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Office of the City Auditor

Audit Report

**Audit of American Recovery and Reinvestment
Act of 2009: October 1, 2009 to September 30, 2010
(Report No. 011-007)**

February 4, 2011

City Auditor

Craig D. Kinton

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Executive Summary

Since the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted in February 2009, the City of Dallas (City) has continued to use various oversight efforts to monitor the use of ARRA funds. The City has taken actions to implement the internal control processes that were aimed at helping to ensure accountability and transparency of ARRA funds. Further, the City has taken various approaches to manage and mitigate risks inherent in implementing ARRA.

This audit report includes issues addressed in the four quarterly ARRA audit reports issued for Fiscal Year (FY) 2010. Audit recommendations were made as issues were identified. City management generally agreed with the recommendations and have planned or implemented better controls for spending ARRA funds. These controls were critical to help ensure effective and efficient use of resources and compliance with laws and regulations. Specific recommendations and Management's response to issues included in the four previously released quarterly ARRA reports are included as Appendix III of this report.

Our review generally showed:

- The City continues efforts to ensure that funds were awarded and distributed in a prompt, fair, and reasonable manner
- Fund recipients and uses of funds were reported clearly and timely, but reporting requirements caused inaccuracies in reports
- The City established processes to ensure funds were used for authorized purposes and fraud, waste, and abuse were mitigated

Background Summary

American Recovery and Reinvestment Act of 2009 (ARRA) funding is available to the City of Dallas (City) for a wide range of projects, including transportation, weatherization / energy, housing, public safety, public infrastructure, and public 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.

As of September 2010, the City has been awarded total ARRA funds of **\$136 million**, which include **\$99.8 million** in Federal and State **formula** funds and **\$36.2 million** in Federal and State **competitive** based funds.

Of the total \$136 million, the City will benefit from **\$76.8 million** in transportation projects. The City is not directly responsible for monitoring these funds as they were funded through the Texas Department of Transportation, the Regional Transportation Commission, and the North Central Texas Council of Governments. The City is responsible for managing the remaining **\$59.2 million**.

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- The Weatherization Assistance Program and the Energy Efficiency and Conservation Block Grant Program experienced delays
- Overall ARRA goal achievements and outcomes will not be known until program completion

The audit objectives were: (1) to determine whether funds were properly awarded, distributed, and used for authorized purposes; (2) required reports were timely and accurately submitted; (3) fraud, waste, error, and abuse were mitigated; (4) projects did not have unnecessary delays and cost overruns; and, (5) program goals were achieved. The audit scope included ARRA procedures and transactions from October 1, 2009 through September 30, 2010.

Audit Results

Overall Conclusions

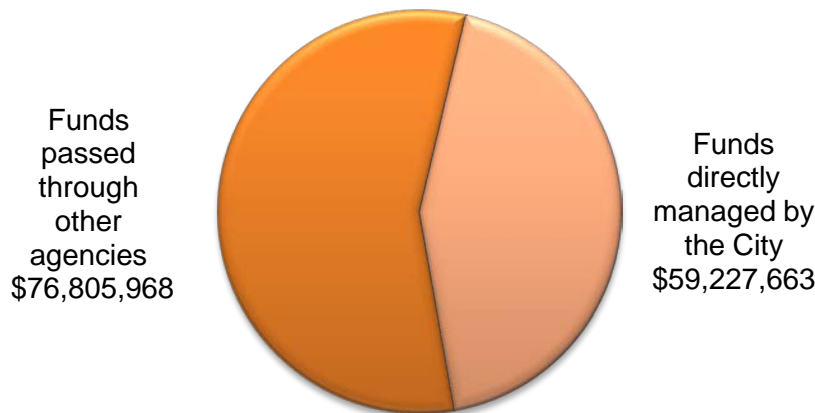
The City of Dallas (City) has taken actions to implement internal control processes aimed at ensuring accountability and transparency of American Recovery and Reinvestment Act of 2009 (ARRA) funds. Further, the City has taken various approaches to manage and mitigate risks inherent in implementing ARRA.

The City Continues Efforts to Ensure That Funds Were Awarded and Distributed in a Prompt, Fair, and Reasonable Manner

Since April 2009, the City has continuously applied and accepted ARRA funds for various programs from different Federal and State agencies. As of September 30, 2010, the City has been awarded total ARRA funds of \$136 million by various sources. Of this amount, the City will benefit from \$76.8 million in transportation projects. The City is not directly responsible for monitoring these funds as they were funded through the Texas Department of Transportation, the Regional Transportation Commission, and the North Central Texas Council of Governments. The City is responsible for managing the remaining \$59 million. (See Chart I below.)

Chart I

**Total ARRA Funds Awarded to City of Dallas \$136,033,631
As of September 30, 2010**



Source: City of Dallas Intergovernmental Services

Of the total \$136 million, \$99.8 million was awarded from Federal and State formula funding and \$36.2 million from competitive based funding. Further, as of September 30, 2010, the City has two applications totaling \$932,479 pending approval by the Federal and State agencies.

After Federal and State agencies awarded ARRA funds, City departments and the City Attorney's Office developed contracts to comply with ARRA requirements, terms, and conditions. Further, contracts include procedures to timely terminate contractors for non-performance. For example, Homeless Prevention and Rapid Re-Housing (HPRP) contracts include procedures to monitor the expenditure performance benchmark and timely terminate contractors for non-performance.

Opportunities are made available to potential eligible bidders through advertisement and participating in the bid process. The ARRA contracts are awarded only after City Council's approval and only eligible sub-recipients / vendors receive ARRA fund payments.

Fund Recipients and Uses of Funds Were Reported Clearly and Timely, But Reporting Requirements Caused Inaccuracies in Reports

Internal control processes were implemented to ensure accountability and transparency; however, mandatory reporting requirements presented challenges to ARRA fund recipients. Specifically:

- ***The City's ARRA funds have been properly established***

We tested eight ARRA programs and found all funds have been properly established in separate budget accounts, have specific fund numbers, and seven programs were correctly identified as fund type "ARRA".

- ***Reports were submitted timely and clearly***

Intergovernmental Services did an excellent job of communicating with the applicable departments as well as compiling, reviewing, and timely submitting each Federal quarterly report. The ARRA requires prime recipients to submit reports no later than ten days after each calendar quarter¹.

¹ The first recipient reports due October 10, 2009 cover activity from February 1, 2009 through September 30, 2009.

The City has formally established the Data Integrity Review Team (DIRT), which has centralized the Federal reporting process and consolidated all recipient reporting to ensure compliance and consistency. The DIRT performs high-level quality control reviews of narrative information, job calculation methodology, and payroll timesheet documentation. This practice has particularly ensured timeliness of report submission.

Further, the City clearly reported specific information about their use of funds. The reports include the award amount, expenditure amount, a description of the activities being done, the location where projects or activities are being conducted, jobs created or retained with ARRA funding, and the expected outcomes of the work.

- **Reports were not always submitted accurately**

Complying with Federal requirements presented a difficulty to the City. First, the current ARRA quarterly reporting due date, which is ten days after the end of each calendar quarter, does not give the City and its sub-recipients sufficient time to ensure the reports are accurate. The 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 reporting due date was April 10, but the City's quarterly financial information was not available until April 15, 2010.

The DIRT and department management do not always have sufficient time and financial information to conduct a thorough review before submitting the report. The City made 14 corrections totaling \$261,317 to the three quarterly reports filed for the period July 1, 2009 through March 31, 2010. Most of the reporting errors occurred in the Edward Byrne Memorial Justice Assistance Grant because the City and its 18 sub-recipients had to estimate the expenditure amounts to meet the reporting deadline before the actual expenditure amounts were available.

Secondly, improving the Federal quarterly reporting system is still a work-in-progress. Before July 2010, compliance with ARRA quarterly reporting requirements resulted in the City's actual expenditures not being reported. The reports may understate actual ARRA spending progress because the Federal government required that the expenditure amounts entered by the recipients could not exceed the amount reimbursed from the Federal agencies.

For most of the City's ARRA programs², the City incurs expenditures before receiving reimbursements from the Federal agencies. 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 reports showed the City had not spent any HPRP funds.

The City is currently reporting the actual ARRA expenditures. This resulted from the Federal government changing their requirements in July 2010.

Nationwide, the implementation of the ARRA Federal quarterly reporting system was an enormous effort. The system was implemented within a short period of time, and the Federal government expects that achieving an unprecedented level of transparency will be an iterative process which will improve the reporting process over time.

The City Established Processes to Ensure Funds Were Used for Authorized Purposes and Fraud, Waste, and Abuse Were Mitigated

The City has established management accountability guidelines and developed written procedures for ARRA. The City should be commended for either implementing or partially implementing 27 of the 28 recommendations included in the Office of the City Auditor's (Office) ARRA risk assessment report³. The recommendation not implemented includes the written policies of ARRA preference for "quick start". This does not impact the City's compliance with ARRA requirements.

In the risk assessment report, we cited internal control weakness and made recommendations to the City for improving the accountability and oversight of ARRA funds. These recommendations were intended to help mitigate risks related to ARRA funds and to strengthen internal controls over the use of those funds. As a result, the City has taken various proactive actions including the issuance of the *Administrative Directive 2-50: ARRA Grant Identification, Solicitation, Application, Accounting, Administration, and Reporting Procedures* to ensure funds are used for authorized purposes.

² The Byrne Justice Assistance Grant distributes Federal funds before the City incurs expenditures.

³ The Office's audit report of Risk Assessment of City of Dallas Implementation of ARRA issued October 9, 2009.

Further, ARRA Whistleblower Protection information is on the City's ARRA webpage and the ARRA webpage is linked to the Office's Fraud Hotline webpage. Whistleblower Protection requirements are included in ARRA contracts.

Fraud, waste, and abuse presentations were given by the Office to City staff and contractors / vendors who are involved in ARRA and grant administration. The Office specifically encouraged the use of the Office's Fraud, Waste and Abuse Hotline for reporting concerns about ARRA spending. During the period October 1, 2009 through September 30, 2010, the Office has not received any allegations involving ARRA funds through the Hotline.

Additionally, we also noted the following:

- **The City avoided potential non-allowable costs of up to \$481,000 for the Weatherization Assistance Program (WAP)**

Department management took immediate action to eliminate the 74 duplicate citizen applications identified by the Office for the WAP.

Both the City and County of Dallas (County) 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 Office used computerized audit techniques to identify 69 duplicate applications between the City's and the County's database and five duplicate applications within the City's database. City department management took immediate action to eliminate the duplicates.

Additionally, the Texas Department of Housing and Community Affairs (TDHCA) recently implemented a centralized WAP client data system. The City may access the system and identify any duplicate applications.

- **The City's ARRA fund payroll expenditures were not always properly recorded and accounted for in the City's financial accounting system**

An information technology system interface issue caused payroll transactions to 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 reports to reconcile the differences.

An actual example of this issue is an ARRA payroll transaction that includes multiple employees for the pay period October 21, 2009 through November 3, 2009. The accounting system expenditures for Salary (\$3,497.85) and Overtime (\$189.54) are not supported by the payroll system report for 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.

This is a systemic issue that could impact all grant funds citywide. 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 and / or State grantor agency.

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. According to management, the total amount expended for salaries and total hours worked are consistent in both the payroll and the accounting systems. Also, management stated that 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. Management also indicated that payroll expenditures are supported with documentation that is available for review.

- **2009 Service Incentive Pay (SIP)⁴ 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 was incorrectly paid from ARRA funds. For employees who only worked two months for ARRA programs since October 1, 2009, the SIP should have been pro-rated between the other funds (ten months) and ARRA funds (two 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 /

⁴ SIP is paid by the City annually on December 1 to reward long-term service to civilian employees who meet certain criteria. The December 1, 2009 SIP was paid for service from December 1, 2008 to November 30, 2009.

non-ARRA funds and only \$872 were for the services they provided from October 1, 2009 to November 30, 2009 under 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.

The Weatherization Assistance Program and the Energy Efficiency and Conservation Block Grant Program Experienced Delays

Several ARRA programs, such as the Weatherization Assistance Program and the Energy Efficiency and Conservation Block Grant, may not be spending funds fast enough to meet program benchmarks.

- **Weatherization Assistance Program (WAP)** – A \$13.3 million two-year program (September 1, 2009 to August 31, 2011)

Issues related to WAP include:

- ***Time constraints in spending the WAP funds.*** Due to delays by the Federal government in making a prevailing wage rate determination required by ARRA, the State delayed the start of the WAP for several months before September 2009⁵. As a result, the City could not start the program until October 2009; however, the City only has until August 2011 to spend all \$13.3 million.
- ***The procurement process followed City procedures, but individual line item charges differ among the six contractors.*** The WAP procurement followed a Request for Proposal (RFP) process. Unlike Request for Bid (RFB) which must always select the “lowest cost” responsible bidder, RFP selects the “best value” bidder. During the RFP process, departments used weighting selection criteria that were prioritized and scored in accordance with: (1) cost of goods and services; (2) bidder’s qualification and capabilities; and, (3) other factors to carry out the WAP projects. There were over 260 line items in the Fixed Price Cost Agreement and most items were not broken down to actual costs of supplies, actual labor costs, and added margin for profit. The City did not negotiate the individual line items with the potential contractors and

⁵ The United States Government Accountability Office report to the Congress “Recovery Act – Funds Continue to Provide Fiscal Relief to States and Localities, While Accountability and Reporting Challenges Need to Be fully Addressed” (GAO-09-1016, September 2009)

contemplate a most advantageous award. As a result, individual line item charges differ among the six contractors. For example, while contractor A listed a compact fluorescent bulb for \$5 material cost plus \$5 installed / labor cost (total \$10 each), contractor B may list the same type of light bulb for only \$2.80 material cost plus \$1 installed / labor cost (total \$3.80 each).

- ***The TDHCA issued a Notification of Possible Deobligation on May 27, 2010.*** The TDHCA 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, and as a result, the City would be at risk for deobligation of funds.

On June 9, 2010, the City submitted to TDHCA a Mitigation Action Plan that outlined new program / operational strategies. The City reorganized its Weatherization Assistant Program Division and hired additional staff. From July 1, 2010 through September 30, 2010, WAP contractors have completed work on 257 homes and met the target production goals per the Mitigation Action Plan.⁶

- ***The WAP non-compliance issues remain as concerns.*** In May, August, and December of 2010, the TDHCA conducted three audits⁷ on the City's WAP. The audits identified \$32,824.59 in disallowed costs, \$22,779.60 in questionable costs, insufficient documentation in client files, no assessment prior to services being provided, poor workmanship during the services, and inadequate final inspection after the services. The City agreed that there have been administrative deficiencies. The City is currently conducting a program review of the WAP and is resolving the disallowed and questionable costs.
- **Energy Efficiency and Conservation Block Grant (EECBG)** – A \$12.8 million three-year program (September 21, 2009 to September 20, 2012)

The issues related to EECBG include:

- ***Delays in contract approval.*** More than three months after City Council approval for a \$2.4 million EECBG contract for the lighting retrofits at 113 city facilities and parking lots in December 2009, the

⁶ The City subsequently decided to transfer \$6 million of State Weatherization Funds to Dallas County due to the County's experience with the program.

⁷ In order to leverage resources and avoid duplication of work, the Office relies on result of audits conducted by the Federal and State agencies to assist in determining audit coverage.

grantor agency, the Department of Energy (DOE) approved spending of the funds on April 1, 2010. The DOE has recognized their review process has caused delays nationwide and has revised the Contracting Officer's approval threshold from \$2 million to \$10 million.

- **Additional services were required before beginning construction.** From April 1, 2010 through June 30, 2010, the lighting retrofits project experienced further delays while the contractor performed engineering survey / audits before scheduling the construction phase. This delayed the construction phase to August 2010.

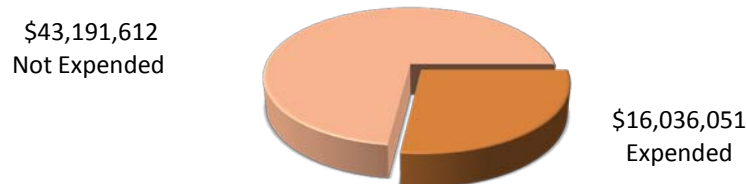
Overall, as of September 30, 2010, the City spent 16 percent of the EECBG funds, but did not meet the benchmark of spending 20 percent (\$2.6 million) of the funds. The DOE, however, did not take any negative action, and the City is still required to meet the 50 percent spending benchmark by June 2011.

City management stated 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.

Chart II below shows that as of September 30, 2010, the City has spent \$16,036,051, or 27 percent, of the total \$59,227,663 ARRA funds awarded by Federal and State agencies.

Chart II

ARRA Funds Expenditure Status as of September 30, 2010



Source: City of Dallas Intergovernmental Services

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Table I below shows the status of each ARRA program as of September 30, 2010:

Table I

ARRA Program Status as of September 30, 2010

Source / Program	Performance Period	Total Program Amount	Percent Spent
Department of Justice Programs			
<i>Cops Hiring Recovery Program</i>	July 2009 - June 2012	\$ 8,896,300	20%
<i>Edward Byrne Memorial Justice Assistance Grant</i>	FY 2010 - FY 2013	7,258,077	71%
<i>Internet Crimes Against Children Initiatives Grant</i>	April 2009 - March 2013	776,503	40%
Department of Housing and Urban Development Programs			
<i>Homeless Prevention and Rapid Re-Housing Grant</i>	FY 2010 - FY 2012	7,187,357	35%
<i>Community Development Block Grant Recovery</i>	FY 2010 - FY 2012	4,700,469	16%
Texas Department of Housing and Community Affairs Programs			
<i>Weatherization Assistance Program</i>	September 2009 - August 2011	13,306,985	16%
<i>Homeless Prevention and Rapid Re-Housing Grant</i>	September 2009 - August 2011	790,316	83%
Department of Energy Program			
<i>Energy Efficiency and Conservation Block Grant</i>	FY 2010 - FY 2012	12,787,300	16%
North Central Texas Council of Governments Programs			
<i>Edward Byrne Memorial Justice Assistance Grant</i>	October 2009 - October 2010	696,227	96%
<i>Clean Cities FY 09 Petroleum Reduction Technologies Projects</i>	FY 2011 - FY 2014	2,828,129	0%
Total Amount for All Programs		\$ 59,227,663	

Source: City of Dallas Intergovernmental Services

Overall ARRA Goal Achievements and Outcomes Will Not Be Known Until Program Completion

Many ARRA programs will last for several years and the City is still in the process of continuously receiving and spending ARRA funds. While the City is making various efforts to carry out ARRA programs in compliance with requirements, the overall goal achievements and outcomes remain unknown until the program's final completion.

Determining the current effects / impact of the ARRA funding through the economy is a complicated task because the funds are not totally spent; however, one of the stated purposes of the ARRA is to preserve and create jobs and promote economic recovery. The City and its sub-recipients reported that as a result of ARRA, 104 jobs on average were funded during the period July 1, 2009 through September 30, 2010. (See Table II on the next page.)

While reporting standards may vary among programs, several factors should be considered when interpreting the ARRA fund recipient job data reports. Specifically:

- The ARRA requires recipients to report quarterly on the use of funds including jobs created or retained. The required reports cover only direct jobs created or retained as a result of ARRA funding; the reports do not include the employment impact on materials suppliers (indirect jobs) or on the local community (induced jobs).
- The number of jobs is estimated by converting part-time or temporary jobs into fractional full-time equivalents (FTE) jobs. The job calculation is based on the number of hours worked each quarter and funded under the ARRA and expressed in FTEs, and is calculated as the total hours worked divided by the number of hours in a full-time schedule. For example, two part-time employees that work 20 hours each week are considered as one FTE job.
- Although labeled “jobs created / retained” on the quarterly Federal ARRA report, the City is required to count every FTE job that is funded using ARRA funds, even if the job existed before funds were received and the job was not in any danger of being eliminated.
- The number of jobs is reported each quarter; however, this number does not represent the cumulative number of jobs. 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.

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Table II below shows number of jobs funded with ARRA funds during each quarter from July 1, 2009 through September 30, 2010.

Table II

ARRA Funded Jobs (July 1, 2009 - September 30, 2010)

Period	Number of Jobs Funded
July 1, 2009 – September 30, 2009	1
October 1, 2009 – December 31, 2009	68
January 1, 2010 – March 31, 2010	133
April 1, 2010 – June 30, 2010	158
July 1, 2010 – September 30, 2010	158
Average Number of Jobs Funded	104

Source: City of Dallas Intergovernmental Services

Appendix I

Background, Objectives, Scope and Methodology

Background

In response to the most serious economic crisis since the Great Depression, the American Recovery and Reinvestment Act of 2009 (ARRA) was one of the Federal government's key efforts to stimulate the economy. The goals of the ARRA include helping preserve jobs and promoting economic recovery from the current economic recession, investing in technology to spur technological advances, and investing in infrastructure to provide long-term economic benefits. With the cost of this response at nearly \$800 billion in appropriations and tax provisions, Congress and the President have called for an unprecedented level of accountability, efficiency, and transparency.

The ARRA funding is available to the City of Dallas (City) for a wide range of projects, including transportation, weatherization / energy, housing, public safety, public infrastructure, and public services. As of September 2010, the 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**. (See Table III on the next page.)

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Table III

ARRA Funds Awarded as of September 30, 2010

ARRA Programs from Federal and State Formula Funds	Amount Awarded
Federal Aid to Highways through Regional Transportation Commission	\$ 30,060,000
Federal Aid to Highways through Texas Department of Transportation	23,745,968
Weatherization Assistance Program through Texas Department of Housing and Community Affairs	13,306,985
Energy Efficiency and Conservation Block Grant	12,787,300
Homeless Prevention and Rapid Re-Housing Grant	7,187,357
Edward Byrne Memorial Justice Assistance Grant	7,258,077
Community Development Block Grant Recovery	4,700,469
Internet Crimes Against Children Initiatives Grant	776,503
Sub-Total	99,822,659
ARRA Programs from Federal and State Competitive Funds	
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 Texas Department of Housing and Community Affairs	790,316
Edward Byrne Memorial Justice Assistance Grant through North Central Texas Council of Governments	696,227
Sub-Total	36,210,972
Totals	\$ 136,033,631

Source: City of Dallas Intergovernmental Services

As of September 30, 2010, the City has two applications totaling \$932,479 pending approval by the Federal and State agencies. Specifically:

- Application of \$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 of \$250,000 in the State competitive State Energy Conservation Office (SECO) Program. (The purpose of this program is to support renewable energy initiatives.)

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The City will benefit from \$76.8 million in transportation projects through ARRA funding. The City is not directly responsible for monitoring:

- \$30,060,000 in roadway projects through ARRA funding provided directly to the Regional Transportation Commission (RTC). These funds allowed the RTC to allocate 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 (NCTCOG). The project will enhance regional connections between Downtown Dallas and Downtown Fort Worth.

FederalReporting.gov is the central government-wide data collection system for Federal agencies and recipients of Federal awards under ARRA. The ARRA requires prime recipients to report specific information about their use of funds, which can include the award amount, expenditure amount, a description of the activities being done, the location where projects or activities are being conducted, jobs created or retained with ARRA funding, and the expected outcomes of the work. After data has been submitted to FederalReporting.gov and reviewed by the grantor agency, the information is made available to the public on Recovery.gov.

The City established the Stimulus Working Group, which is an interdepartmental group, comprised of several City departments charged with the general oversight of ARRA programs and projects administered and implemented by City staff. This group has been used to provide high-level monitoring of ARRA compliance requirements, help focus monitoring efforts, and address program concerns. The Stimulus Working Group holds bi-weekly meetings to provide opportunities to collaborate and exchange information. Intergovernmental Services also maintains communication with the City Manager's Office to ensure that pending applications are in line with the City's key focus areas and periodically provides briefings and updates to the City Council and Council Committees and Sub-Committees on the ARRA status.

In the Office of City Auditor's (Office) audit report of *Risk Assessment of City of Dallas Implementation of ARRA* (October 9, 2009), we stated that the City faces increased risks because: (1) ARRA funds must be quickly expended; (2) mandatory reports must be completed within short time frames (ten days); (3) ARRA funds are being received by some City departments that have not previously administered grants; and, (4) ARRA funded positions are being filled

with employees affected by the City-wide reduction-in-force procedures and the employees may not be familiar with grant administration requirements.

Objectives, 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 service described in the following 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.

The Office's Grant Compliance Group (GCG) provides the non-audit service of monitoring ARRA 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 is not independent with respect to these monitoring functions.

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

The audit scope included ARRA procedures and transactions from October 1, 2009 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.

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

- Evaluated selected ARRA programs⁸
- Reviewed the quarterly ARRA reports submitted to FederalReporting.gov by the City for the period October 1, 2009 through September 30, 2010
- Monitored the Office's 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's audit report of *Risk Assessment of City of Dallas Implementation of ARRA* (October 9, 2009)

⁸ Due to limited resources, we did not conduct detail audit tests on every ARRA procedure and transaction.

Appendix II

Major Contributors to This Report

Gary E. Lewis, CPA, CFE, CFF, Assistant City Auditor
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Appendix III

Audit Recommendations and Management Actions for the Quarterly ARRA Audit Reports Issued by the Office of the City Auditor for Fiscal Year 2010

Audit of American Recovery and Reinvestment Act of 2009, October 1, 2009 to December 31, 2009 (A10-009, February 5, 2010)

- **Issue I-C:** The 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

Audit Recommendation: Management needs to resolve the audit finding to ensure the City ICAC expenditures are timely reimbursed by Federal funds

Management Action: Management agreed with the recommendation. The Dallas Police Department (DPD) paid \$4,990 to DOJ to resolve the audit finding and the City started receiving reimbursement of Federal funds in December 2009

- **Issue II-A:** The City's 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: The Department of Budget Management Services and the City Controller's Office immediately implemented the recommendation

- **Issue II-C:** The initial Federal quarterly report showing \$50,484 ARRA expenditures included some inaccuracies for Edward Byrne Memorial Justice Assistance Grant (JAG) and ICAC

Audit Recommendations:

- The City should establish sub-recipient monitoring requirements in *Administrative Directive 2-50: ARRA Grant Identification, Solicitation, Application, Accounting, Administration, and Reporting 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 tenth 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

- *Administrative Directive 2-50: ARRA Grant Identification, Solicitation, Application, Accounting, Administration, and Reporting Procedures* are finalized and Section 4.2.6 includes information on sub-recipient and vendor monitoring. Intergovernmental Services (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 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.
- **Issue III-C:** The Office of the City Auditor (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

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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 of American Recovery and Reinvestment Act of 2009, January 1, 2010 to March 31, 2010 (A10-012, April 23, 2010)

- **Issue II-A:** ARRA expenses reported on FederalReporting.gov and posted on Recovery.gov do not show the City's actual expenditures

Audit Recommendation: The City needs to communicate to the City Council and the 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.

- **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

Audit Recommendations:

- Intergovernmental Services should coordinate with other departments, such as the City Controller's Office, the Department of Communication and Information Services, and the Department of 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 the detail payroll records.
- The City should establish a citywide procedure to reconcile ARRA grant payroll expenditures between the financial statements and payroll records before reporting to Federal / State grantor agencies and FederalReporting.gov.

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.

- **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

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.

- **Issue IV-A:** Quarterly ARRA status reports prepared by the City do not contain detailed and timely financial information

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.

- **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 Office's 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.

Audit of American Recovery and Reinvestment Act of 2009, April 1, 2010 to June 30, 2010 (A10-018, August 13, 2010)

- **Issue II:** Current ARRA quarterly reporting does not allow recipients/sub-recipients sufficient time to ensure funds are reported accurately

Audit Recommendation: The City needs to proactively communicate to the Office of Management and Budget (OMB) and the United States 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 has met with the GAO and provided comments about the short reporting timeframes and their impact on financial accuracy

- **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 Office, for the Weatherization Assistance Program (WAP)

Audit Recommendation: As the Texas Department of Housing and Community Affairs (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 Office's recommendation and is proactively working with WAP staff to ensure collaboration with Dallas County

- **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

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 of American Recovery and Reinvestment Act of 2009, July 1, 2010 to September 30, 2010 (A11-003, November 5, 2010)

- **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.

We identified issues in the following two programs:

- 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
- 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; however, the Department of Energy did not take any negative action, and the

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City is still required to meet the 50 percent spending benchmark by June 2011

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