

Office of the City Auditor

Audit Report

Audit of American Recovery and Reinvestment Act of 2009 July 1, 2010 to September 30, 2010 (Report No. A11-003)

November 5, 2010



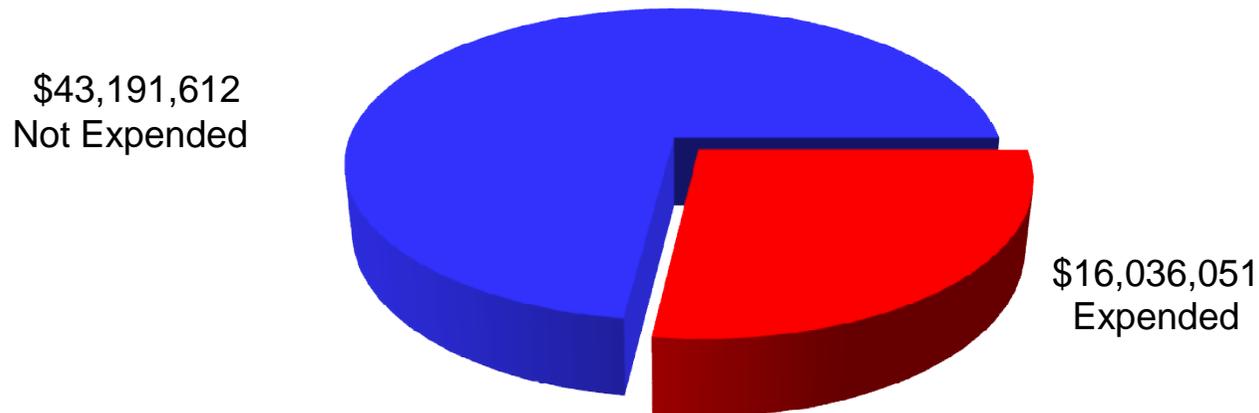
City Auditor
Craig D. Kinton



Executive Summary

- As of September 30, 2010, the City of Dallas (City) has been awarded American Recovery and Reinvestment Act of 2009 (ARRA) funds of **\$136,033,631** by Federal and State agencies. Of this amount, **\$76,805,968** was funded through the Texas Department of Transportation, the Regional Transportation Commission, and the North Central Texas Council of Governments. Of the remaining **\$59,227,663**, the City indicated that **\$16,036,051**, or approximately **27 percent**, has been expended.

**ARRA Funds Expenditure Status
as of September 30, 2010**



Source: City of Dallas Intergovernmental Services Department



Executive Summary

- During the period of July 1, 2010 through September 30, 2010, the City did not directly receive new ARRA funding awards; however, the City has two applications totaling \$932,479 pending approval by Federal and State agencies
- The City will benefit from \$76.8 million in ARRA funding allocated to transportation projects by Regional Transportation Commission, Texas Department of Transportation, and North Central Texas Council of Governments. The City is not directly responsible for monitoring these funds.
- The Office of the City Auditor previously reported the City's actual ARRA expenditures were not reported to the public because the Federal government required that expenditure amounts could not exceed the amount reimbursed from Federal agencies. This requirement was changed for the reports due beginning in July 2010. As a result, the City is now reporting the actual ARRA expenditures to the FederalReporting.gov and Recovery.gov.
- The Office of the City Auditor has not received any allegations involving Federal stimulus grants through the Fraud, Waste and Abuse Hotline during the period of July 1, 2010 through September 30, 2010



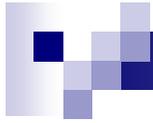
Executive Summary

- The City should be commended for either implementing or partially implementing 27 of the 28 recommendations included in the 2009 ARRA risk assessment reported by the Office of the City Auditor. The recommendation not implemented suggests City management include the ARRA **preference** for “quick start” activities in written policies and procedures. This does not impact the City’s compliance with ARRA requirements.
- A September 2010 Government Accountability Office Recovery Act report on *Opportunities to Improve Management and Strengthen Accountability over States’ and Localities’ Uses of Funds* shows that the Dallas City Auditor has taken various steps to promote accountability within the City
- Weatherization Assistance Program contractors have completed work on 257 homes from July 1, 2010 through September 30, 2010 and the City has met the target production goals per the Mitigation Action Plan; however, non-compliance issues remain a concern
- The City did not meet the initial September 2010 benchmark of spending 20 percent (\$2.6 million) of Energy Efficiency and Conservation Block Grant funds; however the Federal government did not take any adverse action

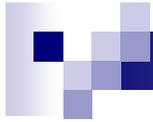


Executive Summary

- The City and its sub-recipients reported 158 jobs were funded during the period July 1, 2010 through September 30, 2010
- City management reviewed and agreed with the issues included in this report
- The audit objectives were to determine whether funds were properly awarded, distributed, and used for authorized purposes; required reports were timely and accurately submitted; fraud, waste, error, and abuse were mitigated; projects did not have unnecessary delays and cost overruns; and, program goals were achieved



Audit Results

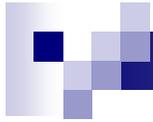


Audit Objective I: Determine whether funds are awarded and distributed in a prompt, fair, and reasonable manner

- **Issue I-A:** During the period of July 1, 2010 through September 30, 2010, the City of Dallas (City) did not directly receive new ARRA funding awards; however, the City has two applications pending approval by Federal and State agencies:
 - Application for \$682,479 in the Federal competitive Broadband Technology Opportunities Program II. The purpose of this program is to support the deployment of broadband infrastructure in unserved and underserved areas, to enhance broadband capacity at public computer centers, and to encourage sustainable adoption of broadband service.
 - Application for \$250,000 in the State competitive State Energy Conservation Office (SECO) Program. The purpose of this program is to support renewable energy initiatives.

- **Audit Recommendation:** None

- **Management Action:** None

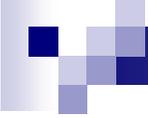


Audit Objective I: Determine whether funds are awarded and distributed in a prompt, fair, and reasonable manner

- **Issue I-B:** The City will benefit from \$76.8 million in transportation projects through ARRA funding. The City is not directly responsible for monitoring these funds.
 - \$30,060,000 in roadway projects through ARRA funding provided directly to the Regional Transportation Commission (RTC). The RTC allocated funds for four projects directly impacting the City.
 - \$23,745,968 in Federal Aid to Highways through ARRA funding provided directly to the Texas Department of Transportation (TxDOT). Five City projects have been selected by TxDOT.
 - \$23,000,000 in Transportation Investment Generating Economic Recovery (TIGER) program through ARRA funding provided directly to the North Central Texas Council of Governments. The project will enhance regional connections between Downtown Dallas and Downtown Fort Worth.

- **Audit Recommendation:** None

- **Management Action:** None



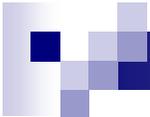
Audit Objective II:

Determine whether the recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner

- **Issue II-A:** The Office of the City Auditor previously reported* the City's actual ARRA expenditures were not reported to the public because the Federal government required that expenditure amounts could not exceed the amount reimbursed from Federal agencies. This requirement was changed for the reports due beginning in July 2010. As a result, the City is now reporting the actual ARRA expenditures to the FederalReporting.gov and Recovery.gov**.
- **Audit Recommendation:** None
- **Management Action:** None

* The Office of the City Auditor Report No. A10-012 *Audit of American Recovery and Reinvestment Act of 2009 January 1, 2010 to March 31, 2010*, page 8.

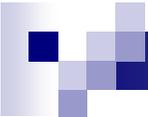
** FederalReporting.gov is the central government-wide data collection system for Federal agencies and recipients of Federal awards under ARRA. After data has been submitted to FederalReporting.gov and reviewed by the grantor agency, the information is posted on Recovery.gov for public review.



Audit Objective III:

Determine whether funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated

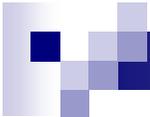
- **Issue III-A:** The Office of the City Auditor has not received any allegations involving Federal stimulus grants through the Fraud, Waste and Abuse Hotline during the period of July 1, 2010 through September 30, 2010
- **Audit Recommendation:** None
- **Management Action:** None



Audit Objective III:

Determine whether funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated

- **Issue III-B:** The City should be commended for either implementing or partially implementing 27 of the 28 recommendations included in the 2009 ARRA risk assessment conducted by the Office of the City Auditor. The recommendation not implemented suggests City management include the ARRA **preference** for “quick start” activities in written policies and procedures. This does not impact the City’s compliance with ARRA requirements.
- **Audit Recommendation:** None
- **Management Action:** None



Audit Objective III:

Determine whether funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated

- **Issue III-C:** A September 2010 Government Accountability Office (GAO) Recovery Act report on *Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds* shows Dallas City Auditor has taken various steps to promote accountability within the City. The GAO report stated that the Dallas City Auditor has initiated efforts to:
 - Conduct a risk assessment of the City's internal control systems relevant to ensuring compliance with Recovery Act requirements
 - Monitor Recovery Act funding received by the City
 - Assess the City's compliance with requirements
 - Issue periodic audit reports
- **Audit Recommendation:** None
- **Management Action:** None



Audit Objective IV:

Determine whether projects funded under this Act avoid unnecessary delays and cost overruns

- **Issue IV:** As of September 30, 2010, the City has spent 27 percent or \$16 million of the total \$59 million ARRA funds awarded by Federal and State agencies. The following shows the status of each ARRA program:
 - **Department of Justice Programs**
 - ***Cops Hiring Recovery Program*** – During the grant’s first 15 months of performance, the City spent 20 percent of the \$8,896,300 total award. The grant is for a 36-month performance period from July 2009 through June 2012.
 - ***Edward Byrne Memorial Justice Assistance Grant*** – During the grant’s first year of performance, the City spent 71 percent of the \$7,258,077 total award. The grant funds equipment, law enforcement personnel, community prosecutors, case managers, and grant coordinators for a four-year performance period from FY 2010 through FY 2013.
 - ***Internet Crimes Against Children Initiatives Grant*** – During the grant’s first 18 months of performance, the City spent 40 percent of the \$776,503 total award. The grant is for a 48-month performance period from April 2009 through March 2013.



Audit Objective IV: Determine whether projects funded under this Act avoid unnecessary delays and cost overruns

- **Department of Housing and Urban Development Programs**
 - ***Homeless Prevention and Rapid Re-Housing Grant*** – During the grant’s first year of performance, the City spent 35 percent of the \$7,187,357 total award. The grant is for a three-year performance period from FY 2010 through FY 2012.
 - ***Community Development Block Grant Recovery*** – During the grant’s first year of performance, the City spent 16 percent of the \$4,700,469 total award. The grant is for a three-year performance period from FY 2010 through FY 2012.



Audit Objective IV: Determine whether projects funded under this Act avoid unnecessary delays and cost overruns

□ Texas Department of Housing and Community Affairs Programs

- ***Weatherization Assistance Program*** – During the grant's first 13 months of performance, the City spent 16 percent of the \$13,306,985 total award. The grant is for a 24-month performance period from September 2009 through August 2011.
- ***Homeless Prevention and Rapid Re-Housing Grant*** – During the grant's first 13 months of performance, the City spent 83 percent of the \$790,316 total award. The grant is for a 24-month performance period from September 2009 through August 2011.



Audit Objective IV: Determine whether projects funded under this Act avoid unnecessary delays and cost overruns

□ Department of Energy Program

- ***Energy Efficiency and Conservation Block Grant*** – During the grant’s first year of performance, the City spent 16 percent of the \$12,787,300 total award. The grant is for a three-year performance period from FY 2010 through FY 2012.

□ North Central Texas Council of Governments Programs

- ***Edward Byrne Memorial Justice Assistance Grant*** – The City has spent 96 percent of the \$696,227 total award during the grant’s first year of performance. The grant funds law enforcement initiatives for servers, software, and monitoring cameras. The grant was extended for one month and the remaining funds will be spent by October 30, 2010.
- **Clean Cities FY 09 Petroleum Reduction Technologies Projects** – The City will start spending most of the \$2,828,129 total award in FY 2011. The grant is for a four-year performance period from FY 2011 through FY 2014.



Audit Objective IV: Determine whether projects funded under this Act avoid unnecessary delays and cost overruns

- Weatherization Assistance Program (WAP) contractors have completed work on 257 homes from July 1, 2010 through September 30, 2010 and the City has met the target production goals per the Mitigation Action Plan*; however, non-compliance issues remain a concern
 - In August 2010, the Texas Department of Housing and Community Affairs (TDHCA) conducted an audit** on the City's WAP. The audit identified two issues regarding non-compliance with grant requirements:
 - Review of client files found insufficient documentation
 - Unit inspection found no assessment before services provided, poor workmanship during the services, and inadequate final inspection after the services

* The Office of the City Auditor Report No. A10-018 *Audit of American Recovery and Reinvestment Act of 2009 April 1, 2010 to June 30, 2010*, pages 13-14

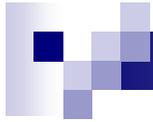
** As of October 15, 2010, the City has not received a written audit report



Audit Objective IV: Determine whether projects funded under this Act avoid unnecessary delays and cost overruns

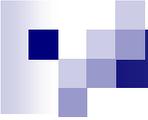
- The City did not meet the initial September 2010 benchmark of spending 20 percent (\$2.6 million) of Energy Efficiency and Conservation Block Grant (EECBG) funds*
 - As of September 30, 2010, the City spent 16 percent of the EECBG funds, but missed the benchmark; however, the Department of Energy did not take any adverse action and the City is still required to meet the 50 percent spending benchmark by June 30, 2011
 - The approximately \$1.5 million project to upgrade the building energy control system is experiencing delays during the contracting process

* The Office of the City Auditor Report No. A10-018 *Audit of American Recovery and Reinvestment Act of 2009 April 1, 2010 to June 30, 2010*, pages13-14



Audit Objective IV: Determine whether projects funded under this Act avoid unnecessary delays and cost overruns

- **Audit Recommendation:** None. During the audit, City management indicated that they would continue to closely monitor the spending plan, effectively target the benchmark of each ARRA program, and timely resolve any audit issues to avoid noncompliance and delays.
- **Management Action:** None



Audit Objective V:

Determine whether program goals are achieved, including specific program outcomes and improved results on broader economic indicators

- **Issue V:** The City and its sub-recipients reported 158 jobs were funded during the period of July 1, 2010 through September 30, 2010
- **Audit Recommendation:** None
- **Management Action:** None



Background

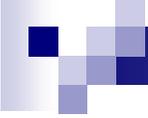
ARRA funding is available for a wide range of projects, including Transportation, Weatherization/Energy, Public Safety, Housing, and Public Infrastructure/Services. The majority of funds the City received are being used to provide services that are either outside of the General Fund or for new services, such as weatherization. The funds received for public safety purposes are being used to supplement existing funding.



Audit Objectives

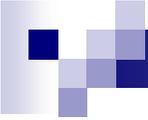
Our audit objectives were to determine whether:

- I. Funds are awarded and distributed in a prompt, fair, and reasonable manner
- II. The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner
- III. Funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated
- IV. Projects funded under this Act avoid unnecessary delays and cost overruns
- V. Program goals are achieved, including specific program outcomes and improved results on broader economic indicators



Scope and Methodology

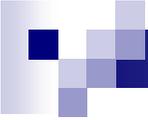
- As of September 2010, the City of Dallas (City) has been awarded **\$99.8 million** from **formula** funds through direct funding of City programs and through projects within the City funded through other agencies. Further, the City has been awarded **\$36.2 million** in Federal and State **competitive** based funding. The City has been awarded total ARRA funds of **\$136 million**.



Scope and Methodology

ARRA Programs from Federal and State Formula Funds	Amount Awarded
Federal Aid to Highways through RTC	\$ 30,060,000
Federal Aid to Highways through TxDOT	23,745,968
Weatherization Assistance Program through TDHCA	13,306,985
Energy Efficiency and Conservation Block Grant	12,787,300
Homeless Prevention and Rapid Re-Housing (HPRP) Grant	7,187,357
Edward Byrne Memorial Justice Assistance Grant	7,258,077
Community Development Block Grant Recovery (CDBGGR)	4,700,469
Internet Crimes Against Children Initiatives Grant	776,503
TOTALS	\$ 99,822,659

Source: City of Dallas Intergovernmental Services Department



Scope and Methodology

ARRA Programs from Federal and State Competitive Funds	Amount Awarded
Transportation Investment Generating Economic Recovery	\$ 23,000,000
Cops Hiring Recovery Program	8,896,300
Clean Cities FY 09 Petroleum Reduction Technologies Projects	2,828,129
Homeless Prevention and Rapid Re-Housing Grant through TDHCA	790,316
Edward Byrne Memorial Justice Assistance Grant through NCTCOG	696,227
TOTALS	\$ 36,210,972

Source: City of Dallas Intergovernmental Services Department



Scope and Methodology

To achieve our audit objectives, we performed the following procedures:

- Evaluated selected ARRA programs
- Reviewed the ARRA reports submitted to www.FederalReporting.gov by the City for the period ending September 30, 2010. The reports were due October 10, 2010.
- Monitored the Office of the City Auditor Fraud Hotline with regards to allegations of ARRA fraud, waste, and abuse
- Participated in the City's bi-weekly ARRA interdepartmental team meetings and Data Integrity Review Team meetings
- Interviewed staff from selected City departments involved with ARRA program funding and reviewed relevant City policies and procedures
- Conducted follow-up to recommendations in the Office of the City Auditor audit report of *Risk Assessment of City of Dallas Implementation of ARRA* (October 8, 2009)



Scope and Methodology

The audit scope included ARRA procedures and transactions from July 1, 2010 through September 30, 2010; however, certain other matters, procedures, and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period.

The Office of the City Auditor's Grant Compliance Group (GCG) provides the non-audit service of monitoring stimulus funds for the Homeless Prevention and Rapid Re-Housing (HPRP) and Community Development Block Grant Recovery (CDBG-R) grants and ensuring compliance with Davis Bacon requirements for the Weatherization Assistance Program (WAP). The Office of the City Auditor is not independent with respect to the monitoring functions described above.



Scope and Methodology

This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2010 Audit Plan approved by the City Council. We conducted our work in accordance with generally accepted government auditing standards except for the independence requirement that was not followed with respect to the non-audit services described in the preceding paragraph. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our assessment based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our assessment based on our audit objectives.



Major Contributors to This Report

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Theresa Hampden, CPA, Quality Control Manager