

Office of the City Auditor

Audit Report

Audit of American Recovery and Reinvestment Act of 2009 October 1, 2009 to December 31, 2009

(Report No. A10-009)

February 5, 2010



City Auditor
Craig D. Kinton





Executive Summary

- The City of Dallas (City) American Recovery and Reinvestment Act of 2009 (ARRA) activity through December 31, 2009 has been primarily concentrated on the City accepting ARRA grants and awarding ARRA contracts, establishing fund accounts, and complying with federal reporting requirements. The City reported recipient grant expenditures of \$804,000 through December 31, 2009.
- ARRA funds were properly awarded and distributed for the grants included in the audit. ARRA funds were properly established in separate budget accounts, can be specifically identified by fund number and fund type, and have not been co-mingled with funds from other sources.
- The City completed the initial quarterly report within the short time frame (10 days). The complexity of the ARRA reporting requirements partially contributed to some expenditure reporting errors; however, management identified these errors and will correct them in the next quarterly report.



Executive Summary

- City Auditor's Office provided City staff and selected contractors/vendors with fraud, waste, error, and abuse mitigation training
- The City is proactive in mitigating fraud, waste, error, and abuse by using City ARRA webpage to show whistleblower protection information and to link to the City Auditor's Fraud Hotline webpage
- ARRA fraud, waste, error, and abuse allegations have not been received
- City Auditor's Office provided assistance to management to ensure payroll expenditures are correctly reported in the financial system



Executive Summary

- City Auditor's Office made recommendations for improvement to management as issues were identified. City management agreed with the recommendations and initiated immediate corrective actions. Further, City management reviewed and agreed with the issues in this report. A written response was not requested.
- 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 are achieved



Audit Results



Audit Objective I:

Determine whether funds are awarded and distributed in a prompt, fair, and reasonable manner

- **Issue I-A:** ARRA funds were awarded in a fair and reasonable manner with opportunities being available to all eligible bidders through advertisement and proper bid process

- **Issue I-B:** ARRA award compliance requirements were properly listed in bids and contracts, including:
 - Section 1512 Federal reporting requirements
 - Section 1553 Whistleblower protections for non-federal employees
 - Section 1605 "Buy American" Provisions
 - Section 1705 Davis Bacon prevailing wage requirements when applicable

- **Auditor Recommendation:** None



Audit Objective I:

Determine whether funds are awarded and distributed in a prompt, fair, and reasonable manner

- **Issue I-C:** City could not be reimbursed for Internet Crime Against Children (ICAC) grant expenditures of \$47,258 until resolution of a Fiscal Year (FY) 2005 Department of Justice (DOJ) audit finding
 - The audit finding involved the Dallas Police Department (DPD) not being able to support \$4,990 in questioned expenditures, such as travel and equipment rental
- **Audit Recommendation:** Management needs to resolve the audit finding to ensure City ICAC expenditures are timely reimbursed by federal funds
- **Management Action:** Management agreed with the recommendation; DPD paid \$4,990 to DOJ to resolve the audit finding and the City started receiving reimbursement of federal funds in December 2009

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:** City ARRA funds have been properly established in separate budget accounts, have specific fund numbers, and seven of eight programs were correctly identified as fund type "ARRA"
- **Audit Recommendation:** Change the one program in the budget set-up system that has not been correctly identified as fund type "ARRA"
- **Management Action:** Budget Management Services Department and the City Controller's Office immediately implemented the recommendation

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-B:** The initial federal quarterly report was submitted timely and uses of funds are reported clearly
 - Intergovernmental Services (IGS) did an excellent job of communicating with the applicable departments as well as compiling, reviewing, and submitting the required reports by October 10, 2009 for the first reporting period July 1, 2009 through September 30, 2009
 - First quarter reports included information on six ARRA grant awards including:
 - Edward Byrne Memorial Justice Assistance Grant Program (JAG)
 - Internet Crime Against Children (ICAC)
 - Cops Hiring Recovery Program (COPS)
 - Energy Efficiency and Conservation Block Grant (EECBG)
 - Homeless Prevention and Rapid Re-Housing (HPRP)
 - Community Development Block Grant Recovery (CDBG)
- **Audit Recommendation:** 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-C:** The initial federal quarterly report showing \$50,484 ARRA expenditures included some inaccuracies for JAG and ICAC
 - JAG reported \$3,226 in expenditures, but the actual expenditures were \$2,080. A sub-recipient notified the City of Dallas after the reporting period that incorrect expenditure amounts had been provided for the quarterly report. As a result, the correction can not be made until the subsequent quarterly report is submitted in January 2010.
 - ICAC reported expenditures of \$47,258, but the amount was overstated by \$307.85. DPD incorrectly included FICA payroll tax for the employee assigned to the grant; however, management identified the error and made the journal entry to correct the error in November 2009.

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

■ Audit Recommendations:

- The City should establish sub-recipient monitoring requirements in Administrative Directive (AD) 2-50 *ARRA Grant Procedures* and ensure the error is corrected in the next quarterly report
- The City should establish a city-wide procedure to reconcile grant expenditures by the 10th of the reporting month and ensure any corrections are made either before or during the next reporting period

■ Management Actions: Management agreed with the recommendations

- AD 2-50 *ARRA Grant Procedures* are finalized and Section 4.2.6 includes information on sub-recipient and vendor monitoring. IGS stated the error will be corrected in the next quarterly report for JAG.
- Management has provided additional financial information reports that include specific grant expenditures for City departments to reconcile before submitting to www.federalreporting.gov. Any adjustments or corrections will be made during the subsequent quarterly reporting period as updates are cumulative. At the Citywide directors meeting of December 1, 2009, IGS distributed quarterly federal reporting instructions for the reports due on January 10, 2010. This was requested by the City Manager to ensure ARRA data and information are reported accurately and timely.



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 has taken proactive steps to ensure that ARRA funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated
 - ARRA Whistleblower Protection information is on the City's ARRA webpage and ARRA webpage is linked to the City Auditor's Office Fraud Hotline webpage as recommended in the City Auditor's Office audit report of *Risk Assessment of City of Dallas Implementation of ARRA* (October 8, 2009)
 - Whistleblower Protection requirements are included in ARRA contracts
 - Fraud, waste, error, and abuse presentations were given to City staff and contractors/vendors who are involved in ARRA and grant administration

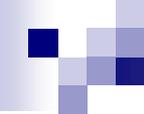
- **Issue III-B:** The City Auditor's Office Fraud Hotline has not received allegations of ARRA fraud, waste, and abuse



Audit Objective III:

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

- **Issue III-C:** City Auditor's Office provided assistance to two departments relating to payroll policies and procedures and correctly reporting payroll expenditures
- **Audit Recommendations:** One department should develop written ARRA payroll procedures and coordinate with Intergovernmental Services and Budget Management Services. The other department needs to review payroll records and make necessary corrections to ensure that ARRA payroll expenditures are accurate and consistent with the payroll reports showing actual work performed.
- **Management Actions:** Management agreed with the recommendations and is taking appropriate corrective actions



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

- **Issue IV-A:** Energy Efficiency and Conservation Block Grant (EECBG) Lighting Retrofits contracts were recently awarded:
 - EECBG Lighting Retrofits competitive fixed-price bid process ensures the City gets the lowest bid and the most efficient use of ARRA funds
 - EECBG Lighting Retrofits contract includes provisions for contractors to pay liquidated damages if they fail to substantially complete the work within the contract time
- **Issue IV-B:** Homeless Prevention and Rapid Re-Housing (HPRP) contracts include procedures to monitor the expenditure performance benchmark and timely terminate contractors for non-performance
- **Audit Recommendation:** None

Audit Objective V:

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

- **Issue V-A:** Management is in process of finalizing City ARRA webpage
 - Intergovernmental Services plans to link the City's ARRA webpage to the City's reporting to www.federalreporting.gov and the City's ARRA performance measurement system in February 2010
 - The performance measurement system will show specific program outcomes and benchmarks

- **Audit Recommendation:** None

Background

- As of December 2009, the City of Dallas (City) has been allocated \$99.6 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 \$13.2 million in federal and state **competitive** based funding.
- ARRA funding is available for a wide-range of projects including Transportation, Weatherization/Energy, Public Safety, Housing, and Public Infrastructure/Services

Audit Objectives

Our audit objectives were to determine whether:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner
- 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
- Funds are used for authorized purposes and instances of fraud, waste, error, and abuse are mitigated
- Projects funded under this Act avoid unnecessary delays and cost overruns
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators

Scope and Methodology

The audit included the following ARRA programs:

ARRA Programs	Amount Awarded
Energy Efficiency and Conservation Block Grant (EECBG)	\$ 12.8 million
Cops Hiring Recovery Program (COPS)	8.9 million
Edward Byrne Memorial Justice Assistance Grant (JAG)	7.3 million
Homeless Prevention and Rapid Re-Housing (HPRP) *	7.2 million
Internet Crimes Against Children Initiatives (ICAC)	<u>0.8 million</u>
TOTALS	<u>\$ 37.0 million</u>

** For the HPRP program, our audit did not include any monitoring procedures performed by the City Auditor's Office Grant Compliance Group*

Scope and Methodology

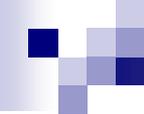
To achieve our audit objectives, we performed the following procedures:

- 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)
- Reviewed the ARRA reports submitted to www.federalreporting.gov by the City for the period ending September 30, 2009. The reports were due October 10, 2009.
- Evaluated the City's ARRA website and selected ARRA grant applications, agreements, Council resolutions, request for bids, and contract awards
- Interviewed staff from selected City departments involved with ARRA program funding
- Participated in the City's bi-weekly ARRA interdepartmental team meetings



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. 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.



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