

Office of the City Auditor

Audit Report

Audit of American Recovery and Reinvestment Act of 2009 April 1, 2010 to June 30, 2010

(Report No. A10-018)

August 13, 2010



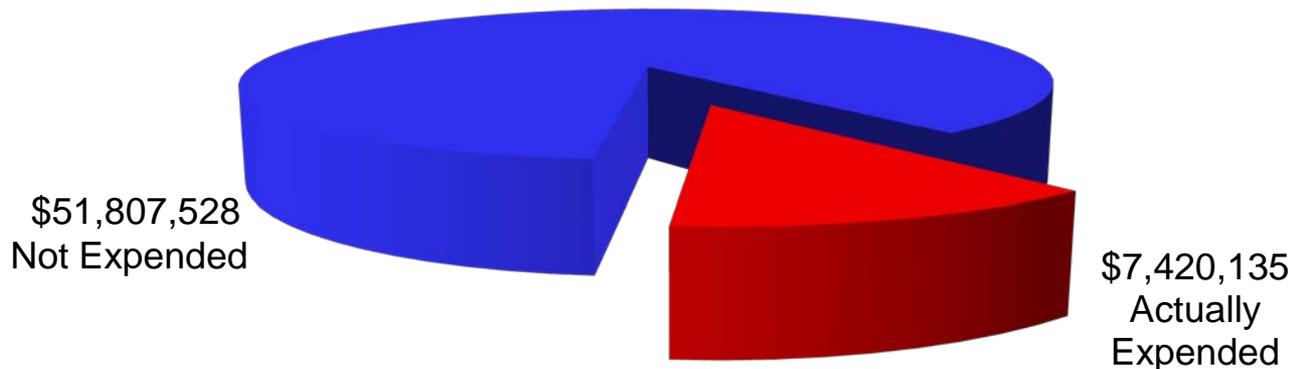
City Auditor
Craig D. Kinton



Executive Summary

- As of June 30, 2010, the City of Dallas (City) has been awarded American Recovery and Reinvestment Act of 2009 (ARRA) funds of \$138,856,760 by Federal and State agencies. Of this amount, \$79,629,097 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 \$7,420,135, or approximately 13 percent, has been expended.

ARRA Funds Expenditure Status as of June 30, 2010



Source: City of Dallas Intergovernmental Services Department

Executive Summary

- The Department of Energy, in June 2010, awarded the City \$2,823,129 through the North Central Texas Council of Governments to implement eligible Alternative Fuel and Advanced Technology Investments Program activities
- Current ARRA quarterly reporting does not allow recipients/sub-recipients sufficient time to ensure funds are reported accurately. The ARRA requires recipients to submit reports to FederalReporting.gov no later than **10 days** after the end of each calendar quarter; however, normal quarterly accounting closing procedures take **15 days** for the City and most of the sub-recipients. As a result, the City timely submitted each federal quarterly report, but made 14 corrections totaling \$261,317 for the period July 1, 2009 through March 31, 2010. Most of the reporting errors occurred in one grant because the City and its 18 sub-recipients had to estimate the expenditure to meet the FederalReporting.gov deadline before the actual expenditure amount was available.
- The City avoided potential non-allowable costs up to \$481,000 because department management took immediate action to eliminate the 74 duplicate citizen applications, identified by the City Auditor's Office, for the Weatherization Assistance Program

Executive Summary

- The City Auditor's Office Fraud, Waste and Abuse Hotline has not identified or received any allegations of ARRA fraud, waste, and abuse
- Several ARRA programs, such as Weatherization Assistance Program and Energy Efficiency and Conservation Block Grant, may not be spending funds fast enough to meet program benchmarks
- The City and its sub-recipients reported 157.5 jobs were created/retained during the period April 1, 2010 through June 30, 2010 because of stimulus funding
- The City Auditor's Office made recommendations for improvement as issues were identified. City management generally agreed with the recommendations. City management's response has been 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:** The Department of Energy, in June 2010, awarded the City \$2,823,129 through the North Central Texas Council of Governments to implement eligible Alternative Fuel and Advanced Technology Investments Program activities for the period April 14, 2010 through January 29, 2012 (Council Resolution 10-1590 authorized acceptance of the funding on June 23, 2010)

- **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:** Current ARRA quarterly reporting does not allow recipients/sub-recipients sufficient time to ensure funds are reported accurately
 - The ARRA requires recipients to submit reports to FederalReporting.gov no later than **10 days** after the end of each calendar quarter; however, normal quarterly accounting closing procedures take **15 days** for the City and most of the sub-recipients. For example, for the period ending March 31, 2010, the FederalReporting.gov due date was April 10, but the City's quarterly financial information was not available until April 15, 2010.

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

- The City has timely submitted each federal quarterly report, but made 14 corrections totaling \$261,317 for the period July 1, 2009 through March 31, 2010
 - Most of the reporting errors occurred in Edward Byrne Memorial Justice Assistance Grant because the City and its 18 sub-recipients had to estimate the expenditure to meet the FederalReporting.gov deadline before the actual expenditure amount was available
 - Department management also does not always have sufficient time and financial reports to conduct a thorough review before submission

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

- The City has formally established the Data Integrity Review Team (DIRT) role and has centralized the federal reporting process. This practice ensures timeliness of report submission. DIRT performs high-level quality control review of narrative information, job calculation methodology, and payroll timesheet documentation.
- **Audit Recommendation:** The City needs to proactively communicate to the Office of Management and Budget (OMB) and the U.S. Government Accountability Office (GAO) their concerns that accurate financial information is not always available within the short time frame required to submit the quarterly report
- **Management Action:** The City of Dallas has met with the GAO and provided comments about the short reporting timeframes and their impact on financial accuracy



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 City avoided potential non-allowable costs up to \$481,000 because department management took immediate action to eliminate the 74 duplicate citizen applications, identified by the City Auditor's Office, for the Weatherization Assistance Program (WAP)
 - Both City and County of Dallas operate WAP. The WAP disallows duplicate services provided to the same address. City department management planned to manually verify each address in the City's and County's application database to identify any duplication.
 - To assist management in mitigating potential fraud, waste, and abuse, the City Auditor's Office used computerized audit techniques to identify:
 - 69 duplicate applications between the City's and the County's database
 - 5 duplicate applications within the City's database



Audit Objective III:

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

- The Texas Department of Housing and Community Affairs (TDHCA) recently implemented a centralized WAP client data system. WAP recipients such as the City of Dallas may access the system and identify any duplicate applications; however, the system is currently not operational due to technical issues.
- **Audit Recommendation:** As the TDHCA client data system is currently not operational, the City needs to obtain the updated County database and continuously monitor for potential duplicate applications to ensure that the City expends funds effectively while preventing fraud, waste, and abuse
- **Management Action:** Management agrees with the City Auditor's Office recommendation and is proactively working with WAP staff to ensure collaboration with Dallas County



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 Auditor's Office has not identified any issues or received any allegations through the Fraud, Waste and Abuse Hotline of ARRA fraud, waste, or abuse

- **Audit Recommendation:** None

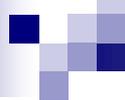
- **Management Action:** None



Audit Objective IV:

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

- **Issue IV:** Several ARRA programs such as the Weatherization Assistance Program (WAP) and the Energy Efficiency and Conservation Block Grant (EECBG) may not be spending funds fast enough to meet program benchmarks
 - WAP is a \$13.3 million two-year program (September 1, 2009 to August 31, 2011)
 - May 27, 2010, Texas Department of Housing and Community Affairs (TDHCA) issued a Notification of Possible Deobligation on the City's WAP. The notification stated that the City did not meet 75 percent (82) of the 110 units forecasted for completion and 95 percent (\$652,710) of the \$688,858 in funds forecasted for expenditure as of April 30, 2010.
 - June 9, 2010, the City submitted to TDHCA a Mitigation Action Plan that outlines new program/operational strategies. The City reorganized its Weatherization Program Division and is preparing to hire additional staff.



Audit Objective IV:

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

- By August 2010, the City has committed to cumulatively complete 185 units (approximately 9 percent of total 2,050 units) and spend \$1,300,564 (approximately 10 percent of total \$13.3 million), according to the Mitigation Action Plan
- EECBG is a \$12.8 million three-year program (September 21, 2009 to September 20, 2012)
 - The \$2.4 million project of lighting retrofits at 113 City facilities and parking lots project is experiencing delays while the contractor is performing engineering survey/audits before scheduling the construction phase
 - The delay may push the construction phase to August 2010 and put the City at risk of meeting the September 2010 benchmark of spending 20 percent (\$2.6 million) of total EECBG funds



Audit Objective IV:

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

- **Audit Recommendation:** The City needs to closely monitor the spending plan of each ARRA program and timely implement any necessary mitigation plans to avoid delays

- **Management Action:** Action plans have been implemented, programs are on track, and expenditures are projected to meet benchmarks. Plans require contractors to perform at expedited levels. Staff will continue to closely monitor spending.

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 157.5 jobs were created/retained during the period April 1, 2010 through June 30, 2010 because of stimulus funding
 - The number of jobs is estimated based on a calculation that converts part-time or temporary jobs into fractional “full-time equivalent” (FTE) jobs. For example, two part-time employees that work 20 hours each week are considered as one FTE job.
 - Although labeled “jobs **created/retained**”, the City is required to count every FTE job that is **funded** using stimulus money, even if the job existed before stimulus funds were received and the job was not in any danger of being eliminated
 - The number of jobs is reported each quarter, but this does not represent cumulative information. For example, 10 jobs included in each quarterly report of 2010 does not mean a total of 40 jobs for the year; instead, it means 10 jobs funded throughout the year.

Audit Objective V:

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

- Some federal agencies such as the Department of Justice (DOJ) provided a program-specific job calculator that differs from the guidance provided by the Office of Management and Budget (OMB). For example, while the difference may not be significant, Internet Crimes Against Children Initiatives program counted **2** jobs according to the DOJ job calculator, but **1.9** jobs according to OMB.
- **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 June 2010, the City of Dallas (City) has been awarded \$102.6 million from **formula** funds through direct funding of City programs and through projects within Dallas 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 \$138.8 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)	7,187,357
Edward Byrne Memorial Justice Assistance Grant	7,258,077
Community Development Block Grant Recovery (CDBGR)	4,700,469
Alternative Fuel and Advanced Technology Investments Program through NCTCOG	2,823,129
Internet Crimes Against Children Initiatives	776,503
TOTALS	\$ 102,645,788

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
State Competitive Homeless Prevention and Rapid Re-Housing	790,316
Byrne Justice Assistance Grants 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 March 31, 2010. The reports were due April 10, 2010.
- Verified selected ARRA fund transactions on the City's financial accounting system
- Used computer aided audit tool (ACL) techniques to conduct fraud tests
- Monitored the City Auditor's Office 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 selected recommendations in the City Auditor's Office audit report of *Risk Assessment of City of Dallas Implementation of ARRA* (October 8, 2009)



Scope and Methodology

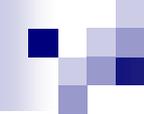
The audit scope included ARRA procedures and transactions from April 1, 2010 through June 30, 2010; however, certain other matters, procedures, and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period.

The City Auditor's Office 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 City Auditor's Office 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 proceeding 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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