

Office of the City Auditor

Audit Report

Audit of American Recovery and Reinvestment Act of 2009 January 1, 2010 to March 31, 2010

(Report No. A10-012)

April 23, 2010



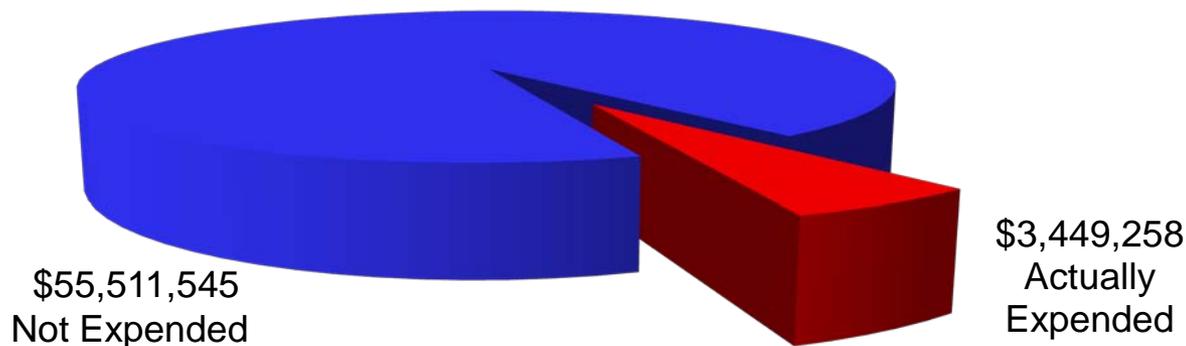
City Auditor
Craig D. Kinton



Executive Summary

- As of March 31, 2010, the City of Dallas (City) has been awarded American Recovery and Reinvestment Act of 2009 (ARRA) funds of \$135,766,771 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 \$58,960,803, the City indicated that \$3,449,258, or approximately six percent, has actually been expended.

**ARRA Funds Expenditure Status
as of March 31, 2010**

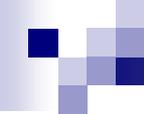


Executive Summary

- The City was experiencing delays in the Energy Efficiency and Conservation Block Grant program because the Department of Energy (DOE) had not approved the \$2.4 million contract. On April 1, 2010, more than three months after City Council approval, the City received DOE approval to begin spending the funds. The DOE recently changed the Contracting Officer's approval threshold from \$2 million to \$10 million to prevent future delays.
- ARRA expenses reported on FederalReporting.gov and posted on Recovery.gov may understate actual ARRA spending. For most of the City's ARRA programs, the City makes expenditures before receiving reimbursements from the Federal agency. However, the Federal government requires expenditure amounts, entered by the recipients, not to exceed the amount reimbursed from the Federal agencies.
- An information technology system interface issue has caused the City's ARRA fund payroll expenditures not to be always properly recorded and accounted for in the City's financial accounting system. This is a systemic issue that could also impact non-ARRA grant funds. As a result, the Federal or State grantor agency could classify some payroll expenditures as "questionable expenses". The City could possibly be required to use the General Fund to pay back any questionable expenses to grantor agencies.

Executive Summary

- 2009 Service Incentive Pay (SIP) was not pro-rated between the ARRA funds and other funds according to the service provided by employees. Employees were incorrectly paid for their **entire** 2009 SIP from ARRA funds even though they may have been working in ARRA programs for only two months.
- The City Auditor's Office Fraud, Waste and Abuse Hotline has not identified or received any allegations of ARRA fraud, waste, and abuse.
- Quarterly ARRA status reports prepared by the City do not contain detailed and timely financial information. The current monthly financial status report used only for a **non-ARRA** grant program is an excellent example of providing sufficient financial information for department monitoring.



Executive Summary

- The City's ARRA website does not show either the City's monthly ARRA Status Report which includes expenditures or the City Auditor's Office reports on ARRA. These documents will provide the general public with better spending and accountability information.
- 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 are achieved.



Audit Results



Audit Objective I:

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

- **Issue I-A:** The City is experiencing delays in the Energy Efficiency and Conservation Block Grant (EECBG) program
 - December 9, 2009, the City Council approved a \$2.4 million contract for the lighting retrofits at 113 city facilities and parking lots; however, the contract must be approved by the grantor agency – Department of Energy (DOE).
 - On April 1, 2010, more than three months after City Council approval, the City received DOE approval to begin spending funds.
 - The DOE has recognized their review process has caused delays nationwide and has recently revised the Contracting Officer's approval threshold from \$2 million to \$10 million.

- **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:** ARRA expenses reported on FederalReporting.gov* and posted on Recovery.gov* do not show the City's actual expenditures
 - Nationwide, the reports posted on FederalReporting.gov and Recovery.gov may understate actual ARRA spending progress because the Federal government requires that the expenditure amounts entered by the recipients cannot exceed the amount reimbursed from the Federal agencies.
 - For most of the City's ARRA programs**, the City makes expenditures before receiving reimbursements from the Federal agency. For example, for the reporting period ended December 31, 2009, the City actually expended \$79,577 on Homeless Prevention and Rapid Re-Housing Program (HPRP); however, the City had not yet received reimbursement from the Federal agency. As a result, the FederalReporting.gov and Recovery.gov showed the City had not spent any HPRP funds.

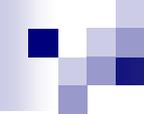
* FederalReporting.gov is the central government-wide data collection system for Federal agencies and recipients of Federal awards under ARRA. After data has been submitted to FederalReporting.gov and reviewed by the grantor agency, the information is posted on Recovery.gov for public review.

** The Byrne Justice Assistance Grant distributes Federal funds before the City incurs expenditures.

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 Recommendation:** The City needs to communicate to the City Council and general public that ARRA funds actually expended exceed amounts reported on FederalReporting.gov and Recovery.gov.
- **Management Action:** The City recognizes and acknowledges the limitations of Federalreporting.gov. Therefore, to ensure accurate transparency in its ARRA financial reporting, management will publish actual expenditures and reimbursements monthly using a reporting spreadsheet. The spreadsheet will be published to the City's ARRA website.



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

- **Issue III-A:** An information technology system interface issue has caused the City's ARRA fund payroll expenditures not to be always properly recorded and accounted for in the City's financial accounting system
 - Payroll transactions do not post on a dollar-for-dollar basis from the payroll system to the accounting system. Therefore, the payroll expenditures in the accounting system are not always supported by the detail payroll records. These discrepancies will remain unresolved because the City does not have reconciliation reports. (Page 11 shows an actual example of this issue.)
 - This is a systemic issue that could impact all grant funds city-wide. If these discrepancies are not resolved, the Single Audit and grantor agency (Federal and State) may classify these payroll expenditures as "questionable expenses" and the City may have to use the General Fund to pay back grant funds to the Federal or State grantor agency.

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

Possible “questionable expense” in an actual ARRA program

Accounting System		Payroll System		Discrepancies
Salary (Regular Hours)	\$3,497.85	Regular Hours	\$1,640.91	\$1,856.94
Overtime	\$189.54	Overtime	\$63.18	\$126.36

- This payroll transaction includes multiple employees in an ARRA function for the pay period October 21, 2009 – November 3, 2009.
- The accounting system expenditures of Salary (\$3,497.85) and Overtime (\$189.54) are not supported by the payroll system report of regular hours (\$1,640.91) and overtime (\$63.18). If these discrepancies are classified as “questionable expense” by the grantor agency, the City may have to pay back an amount ranging from \$1,983.30 to \$3,687.39. The money paid back to the grantor agency would come from the General Fund.

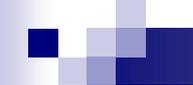


Audit Objective III:

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

■ Audit Recommendations:

- The Intergovernmental Services Department should coordinate with other departments such as the City Controller's Office, the Department of Communication and Information Services, and Human Resources to develop a report to timely provide additional detail financial information reports to the department staff for a reconciliation of the accounting system to detail payroll records.
- The City should establish a city-wide procedure to reconcile ARRA grant payroll expenditures between the financial statements and payroll records before reporting to Federal/State grantor agencies and FederalReporting.gov.



Audit Objective III:

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

- **Management Action:** Management agrees that all expenditures, including payroll, should be accurate before reporting them to Federal/State grantor agencies; however, management does not concur that ARRA fund payroll expenditures are improperly recorded and accounted for in the City's financial accounting system. The total amount expended for salaries and the total hours worked are consistent in both the payroll and the accounting systems. A process does exist to correct discrepancies identified and ensure that employee pay is accurate. In this case, retro-pay indicates that a manual payment was made to correct discrepancies that were identified. Payroll expenditures are supported with documentation that is available for review.

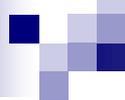


Audit Objective III:

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

- **Issue III-B:** 2009 Service Incentive Pay (SIP)* was not pro-rated between the ARRA funds and other funds according to the service provided by employees
 - On December 1, 2009, the SIP for ARRA funded employees were incorrectly paid from ARRA funds. For employees who only worked two months for ARRA programs since October 1, 2009, the SIP should be pro-rated between the other funds (10 months) and ARRA funds (2 months). For example:
 - Six HPRP employees received a total SIP of \$5,234 on December 1, 2009. Of this amount \$4,362 were for the services they provided from December 1, 2008 to September 30, 2009 under general/non-ARRA funds and only \$872 were for the services they provided from October 1, 2009 to November 30, 2009 under ARRA HPRP fund.
 - In the future, after the ARRA programs are completed, the City may have to pay SIP from the General Fund (or other funds) for the service period that the employees were funded by ARRA

* SIP is paid annually on December 1 by the City to reward long-term service by civilian employees who meet certain criteria. The December 1, 2009 SIP was paid for service from December 1, 2008 to November 30, 2009.



Audit Objective III:

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

■ **Audit Recommendations:**

- The City needs to correctly pro-rate the SIP between ARRA fund and General Fund (or other funds) according to the actual services period of the employees.
- The City needs to estimate the impact of the SIP on General Fund/other funds after the ARRA programs are completed.

- **Management Action:** Management agrees that SIP should be pro-rated between funding sources of services that an employee works. Adjustments will be prepared. Most ARRA funds are available through 2012. Program completion dates vary and staff changes will occur over the course of program delivery. Management does not agree that it is feasible at this time to estimate the impact of future SIP on the General Fund after the ARRA programs are completed.



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

- **Issue III-C:** The City Auditor's Office Fraud, Waste and Abuse Hotline has not identified or received any allegations of ARRA fraud, waste, and abuse
 - The City Auditor's Office conducted an on-site visit to evaluate fraud risk of a company awarded a \$2.4 million contract funded by ARRA. Our risk assessment was focused on areas including ethics, internal controls, accounting policies, and project delivery quality assurance. The City Auditor's Office did not identify any areas of concern.
 - The City Auditor's Office Fraud, Waste and Abuse Hotline has not identified or received any allegations of ARRA fraud, waste, and abuse
- **Audit Recommendation:** None
- **Management Response:** None

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

- **Issue IV-A:** Quarterly ARRA status reports prepared by the City do not contain detailed and timely financial information
 - The City updates the ARRA funding and spending status on a quarterly basis. The following report shows only high-level information and it is not sufficient and timely enough for monitoring and oversight by the departments.

CITY OF DALLAS ARRA FORMULA BASED FUNDING AWARDED

Submission Type	Program Name	Submission Description	Tentative Award Date	Amount Awarded	Amount Expended	Amount Reimbursed	Differential	Performance Period	Budget Impact/ On-going Costs
Federal Formula	Internet Crimes Against Children Initiatives	(Description)	Awarded & Accepted	\$776,503.00	\$98,413.20	\$47,257.53	\$(51,155.67)	48 months	NA
Federal Formula	Byrne	(Description)	Awarded & Accepted	\$7,115,022.00	\$673,327.35	\$7,115,022.00	\$6,441,694.65	48 months	NA

Source: City of Dallas Intergovernmental Services Department

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

- The current monthly report used **only** for a **non-ARRA** grant program is an excellent example of providing financial status information. As shown in the following snapshot, the report provides sufficient detail monitoring information.

Dallas Community Development Program Financial Status Report by Agency February 28, 2010											
				1	2	3	4	5	6	7	8
							(1-3-4=5)		(3/1=6)	(1-3=7)	(7/1=8)
#	Fund	Org	Project	Multi-Year Appropriations	YTD Expenditures	ITD Expenditures	Obligated / Under Contract	Unobligated / Not Under Contract	Percent of Appropriations Expended	Unexpended Appropriations	Percent of Appropriations Unused
Environmental & Health Service											
30	CD06	3929	Adolescent Health Services Program	\$47,369	\$0	\$47,369	\$0	\$0	100.00%	\$0	0.00%
31	CD07	2858	Adolescent Health Services Program	\$60,000	\$0	\$41,651	\$0	\$18,349	69.42%	\$18,349	30.58%
32	CD08	279A	Adolescent Substance Abuse - Inpatient	\$65,000	\$0	\$65,000	\$0	\$0	100.00%	\$0	0.00%
33	DCD9	9126	Alameda Heights Community Outreach Center	\$67,495	\$0	\$67,495	\$107,505	(\$107,505)	100.00%	\$0	0.00%
34	CD07	2884	Child Care Development Training Program	\$28,541	\$0	\$28,541	\$0	\$0	100.00%	\$0	0.00%
35	CD06	3933	Child Care Services Program	\$219,084	\$0	\$219,084	\$0	\$0	100.00%	\$0	0.00%
36	CD07	2862	Child Care Services Program	\$221,777	\$0	\$221,777	\$0	\$0	100.00%	\$0	0.00%
37	CD08	280A	Child Care Services Program	\$210,145	\$0	\$194,258	\$15,888	\$0	92.44%	\$15,888	7.56%

Source: City of Dallas Office of Financial Services



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

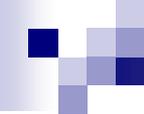
- **Audit Recommendation:** The City needs to follow the non-ARRA grant program Financial Status Report format to develop the same monthly report for all ARRA programs

- **Management Action:** Management disagrees that the City does not have detailed and timely financial information to use for monitoring and oversight of the ARRA programs by department staff; however, management has agreed to create a manual report for additional monitoring and oversight of ARRA funds.

Audit Objective V:

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

- **Issue V-A:** The City's ARRA website does not provide the general public with sufficient spending and accountability information
- **Audit Recommendation:** The City's ARRA website should show:
 - The City's monthly ARRA Status Report which includes expenditures
 - The City Auditor's Office reports on ARRA
- **Management Action:** Management agrees that the City's ARRA website should provide the general public with sufficient spending and accountability information. To ensure this information is provided, management has created a section within the website for publication of the City Auditor's reports and briefings. Additionally, management will post a monthly ARRA Status Report that will include accurate information on expenditures.



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 such as hiring 91 additional police officers and purchasing 66 additional marked squad cars.



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 March 2010, the City of Dallas (City) has been awarded \$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 \$36.2 million in Federal and State **competitive** based funding. The City has been awarded total ARRA funds of \$135.8 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	13,183,180
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	7,115,022
Community Development Block Grant Recovery (CDBG-R)*	4,700,469
Internet Crimes Against Children Initiatives	776,503
TOTALS	\$ 99,555,799

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

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

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

Source: City of Dallas Intergovernmental Services Department

Scope and Methodology

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

- Evaluated selected ARRA programs and City's ARRA website
- Reviewed the ARRA reports submitted to www.federalreporting.gov by the City for the period ending December 31, 2009. The reports were due January 10, 2010.
- Verified selected ARRA fund transactions on the City's financial accounting system and payroll system
- Evaluated the financial status reporting information
- Conducted a fraud risk assessment and determined if allegation of fraud, waste, and abuse were reported
- Participated in the City's bi-weekly ARRA interdepartmental 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 January 1, 2010 through March 31, 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.

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.



Major Contributors to This Report

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