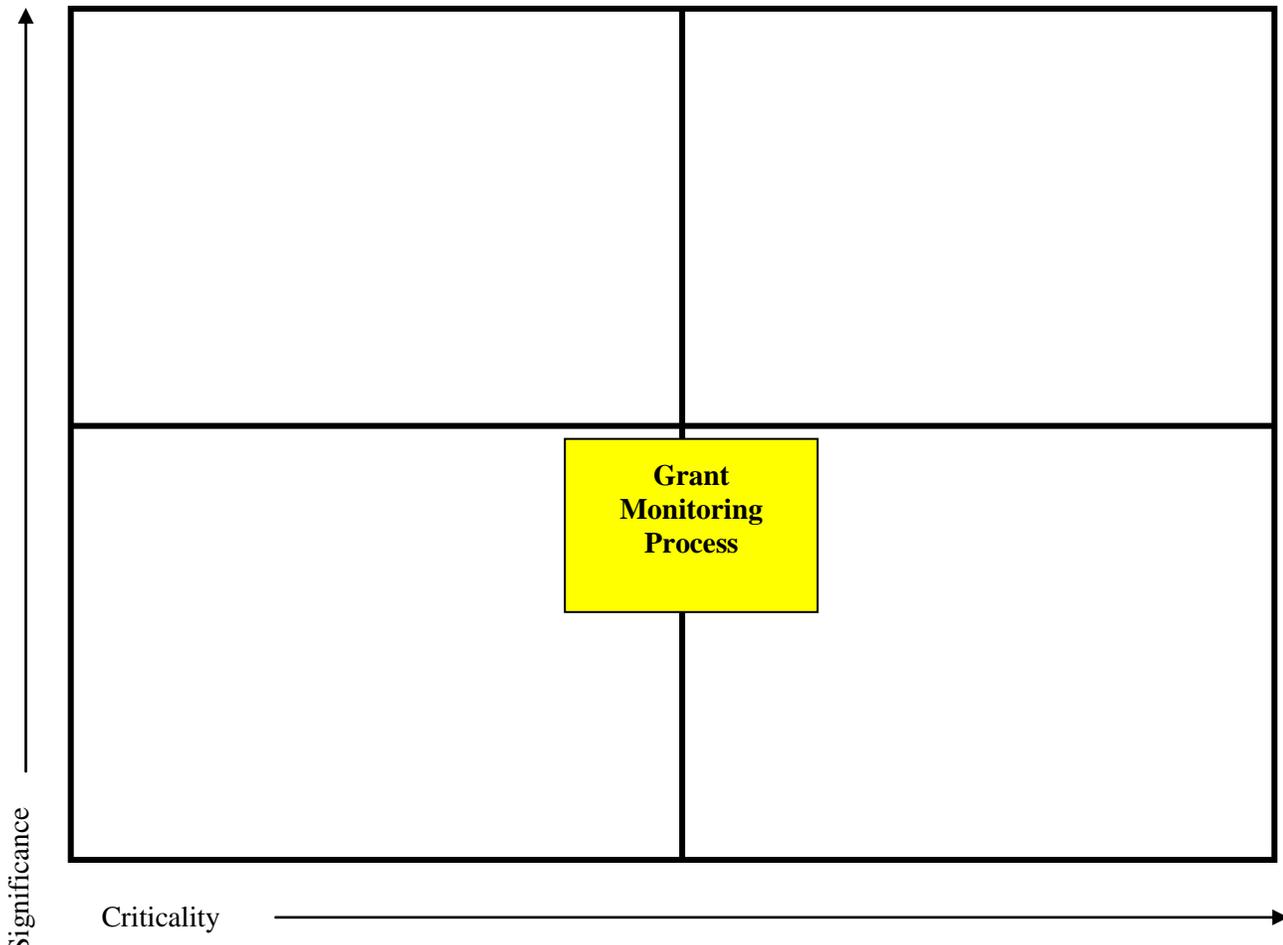


---

May R. Porter, CIA  
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee  
Chief Financial Officer  
Director of Finance  
Director of Community Services  
Director of Economic Development  
Public Health and Wellness – Chief of Staff  
Louisville Metro External Auditors  
Louisville Metro Council President

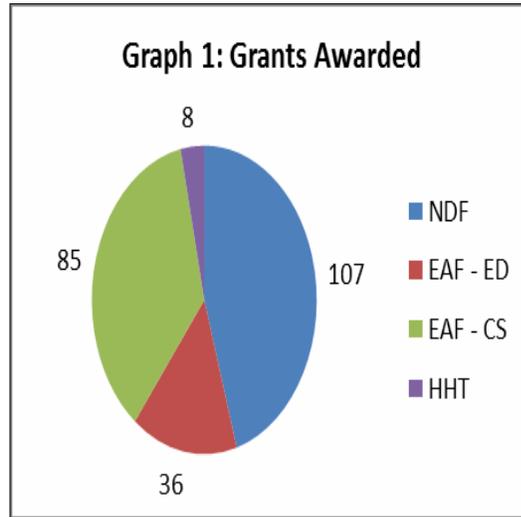
**Internal Control Rating**



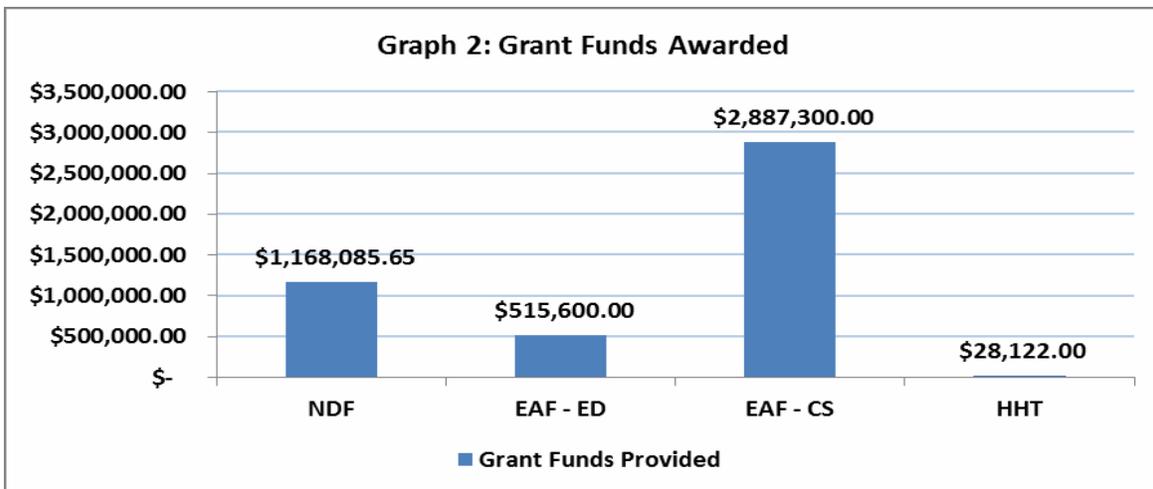
<i>Legend</i>			
<b><u>Criteria Issues</u></b>	<b><u>Satisfactory</u></b> Not likely to impact operations.	<b><u>Needs Improvement</u></b> Impact on operations likely contained.	<b><u>Inadequate</u></b> Impact on operations likely widespread or compounding.
<b><i>Controls</i></b>	Effective.	Opportunity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

**Background**

Louisville Metro Government (LMG) offers Neighborhood Development Fund (NDF) grants, Community Services and Economic Development External Agency Fund (EAF – CS, EAF – ED) grants, and Healthy Hometown (HHT) grants to be used throughout the community. Each of the grants are monitored by a different grant monitoring agency within various departments. The Neighborhood Development Fund grants are monitored by the Office of Management and Budget. The External Agency Fund grants are monitored by either Community Services or Economic Development. Public Health and Wellness monitors the Healthy Hometown grants.



During Fiscal Year 2015, there were 236 grants awarded (see Graph 1: Grants Awarded). There was approximately \$4.6 million awarded (see Graph 2: Grant Funds Awarded) to grant recipients through Neighborhood Development Fund, External Agency Fund, and/or Healthy Hometown grants.



This audit was scheduled as a result of the issues identified during previous audits involving Neighborhood Development Fund grants and External Agency Fund grants.

## **Summary of Audit Results**

### **I. Current Audit Results**

See the Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit has not previously conducted a comprehensive examination of the Louisville Metro Government Grant Monitoring Process. However, reviews of various aspects of the Grant Monitoring Process including Neighborhood Development Funds (2012), Community Services External Agency Fund Grants (2014), and Economic Developments External Agency Fund Grants (2015) have been conducted. Unless otherwise noted, all prior issues have been satisfactorily addressed.

### **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 the Office of Management and Budget, Community Services, Economic Development, and Public Health and Wellness on August 31, 2016. An exit conference was held at the Office of Internal Audit in the City Hall Annex on September 19, 2016. Attending were Monica Harmon, Daniel Frockt, and Amy Deering representing the Office of Management and Budget; Gena Redmon and Eric Friedlander representing Community Services; Rebecca Fleischaker representing Economic Development; Jon Moore, Edward Galligan, and SteVon Edwards representing Public Health and Wellness; and Andrew Gooze, Jason Byrd, and May Porter representing Internal Audit. Final audit results were discussed.

The views of the agency officials were received on October 14, 2016 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 agencies were granted an extension to provide a response. The response was provided within this required timeframe.

## Observations and Recommendations

### **Scope and Methodology**

A review of Louisville Metro Government's grant monitoring process was performed. The primary focus was to perform an assessment of the processes used to monitor grants at the various grant monitoring agencies within Louisville Metro Government, including the Office of Management and Budget (OMB), Community Services (CS), Economic Development (ED), and Public Health and Wellness (PHW). This included how activity was processed, recorded, and monitored. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

The review was based on the policies and procedures that guide the respective grant monitoring processes as of July 31, 2015. The review included activity that occurred during fiscal year 2015 (July 1, 2014 through June 30, 2015). Testing of activity related to the grant monitoring process included the following:

- The policies and procedures that guide the grant monitoring process for Neighborhood Development Fund (NDF), Community Services and Economic Development External Agency Fund (EAF), and Healthy Hometown grants were reviewed to determine any key differences.
- Potential duplicate expenditures were identified among fiscal year 2015 NDF, EAF, Healthy Hometown and sub-recipient grant expenditures. Of the potential duplicate expenditures, a sample of 75 potential duplicates was selected for examination.
- A sample of 8 grants (2 per monitoring agency) was examined to determine that the required grantee financial reports and expenditure documentation were submitted timely and properly monitored and approved.
- Each expenditure (531 expenditures) from the 8 grants was examined for compliance with the applicable policies and procedures, grant agreement, and Work Program and Budget.

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

### **Observations**

Issues were noted with the Louisville Metro Government Grant Monitoring Process. As a result, the effectiveness of the internal control structure needs improvement. Areas in which there are opportunities to strengthen the controls include the following.

- 1) Policies and Procedures
- 2) Duplicate Expenditures
- 3) Grant Monitoring Process
- 4) Grant Compliance

Details of these begin on the following page.

## **1) Policies and Procedures**

- **Louisville Metro Government Grant Monitoring/Compliance Agencies.** There are multiple departments within Louisville Metro Government that are responsible for operating a grant monitoring/compliance agency. Each agency uses different standards to determine compliance with the various grant agreements and corresponding Work Program and Budgets. There are also key differences between the policies and procedures used to guide staff in performing grant-monitoring duties. There is an increased risk that synergies may not be realized, as varying compliance standards prevent sharing resources. Further, the grant reporting process is made more cumbersome for the grantees, as many grantees receive funding from various Louisville Metro Government agencies.
  - A comparison of policies and procedures used to guide the grant monitoring processes for Healthy Hometown, Community Services EAF, Economic Development EAF, and NDF grants was performed. The policies and procedures for each agency had key differences as follows:
    - **Payment Disbursements.** The timing of grant fund disbursements was the same for Community Services EAF and Economic Development EAF. The NDF and Healthy Hometown grants policy regarding the disbursement of grant funds were each unique.
      - NDF and Healthy Hometown grants may be processed as either a one-time payment for the full amount or multiple disbursements of equal installments based upon the nature of the expenditure.
    - **Changes to Work Program and Budget.** The methods and standards used to request and approve changes to the intended use of the grant vary amongst the respective policies.
      - The respective policies and procedures for Community Services EAF and Economic Development EAF grants allow for grantees to make changes to the Work Program and Budget up to 20% per line item. However, only the Community Services EAF grant policies require notification of intended changes in writing. Grantees are generally allowed to make changes to the NDF and Healthy Hometown grant Work Program and Budget up to 10% per line item. However, this directive is explicitly stated in only the Healthy Hometown grant policies.
    - **Return of Unspent Funds.** Deadlines for the return of unspent funds vary. The deadline is the same for Community Services EAF grants and Economic Development EAF grants. A specific deadline is not noted in the NDF policy.
    - **Monitoring (Dual Review).** The quantity of reviewers and approvers required for a complete review of each quarterly report varies amongst the policies.
    - **Extension Request.** The type of extension request addressed in the policies varies among agencies. The Community Services EAF and Economic Development EAF policies address reporting extensions. The NDF policy addresses extensions to expend grant funds. The Healthy Hometown grants policy does not address extension requests.
    - **Non-compliant communication.** The requirements regarding when and how instances of non-compliance is communicated to the grantee vary by policy.

The Community Services EAF and Economic Development EAF policies are the same in regards to non-compliant communication. Communications regarding NDF non-compliance are sent to grantees quarterly.

- The Healthy Hometown grant policy provides detailed guidance on the method in which non-compliant communication is sent (i.e. email, phone), when it is sent, and the consequences of non-compliance.
- **Unallowable Items.** There were differences regarding the unallowable items noted within the policies and procedures. The NDF policy did not list unallowable items.
- **Expenditure Documentation.** The Community Services EAF and Economic Development EAF policies regarding documentation required to support expenditures are similar. The NDF and Healthy Hometown Grants' policies are not as detailed as the Community Services EAF and Economic Development EAF policies related to required expenditure documentation.
- **Undefined Budget Line Item Categories.** There were instances in which expenditure activity appeared to coincide with the general purpose of the grant but did not match the budgeted categories within the Work Program and Budget (WPB). The WPB includes a budget which allocates the funds into categories (i.e. personnel, utilities, office supplies, client assistance) based on the intended use of funds. However, the categories were not defined in the Healthy Hometown grant policies and procedures. This creates inconsistencies in budgeting and reporting expenditures.
- **Rounding Expenditures.** The rounding of expenditures reported on quarterly reports is not specifically addressed in the policies and procedures for any of the grant agencies reviewed.

### **Recommendations**

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

- ✓ Develop a set of enterprise policies to guide the various grant monitoring agencies. This would increase the ability to realize synergies and share resources. This would also aid in reducing inconsistent directives between agencies as well as to the grantees. Alternatively, if an enterprise grant monitoring policy is not a feasible option, it would be a benefit to each agency to meet periodically to share best practices. In addition the following should also be considered:
  - The agencies should work together to maintain a master list of grantees who are non-compliant. This will aid in reducing the risk of continued payments to a grantee that may be non-compliant with a particular Louisville Metro Government agency.
  - The agencies should consider creating a single grant training and orientation for all grantees receiving funds from the general fund.

- The agencies should consider the use of a standard financial quarterly report template and expenditure listing format.
- ✓ Budget categories within the Work Program and Budget should be defined within the grant policies and procedures. The definitions should provide a clear understating of how expenditures should be budgeted and reported.
- ✓ Grant policies and procedures should be updated to disallow rounding expenditures up or down. Grant expenditures should be reported at the actual cost.
- ✓ Grant policies and procedures should be updated to reflect current practices. The policies should be consistent with any guidance or other related written materials. Policies and procedures should be reviewed and updated at least annually. The revision date should be documented on the policy.

### **Corrective Action Plan**

Each agency concurs with and will implement the recommendations related to policies and procedures. In addition, the agencies noted the following:

The agencies constituted a Policy Review Team to develop a centralized policies and procedures document for managing grants. The centralized document will address these recommendation

## **2) Duplicate Expenditures**

- **Duplicate Expenditures.** Grantees may receive concurrent funding from the NDF, Community Services and Economic Development EAFs, and Healthy Hometown grants, which are funded through the general fund. In addition, the grantees may also be a sub-recipient of federal or state grant funds. There is no collaboration amongst agencies to monitor duplicate payments for the same expenditures. Issues were found with duplicated expenditures. Examples include the following:
  - There were 6 of 32 instances in which general fund grant expenditures were duplicated between grants resulting in overpayments to grantees in the amount of \$1,124.
    - In 3 of the 6 instances, grant funds were paid for personnel expenditures in excess of net pay due to overlapping payments between grants. In 2 of the instances the personnel expenditures were paid from a Community Services EAF and a Healthy Hometown grant. The remaining personnel expenditures were paid from a Community Services EAF and an Economic Development EAF grant. The 3 overlapping payments totaled \$292.
    - In 1 of the 6 instances, an expenditure was paid twice by way of a Healthy Hometown grant. The same expenditure was also paid from a Community Services EAF grant. The expenditure was paid a total of 3 times, resulting in an overpayment of \$832.
    - In 2 of the 6 instances, duplicate expenditures were paid by way of both a Community Services EAF grant and a Healthy Hometown grant. The duplicate payments resulted in overpayments of \$67.
  - There were 2 of 43 instances in which expenditures were duplicated between general fund and sub-recipient grants resulting in overpayments to grantees of \$502.
    - In 1 of the instances, an expenditure was paid once using general fund dollars, and once using sub-recipient funds.
    - In the other instance, a personnel expenditure exceeded gross pay and benefits due to overlapping payments between general and sub-recipient grants.

### **Recommendations**

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

- ✓ Evaluate options for consolidating the grant monitoring/compliance agencies into a centralized grant monitoring/compliance agency to promote synergies and share resources. There are multiple options regarding the level of centralization that would be most advantageous to LMG, including the following:
  - Monitoring of programming and financial activity may be consolidated into one centralized grant monitoring/compliance agency.

- Monitoring of financial reporting and expenditure compliance may be centralized so that the activity is performed by an agency with expertise in analyzing and evaluating financial information. However, the monitoring and compliance activity related to the programming aspects of the grants may remain with the current or most appropriate agencies.
- Alternatively, if centralization is not a viable option, it would be a benefit to each agency and the grantees to develop shared policies, reporting templates and/or to meet periodically to share best practices.
- ✓ Develop a system to share information regarding grantees and expenditures. Information may be shared using a shared drive, SharePoint, email, or periodic meetings between key personnel from each agency. Additional options for sharing information include the following:
  - Develop, maintain and share a list grantee names and the programs being funded. This will allow for the identification of grantees that are receiving funding for the same program from multiple sources.
  - Share the financial quarterly reports or create and share a spreadsheet that lists expenditure information. Similar expenditures that are reported to different agencies by the same grantee should be identified and further investigated.
  - Each grantee’s expenditure activity may be reviewed for duplicate payments between agencies as part of the grant monitoring process.
  - Conduct periodic audits of grant expenditures to ensure no expenditures were duplicated between agencies. Any duplicated payments should be returned to Louisville Metro Government by the grantee.

**Corrective Action Plan**

Each agency concurs with and will implement the recommendations related to duplicate expenditures. In addition, the agencies noted the following:

There is an on-going discussion among grant agencies to determine and possibly implement the centralization of financial activity monitoring. Once a determination is made, Internal Audit will be informed. If the agencies decide against centralization, processes will be put in place to develop and implement internal control best practices to address duplicate expenditures. Also; in order to ensure adherence to funding strategies and mission of each department, programmatic monitoring will remain with the individual funding agency.

### **3) Grant Monitoring**

- **Dual Review.** Grant monitoring consists of a primary review and a secondary review (dual review) of financial progress reports (quarterly reports) and corresponding expenditure documentation. Each grant monitoring agency collects and reviews the quarterly reports on a quarterly basis. Each of the grant monitoring agencies, except for Public Health and Wellness, perform dual review each quarter. Public Health and Wellness performs dual review of the reports received during the year, annually, at the end of the grant period. Sufficient evidence of dual review includes the signature or initials of the reviewers and the date of the review.
  - There were 2 of 2 instances in which there was not sufficient evidence to prove that dual review of the selected Healthy Hometown grants had occurred during the annual review. The policies and procedures require dual review to be evidenced by the date of review and the signature of the Program Administrator and the Division Director. Only the signature of the Program Administrator and the date of review were present. As a result, it cannot be concluded that dual review occurred. *Similar issues were noted in a previous audit.*
  - There was 1 of 8 instances in which there was no evidence of when the quarterly review of the selected Community Services EAF grant occurred. There was sufficient evidence to prove that dual review had been completed, but the date of the second review was not documented. *Similar issues were noted in a previous audit.*
- **Quarterly Report Submission.** The grant agreement requires quarterly reports to be submitted on or before the deadline specified within the grant agreement.
  - In 4 of the 32 quarterly reports reviewed, the quarterly report was not received on or before the deadline specified within the grant agreement. Documentation regarding an extension request or ongoing communications between the grantee and the grant monitor regarding the quarterly report could not be located. Of the four instances, Community Services EAF grants accounted for 3 and NDF grants accounted for 1 instance. *Similar issues were noted in a previous audit.*
  - In 8 of the 32 quarterly reports reviewed, it could not be determined if the report was received on or before the deadline specified within the grant agreement due, because the date of receipt was not documented on the report and/or supporting documentation. Healthy Hometown grants accounted for the 8 instances. *Similar issues were noted in a previous audit.*

### **Recommendations**

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

- ✓ Consider requiring two levels of review during the grant monitoring process. Grant compliance issues or monitoring errors are more likely to be detected when two people review the grant. There should be evidence of dual review by way of both reviewer's signatures and dates of review. Agencies should work together to develop a standard method for dual review.

- ✓ Agencies should work together to develop a more formal policy regarding the acceptance of quarterly financial reports after the deadline, especially the final quarterly report. The policy should include the following:
  - A clear, consistent method to document the date of report receipt.
  - A clear, consistent method to request an extension, such as an Extension Request Form or a letter from the grantee contact. There should be specific guidelines regarding the information that must be included in the request, such as the reason for the request and the amount of additional time requested. In instances in which an extension is needed for the final report, the grantee should specify the amount of funds remaining to be spent.
  - There should also be specific guidelines regarding the approval of an extension request. The policy should include the person(s) authorized to provide approval as well as a method for tracking and documenting the request and subsequent approval.
  - Documentation related to extension requests should be retained in the grant file.

### **Corrective Action Plan**

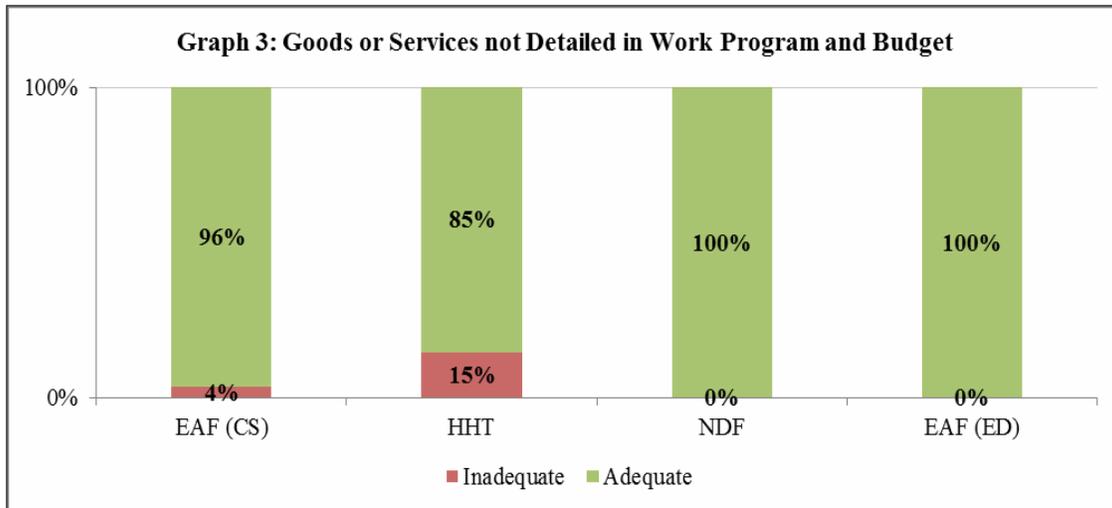
Each agency concurs with and will implement the recommendations related to the grant monitoring process. In addition, the agencies noted the following:

The agencies constituted a Policy Review Team to develop a centralized policies and procedures document for managing grants. The centralized document will address these recommendations.

#### **4) Grant Compliance**

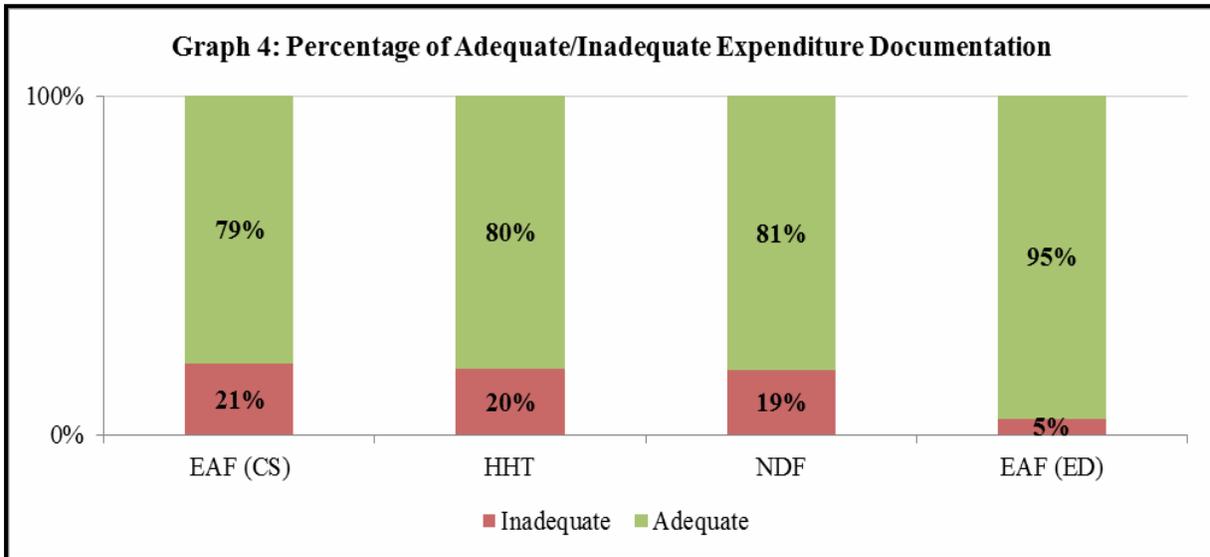
Two grants from each grant monitoring Agency (8 grants) were selected for review to assess compliance with the grant agreement, Work Program and Budget, and applicable policies and procedures. There were a total of 531 expenditures reported for the grants by way of quarterly financial reports. There 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 Work Program and Budget (WPB) specifically outlines how grant funding will be spent. This includes detail of goods and services for which funds may be used. The WPB includes a budget which allocates the funds into categories (i.e. personnel, utilities, office supplies, client assistance) based on the intended use of funds. Changes to an approved WPB must be in conformance with the applicable policies and procedures.
  - There were 20 of 531 instances, in which funds were expended on goods or services that were not detailed in the WPB. The percentage of instances for each grant type is displayed below on Graph 3: Goods or Services not Detailed in Work Program and Budget. *Similar issues were noted in a previous audit.*

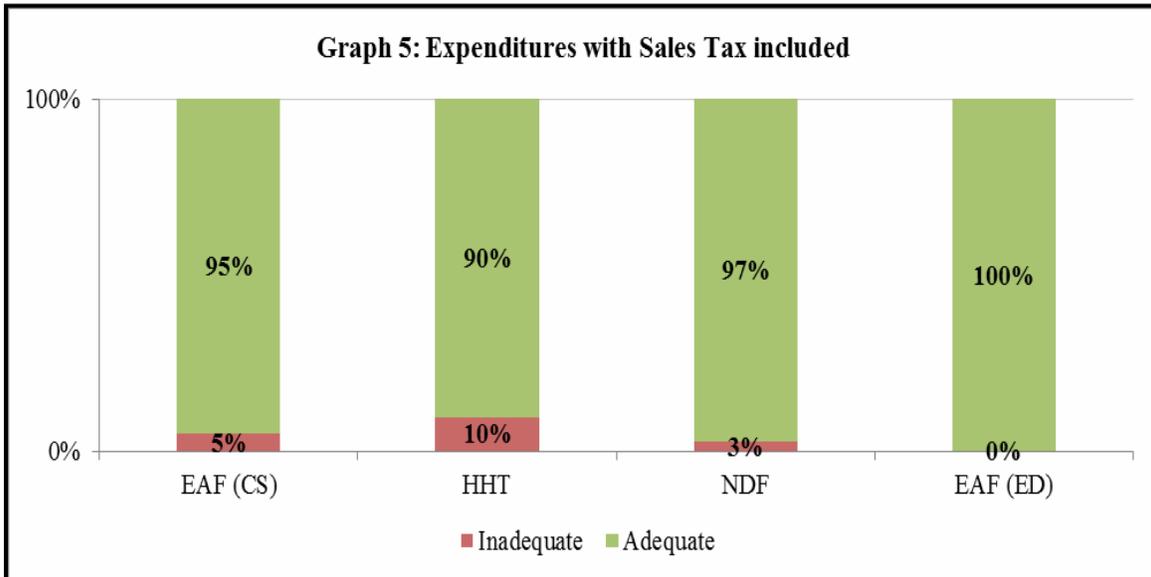


- In 6 of the 8 grants reviewed, funds were expended in an amount greater or less than the budget allocation for a category. Documentation regarding approval to change the WPB could not be located. It could not be confirmed that changes to budget categories were properly authorized in accordance with the applicable policies and procedures. Of the 6 instances, NDF, Community Service EAF, and Healthy Hometown grants each accounted for 2. *Similar issues were noted in a previous audit.*

- **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 100 of 531 instances in which expenditure documentation was inadequate. The percentage of inadequate expenditure documentation for each grant type is displayed below on Graph 4: Percentage of Adequate/Inadequate Expenditure Documentation. *Similar issues were noted in a previous audit.*
    - In 35 of 100 instances, expenditures were listed on the quarterly report; however the corresponding supporting documentation such as invoices and receipts could not be located. Community Services EAF grants accounted for the 35 instances.



- **Unallowable Expenditures.** There were 24 of 531 instances in which sales tax was included in the expenditure. Per the various grant policies and procedures, sales tax is not an allowable expenditure. The Healthy Hometown Grants policy in use during fiscal year 2015 did not specifically identify sales tax as an unallowable expenditure. However, the grantee was tax exempt and should not have paid sales taxes. The percentage of instances for each grant type is displayed on Graph 5: Expenditures with Sales Tax Included.



- **Grant Agreement Duration.** There was 1 of 531 instances in which the expenditure was incurred after the duration of the grant agreement. The instance was related to a Community Service EAF grant. *Similar issues were noted in a previous audit.*
- **Unable to Determine.** There were 2 of 2 instances in which it could not be determined if the total amount of expenditure documentation agreed to the total amount of the grant award, due to inconsistent and vague reporting requirements. The Healthy Hometown grant policy does not require the grantee to provide a list of expenditures made during the period. As a result, the expenditures could not be reconciled to the amount of the grant award. *Similar issues were noted in a previous audit.*

**Recommendations**

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

- ✓ Thoroughly review expenditures to ensure compliance with the Work Program and Budget. A thorough review should include the following evidence (signature and date) of the review.
- ✓ Review and update the grant policies as necessary to reflect current practices. The update should include the requirements for changes to the Work Program and Budget. Communications related to changes to the Work Program and Budget should be retained in the grant file. Any handbooks, guidance, or other documentation should be consistent with the policy.

- ✓ Clearly communicate the level of documentation that is required to support grant expenditures. In addition, the grant monitor should maintain relevant and complete expenditure documentation in the grant file.
- ✓ The objective of each grant should be explicitly stated in the grant agreement. If grant funds are to be used for expenditures incurred prior to or after the grant's effective date, the grant agreement should specifically state this as the intended use of the funds.
- ✓ The grant monitoring agencies should work together to produce a suitable standard financial quarterly report template and expenditure list format. Consideration should be given to the following:
  - Grantees should include expenditure listings with all quarterly reports. Each grant expenditure should be listed with information such as the expenditure date, vendor, amount charged to the grant, method of payment, and description of what was purchased.

### **Corrective Action Plan**

Each agency concurs with and will implement the recommendations related to grant compliance. In addition, the agencies noted the following:

The agencies constituted a Policy Review Team to develop a centralized policies and procedures document for managing grants. The centralized document will address this recommendation.



The purpose of this survey is to solicit your opinion concerning the quality of the **Louisville Metro Government – Grant Monitoring Process 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](mailto:IAUDITIMB@Louisvilleky.gov) or to ATTN: Internal Audit 609 W. Jefferson St Louisville, KY 40202. We sincerely appreciate your feedback. The survey can also be completed online at the following link: <https://louisvilleky.wufoo.com/forms/audit-report-satisfaction-survey/>

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