

OFFICE OF THE CITY AUDITOR

PERFORMANCE AUDIT OF THE SOUTH DALLAS/ FAIR PARK TRUST FUND



Paul T. Garner
Assistant City Auditor

Prepared by:

Jing Xiao, CPA
Auditor

December 23, 2004

Memorandum



CITY OF DALLAS

December 23, 2004

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted a performance audit of South Dallas/Fair Park Trust Fund (Trust Fund) for the audit period October 1, 1999 through September 30, 2003. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by City Council.

We conclude that the Trust Fund financial management oversight is inadequate. Trust Fund revenues were available for programs in a timely manner; however, the staff and management of the Trust Fund did not adequately monitor and administer the grants and loans originating from the Trust Fund. This is a repeat finding as previously reported in the City Auditor's Report No. 287, issued on November 3, 2000. In addition, the administrative expenditures of the Trust Fund appear excessive and the payment approval process was inadequate.

These concerns are discussed in the Opportunities for Improvement section of this report.

We appreciate the cooperation of City staff during our examination.

Paul Garner
Paul T. Garner
Assistant City Auditor

c: Mary K. Suhm, Interim City Manager

PERFORMANCE AUDIT OF THE SOUTH DALLAS/FAIR PARK TRUST FUND

CONTENTS

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	3
Authorization	3
Scope and Methodology	3
Overall Conclusion	4
Background	5
OPPORTUNITIES FOR IMPROVEMENT	9

EXECUTIVE SUMMARY

We have conducted a performance audit of the South Dallas/Fair Park Trust Fund (Trust Fund), as administered by the City of Dallas Department of Development Services (DDS). Our audit period was October 1, 1999, through September 30, 2003.

Our audit scope was the grants and loans that were directly administered by the Trust Fund, which was under the oversight of the DDS. Our audit objectives were to determine whether:

- Trust Fund Revenues have been made accurately and timely available for the programs as defined by the Council Resolution.
- Grants and Loans have been administered in compliance with the governing policies.
- Management controls and administrative expenditures for the Trust Fund are appropriate.

In our opinion:

- The Trust Fund financial management oversight is inadequate.
 - The computed General Fund (GF) transfers did not reconcile to GF transfers recorded in the City's financial system.
 - Revenues from the Smirnoff Music Centre and flea market/antique shows are not reviewed and verified.
 - Trust Fund appropriations were overstated.
 - Several balance sheet accounts have not been reconciled and showed no transactions since FY 2001.
- The Trust Fund management did not adequately monitor and administer the loans and grants originated from the Trust Fund. This is a repeat finding which was previously reported in the City Auditor's Report No. 287, issued on November 3, 2000.
- A new grant has been initiated without developed policies and procedures to adequately administer and monitor this grant.
- The loan and grant application review process needs to be improved.
 - Defaulted loans had high principal default rates.
 - Grant budgets did not reflect the approved grant amounts, and the budget forms were inaccurate.
 - Some Community Based Nonprofit Grant awards exceeded program guidelines.

- Administrative expenditures for the Trust Fund appeared excessive and the payment approval process for administrative expenses was inadequate.
- The Trust Fund has not fully implemented the previous audit recommendations.
 - Adequate, authoritative documentation is not provided to the Trust Fund staff for the individual expenditures from the \$100,000 Emergency Minor Home Repair Program transfer.
 - The South Dallas Fair Park Trust Fund Advisory Board (Board) is not fully appointed.

Our concerns are discussed in the Opportunities for Improvement section of this report.

INTRODUCTION

Authorization

We have conducted a performance audit of the South Dallas/Fair Park Trust Fund (Trust Fund) under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

Our audit was conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Accordingly, our audit included inquiries, tests of the records, and other procedures we considered necessary to meet the scope and objectives. Our audit period was October 1, 1999, through September 30, 2003, although we examined certain events and transactions occurring before and after that period.

Our review focused on the loans and grants that were directly administered by the South Dallas Fair Park Trust Fund, which was under the oversight of the City of Dallas Department of Development Services (DDS). Therefore, the review did not include the Minor Home Repair Grant administered by the City of Dallas Housing Department and the Youth Employment Grant administered by the Dallas Youth Service Corporation.

The objectives of the audit were to determine whether:

- Trust Fund Revenues have been made accurately and timely available for the programs as defined by the Council Resolution (CR).
- Grants and Loans have been administered in compliance with the governing policies.
- Management controls and administrative expenditures for the Trust Fund are appropriate.
- Prior audit findings were corrected.

To achieve the objectives, we:

- Reviewed the current governing policy – CR 99-3439 and the previous policy CR 93-1145.
- Held discussions with the Trust Fund staff and management.
- Judgmentally selected 60 grants and reviewed the related grant documents.
- Reviewed the 17 Business Loans that were approved and released from FY 2000 to FY 2003.
- Reviewed the annual General Fund transfers.
- Reviewed revenues from the Smirnoff Music Centre (Smirnoff) and flea market/antique show rentals at Dallas Fair Park (we did not validate the number of tickets sold that were provided by Smirnoff).
- Reviewed prior audit reports.

INTRODUCTION

- Reviewed the administrative expenditures and the management controls over the Trust Fund.

The Trust Fund records all of its financial transactions in the City's Resource System (Resource) and does not have a separate financial and accounting system to prepare financial statements. Our audit was based on the reviews and tests of the transactions in the Resource system and not upon Trust Fund prepared financial statements.

Overall Conclusion

Our review found that the Trust Fund financial management oversight is inadequate. Trust Fund revenues were made available timely for the programs; however, the fund appropriations were overstated. The staff and management of the Trust Fund did not adequately monitor and administer the grants and loans originating from the Trust Fund. This is a repeat finding which was previously reported in the City Auditor's Report No. 287 issued on November 3, 2000. The Trust Fund Board (Board) initiated a new type of grant but has not developed policies and procedures to adequately administer and monitor this grant. The administrative expenditures of the Trust Fund appeared excessive and the payment approval process was inadequate. The Opportunities for Improvement section of this report addresses these areas in more detail.

The Trust Fund has not fully implemented the previous audit recommendations. Adequate, authoritative documentation is not provided to the Trust Fund staff for the individual expenditures from the \$100,000 Emergency Minor Home Repair Program transfer. Additionally the Board is not fully appointed; there are eleven out of the fifteen seats filled. Nine meetings were held from January to September 2003. Three meetings had nine members, one meeting had eight members, and five meetings had six members in attendance.

Management's Overall Response:

Management has reviewed the City Auditor's (AUD) draft report concerning its findings related to the operations of the South Dallas/Fair Park Trust Fund (SD/FPTF) for the period of October 1, 1999 through September 30, 2003. Prior to this audit, management had identified several past deficiencies and has already made substantial changes to address these issues. A number of factors have contributed to issues identified in this report but, primarily, significant turnover of SD/FPTF staff and reduced departmental staffing left this business unit without sufficient oversight. In December 2003, a new administrator was assigned to the SD/FPTF and numerous changes related to issues discussed in this report have been implemented. Additionally, an accountant was hired to implement improved processes, accounting and financial management. It is management's belief that appropriate processes and oversight are now in place

INTRODUCTION

to rectify prior operational inadequacies brought to light in this report. A summary of staff comments follows:

- Previous temporary staff handling accounting was relieved and replaced with new accountant that has experience in account reconciliation and transactions.
- Appropriation ordinances account for General Fund transfers that have been made to the SD/FPTF.
- Agreement with Park Department to provide updated information from Fair Park revenue sources.
- SD/FPTF needs to be considered a multi-year fund to capture unused annual revenues.
- Enhanced oversight and policies put in place by new administrator.
- City Council authorization of Special Initiatives grant program will be proposed.
- Loan application processes improved through partnership with Southern Dallas Development Corporation.
- Neighborhood capacity building activities are planned.
- Administrative expenditure cap in place that will result in reduction of SD/FPTF staff from 4 FTEs to 2.5 FTEs.
- Outside independent auditor has been retained to conduct a financial audit for period covered by this report.

Background

The Trust Fund was initially recommended by the South Dallas/Fair Park Neighborhood Preservation and Economic Development Plan (Plan). The Dallas City Council adopted the Plan in 1987.

In 1992, the City Council affirmed its commitment to the Trust Fund and approved CR 93-1145 in March 1993 as the guideline for the Trust Fund. The City Council then approved CR 99-3439 to replace CR 93-1145 adding some minor changes.

According to the Council Resolution, the Trust may fund three program areas:

1. Business and economic development initiatives to improve business opportunities, create and retain jobs, and encourage affordable housing development.
2. Housing and neighborhood improvement projects to provide assistance for low cost repairs of owner-occupied residences and provide needed community improvements.
3. Community service programs to provide job-related and human services assistance.

The following initiatives may be funded in the program areas:

INTRODUCTION

1. Technical assistance for detailed market analyses and business plan assistance for business/property owners and interested investors/developers. The Trust Fund would share in the cost of developing the business plans.
2. Low interest revolving loans up to \$50,000 each for businesses.
3. Micro grants to businesses between \$1,000 to \$2,000 for emergency situations.
4. Emergency minor home repair grants for low income and elderly homeowners, or loans for moderate income homeowners at \$8,000 per household.
5. Youth employment/minor repairs to homes program at \$50,000 annually.
6. Competitive contract awards for community-based nonprofits may be funded at (up to) \$35,000 per year per organization, in a decreasing amount over a three year period, with the total award amount not to exceed \$75,000.
7. Challenge grants for neighborhood groups at a maximum of \$5,000 per grant. The Challenge grants require matching funds or volunteer hours.
8. Funding for a City staff position to serve as the South Dallas/Fair Park Neighborhood Advocate/Public Information Officer.

To implement the above Council Resolution, the Board established the following loans and grants:

- Commercial Loans
- Community-based Nonprofit Grants (CBN)
- Neighborhood Challenge Grants (CHG)
- Emergency Assistance Micro Grants to Businesses (EAMG)
- Youth Employment/Minor Home Repair Grant (administered by Dallas Youth Service Corps)
- Emergency Minor Home Repair Grant (administered by the City of Dallas Housing Department)

Two new types of grants have been initiated during our audit period:

- Public Safety Grant (PSG)
This grant was implemented in FY 2002 in response to the \$50,000 per year donation from the United Distillers & Vintners (UDV). UDV agreed to contribute \$50,000 for eight years for a total of \$400,000, to the Trust Fund to be used by neighborhood groups for crime prevention. The maximum grant amount is \$5,000 for nonprofit organizations and \$2,500 for neighborhood groups and associations.
- Special Initiative Grant (SPI)
This grant was created by the Board for initiatives that cannot fit in the established Trust Fund programs. The Trust Fund Manager indicated the Board created this grant in FY 2002-2003. The first SPI grant in our audit period was awarded in FY 2000.

INTRODUCTION

During our audit period, FY 2000 to FY 2003, the Trust Fund had awarded 95 grants and 17 business loans. These are summarized in the following table:

FY 2000 to FY 2003 Loans and Grants Awarded						
	Total No. of Loans/ Grants	Total Amount	FY 2003	FY 2002	FY 2001	FY 2000
Commercial Loans	17	\$566,645	\$9,200	\$217,445	\$115,000	\$225,000
CBN Grant	48	836,444	169,500	236,944	215,000	215,000
CHG Grant	19	77,697	5,000	23,840	30,000	18,857
PSG Grant	17	68,966	21,629	47,337	0	0
SPI Grant	10	192,840	174,840	13,000	0	5,000
Emergency Asst. Micro Grant	1	146				146
Trust Fund Directly Administered	112	\$1,742,738	\$380,169	\$538,566	\$360,000	\$464,003
Youth Employment Grant	NA*	\$100,000	\$0	\$0	\$50,000	\$50,000
Minor Home Repair Grant	NA*	324,000	24,000	100,000	100,000	100,000
Total Awarded Loans & Grants**	NA	\$2,166,738	\$404,169	\$638,566	\$510,000	\$614,003

* The review did not include the grants administered by Housing Department and Dallas Youth Service Corp.

** The amount indicates the total approved contract/agreement amount in the fiscal year. The "Grants & Loans Disbursed" on table "Trust Fund Reported Expenditures" in the Background section indicates the disbursed (reimbursed) amount in the fiscal year.

The Trust Fund revenue sources include:

- Annual \$200,000 contribution from the General Fund (\$100,000 is allocated from the Community Development fund to Housing Department and \$100,000 is contributed directly from the General Fund to the Trust Fund)
- Revenue from the Visitor's Formula
- Smirnoff ticket sales (\$0.15/ticket sold)
- Flea market and antique show rentals (50% of the rental revenue)
- Interest earnings

Funds become available on October 1st of each year, with the annual program appropriation equal to revenues received from July 1st of the previous year through June 30th of the year in which funding is to begin.

We reviewed the FY 2000 to FY 2003 Summary Trial Balance By Fund Report (Report #A614) for the Trust Fund (Fund 0351), which is maintained in Resource, and summarized the reported revenues in the following table:

INTRODUCTION

Trust Fund Reported Revenue (Recorded in Resource)					
Resource Sources:	FY 2003	FY 2002	FY 2001	FY 2000	Total
Smirnoff Ticket Sales	\$38,169	\$41,562	\$77,339	\$45,212	\$202,282
Flea Market/Antique Show	23,366	22,784	22,053	25,135	93,338
Interest (loan & pool)	29,885	26,733	75,006	79,468	211,092
Late Fees	1,575	1,195	860	800	4,430
Loan Principal	88,015	100,027	68,591	59,620	316,253
General Fund Transfer	336,541	345,572	334,936	276,338	1,293,387
Gifts and Donations (restricted)	50,000	50,000	50,000	0	150,000
Total Reported Revenue:	\$567,551	\$587,873	\$628,785	\$486,573	\$2,270,782

Note: The \$100,000/year transfers from the Community Development fund to the Housing Department for the Minor Home Repair Program are not included in Fund 0351.

We also summarized the expenditures that are recorded in Resource for Trust Fund (Fund #0351) from FY 2000 to FY 2003:

Trust Fund Reported Expenditures (Recorded in Resource)					
Expenditure Categories:	FY 2003	FY 2002	FY 2001	FY 2000	Total
Salaries & Benefits	\$199,289	\$142,716	\$95,747	\$140,810	\$578,562
Supplies	16,662	4,303	5,160	9,316	35,441
Other Services	65,810	57,304	39,341	5,178	167,633
Capital-Furniture & Fixtures	8,498				8,498
Reimbursement from Other Departments	(33)				(33)
Total Administrative Exp.	\$290,226	\$204,323	\$140,248	\$155,304	\$790,101
Grants & Loans Disbursed*	293,003	480,601	383,943	523,062	1,680,609
Total Reported Expenditures	\$583,229	\$684,924	\$524,191	\$678,366	\$2,470,710

* Amounts from account 3099 (and 3070 if applicable). Indicate the disbursed (reimbursed) amounts for the loans and grants in the fiscal year.

The Resource system contained the following fiscal year-end balances for the Trust Fund Cash and Fund Balance:

Trust Fund Cash and Fund Balances (Recorded in Resource)				
	FY 2003	FY 2002	FY 2001	FY 2000
Cash	\$1,032,975	\$1,072,623	\$1,118,705	\$1,034,832
Fund Balance*	\$1,025,385	\$1,122,435	\$1,017,842	\$1,209,636

* Balance Sheet Account 0950 – Fund Balance prior to the year-end close

The Trust Fund program administration has been under DDS (former Economic Development Department) since 1998. Prior to 1998, the Trust Fund reported to the City Controller's Office.

OPPORTUNITIES FOR IMPROVEMENT

Our audit identified certain policies, practices, and procedures that should be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. The Trust Fund financial management oversight is inadequate.

During our review and analysis of various Trust Fund activities, we noted that:

- A. Annual General Fund (GF) transfers computed did not reconcile to GF transfers recorded in Resource.

Our review found that the GF has been transferring more than \$100,000 in addition to the Visitor's Formula revenue annually to Fund 0351.

During September of each year, the GF transfers its annual contribution plus the revenue from the Visitor's Formula to the Trust Fund. CR 99-3439 defined GF contribution to the Trust is \$200,000 annually. \$100,000 is transferred from Community Development (CD) funds directly to the Housing Department for the Minor Home Repair Program. The remaining \$100,000 should be transferred from the General Fund to the Trust Fund (Fund # 0351) along with the revenue from the Visitor's Formula.

According to DDS management, the GF has transferred an additional \$115,000 each year since FY 1999. This fund transfer was based upon a budget amendment dated 09/13/1999 and signed by six City Council members on that date. On the referenced budget amendment memorandum, the Council members requested the 1999-2000 Budget be amended to include \$115,000 for the South Dallas Trust continuing operations. The memo did not indicate whether the \$115,000 additional funding should affect future years' budgets. We could neither find, nor the Trust Fund provide, authorization for the contribution of this amount for years subsequent to FY 1999-2000.

Discrepancies also exist between computed annual GF transfer and GF transfer recorded in Resource during the audit period. These discrepancies are summarized in the following table:

OPPORTUNITIES FOR IMPROVEMENT

General Fund Annual Transfer Reconciliation					
	FY 2003	FY 2002	FY 2001	FY 2000	Total
GF Transfer recorded each September	\$336,541	\$345,572	\$334,936	\$276,338	\$1,293,387
Itemized GF Transfer:					
GF Contribution to The Trust	\$100,000	\$100,000	\$100,000	\$100,000	\$400,000
Visitor's Formula	121,541	118,194	118,899*	77,781	436,415
FY 99-00 Budget Amend.				115,000	115,000
Total Itemized GF Transfer	\$221,541	\$218,194	\$218,899	\$292,781	\$951,415
Questionable Transfer	115,000	115,000	115,000		345,000
Computed GF Transfer	\$336,541	\$333,194	\$333,899	\$292,781	\$1,296,415
GF Actual Transfer Over (Under) Computed GF Transfer	\$0	\$12,378	\$1,037	(\$16,443)	(\$3,028)

* DDS estimated attendance for Fair Park Museums and Special Events

The Trust Fund staff could not explain the above discrepancies.

- B. Revenues from the Smirnoff and flea market/antique shows are not reviewed and verified.

Fair Park Administration (FPA) records the revenue for the Trust Fund when payments are received from Smirnoff and the flea market/antique show tenants. The flea market/antique show rentals are evenly divided between the Park and Recreation Department (Fund 0001) and the Trust Fund (Fund 0351). We retrieved the flea market rental payments from January to September 2003 and confirmed that the FPA recorded the revenues as described.

Smirnoff provides information on the number of tickets sold to FPA on its monthly statements and pays the \$0.15/ticket accordingly. FPA deposits the checks and forwards all information to the Trust Fund. Since FPA is a pass-through agent for this \$0.15/ticket revenue, it does not validate information provided on the number of tickets sold.

The Trust Fund staff could not provide any supporting documentation to indicate the process for reviewing the revenues, and the staff did not respond to the Audit request regarding verifying information on Smirnoff ticket sales.

We requested financial information from Smirnoff for the audit period and these unaudited statements were made available to Fair Park and the Trust Fund.

- C. Annual fund appropriations have been overstated.

OPPORTUNITIES FOR IMPROVEMENT

The Trust Fund appropriation should equal the revenues received from July 1st of the previous year through June 30th of the year in which funding is to begin. The revenues include: General Fund contribution, revenue from the Visitor's Formula, Starplex (currently named Smirnoff Music Centre) ticket sales, flea market and antique shows, and interest.

We retrieved and summarized revenues for each period, July 1st to June 30th, from 1999 to 2003 and compared them with each following fiscal year's fund appropriation as shown in the following table:

FY 2001 to FY 2003 Trust Fund Appropriation Review				
	FY 2003	FY 2002	FY 2001	
Adopted Budget for the Trust Fund Appropriation	\$786,450	\$786,450	\$749,026	\$2,321,926
	07/01/01 To 6/30/02	07/01/00 To 6/30/01	07/01/99 To 6/30/00	Total (FY01 to FY03)
Interest & Late Fees*	\$27,928	\$75,866	\$80,268	\$184,062
Smirnoff Ticket Sales	45,337	54,417	47,189	146,943
Flea Market/Antique Show	24,591	18,452	21,534	64,577
Transfer from General Fund	334,936	276,338	354,781	966,055
Computed Fund Appropriation Per CR99-3439	\$432,792	\$425,073	\$503,772	\$1,361,637
Fund Over Appropriated	\$353,658	\$361,377	\$245,254	\$960,289

*The above data was retrieved by using Info-Advantage, except for Interest & Late Fees. Amounts for Interest & Late Fees were obtained from Resource reports.

Based on the above summary, the Trust Fund appropriations have been significantly higher than the appropriations computed based on revenues received as defined above.

- D. Several balance sheet accounts have not been reconciled and show no transactions since FY 2001.
- The Trust Fund has not reconciled its balance sheet accounts. We noted that the Business Loan Receivable, Allowance for Doubtful Account, and Deferred Business Loan accounts have had no transactions since the beginning of FY 2001. The ending balances, as of 09/30/2003, for these accounts were \$413,625.80, \$74,735.21, and \$338,890.59 respectively.
 - The Trust Fund loan transactions were not recorded in the Business Loan Receivable account. The Trust Fund recorded the loan amount in an expenditure account when a Business Loan was released. Principal and interest were recorded in revenue accounts when a payment was received. At the end of a fiscal year, the Special Collection Accountant

OPPORTUNITIES FOR IMPROVEMENT

recorded amounts to the Business Loan Receivable and Allowance for Doubtful Accounts (if there was any) based on the records that had been maintained. No adjustment has been made to these accounts since this Accountant position was eliminated in 2001.

In order to balance the year-end entry for loan receivables, the Accountant also recorded an amount in a liability account designated "Deferred Business Loans". This entry created misleading information on the balance sheet because it increased the Trust Fund liabilities when in fact a loan had been made to a borrower.

The above conditions may be caused by the following:

- A. The Trust Fund did not document, review, and reconcile the annual amounts transferred from the General Fund. FY 2000 budget amendment of \$115,000 has been included in FY 2001, FY 2002, and FY 2003 GF transfers.
- B. The Trust Fund relied on information provided by other agencies/entities without performing any review/verification.
- C. The governing policy CR 99-3439 was not enforced during the budget process, and this resulted in an over-appropriation. The fund budget review appeared inadequate since no question was raised after the fund appropriation for the Trust Fund increased 39.7% from FY1999 (\$536,000) to FY2000 (\$749,026).
- D. Inadequate oversight of Trust Fund financial records.

CR 99-3439 C.4 states "Trust Fund revenue sources shall continue to include an annual \$200,000 contribution from the General Fund (contingent on the annual approval of the contribution by the City Council), revenue from the Visitor's Formula, Starplex ticket sales, flea market and antique shows and interest."

In the 09/13/99 memorandum, the Council members only requested additional funding for FY 1999-2000. The amendment did not address additional funding for future years.

The Trust Fund Accounting Procedures state "The Trust Fund staff reconciles revenue received from the Smirnoff Music Centre and Flea Market and Antique Shows held at Fair Park on a quarterly basis. Secure support documentation from each revenue source." The Procedures also state that the Trust Fund staff would contact the Fair Park Administrative Office to secure event calendar, make projections for future revenue, and reconcile deposits with resource reports; contact the Smirnoff Music Centre to secure event calendar and make

OPPORTUNITIES FOR IMPROVEMENT

projections for revenue; conduct annual meeting with Smirnoff Music Centre to reconcile revenue received based on number of tickets sold multiplied by \$0.15.

CR 99-3439 C. 4 also clearly defined the Trust Fund appropriation. It reads "Future year program funds will become available on October 1 of each year, with the annual program appropriation equal to the revenues received from July 1 of the previous year through June 30 of the year in which funding is to begin."

As described above:

- \$345,000 (\$115,000 per year from FY2001 to FY2003) additional General Fund contribution did not have adequate authorization;
- The General Fund may have also over-contributed \$15,222 to the Trust;
- The Trust Fund revenues may be understated due to the unverified information;
- Over-appropriation reduces fund availability for other needed City programs and weakens the budget's monitoring and controlling function; and
- The Trust Fund financial records in the Resource System are questionable and may be unreliable.

We recommend the Director of DDS to:

- A. Consult with the Office of Financial Services (OFS) and determine the annual General Fund transfer authorized by the City Council.
- B. Enforce the use of the Trust Fund Accounting Procedures which will require the review and verification of all revenue.
- C. Consult with OFS Budget Management division to address the discrepancies in the annual fund appropriation. Also ensure that the Trust Fund Manager possesses thorough knowledge and understanding of the Trust Fund operations, is familiar with applicable policies and procedures, and consults with the City Controller's Office regarding accounting treatment of loan transactions.
- D. Ensure that the Business Loan Receivable and other balance sheet accounts are reconciled.

Management's Response:

- A. Staff disagrees that transfers of \$215,000 from the GF in FY01, FY02 and FY03 to the SD/FPTF were in error. The SD/FPTF was to receive the full \$200,000 earmarked to it by City Council Resolution No. 99-3439 as well as the additional \$15,000 initially added with the FY00 budget. The GF transfer has been approved annually in the City's appropriation ordinances. Further, according to City Council Resolution No. 99-3439, the SD/FPTF Board may recommend the allocation of Community Development funding to housing programs in its service area resulting in a commensurate reduction of the GF

OPPORTUNITIES FOR IMPROVEMENT

contribution for a particular fiscal year. A review of Board action over this time period shows no such recommendation, thus the GF contribution should not have been reduced by \$100,000 per Resolution No. 99-3439.

Staff concurs that there were prior differences in Transfer per computation and Transfer per RESOURCE. Staff has refined its computational methodology and for FY03, the most recent year covered by the report, there was no discrepancy. Actual net difference reconciled to Resource by SD/FPTF accounting was (\$3,018). A Journal Voucher will post the additional \$3,018 in Transfers due from the General Fund (GF) to the SD/FPTF general ledger in the 13th period 2004.

- B. Staff concurs that revenues from the Smirnoff and Flea Market antique shows were not adequately reviewed and verified. Since the initiation of the audit, SD/FPTF and Park and Recreation staff have partnered to ensure that these revenue sources are properly documented. Further, revenue from both Smirnoff Music Center and the Flea Market has been reviewed and reconciled with information furnished by the Smirnoff Music Center and with Flea Market revenue reported to that recorded in the City's accounting system for FY01, FY02 and FY03. The revenue for FY04 has been partially reconciled and that reconciliation will be completed when final information for FY04 is available.

The SD/FPTF will verify on an ongoing basis all revenue recorded from Smirnoff Music Center ticket sales and Flea Market rents on at least a quarterly basis. Fair Park Administration will provide documentation received and make other information available in order for the SD/FPTF to verify the Smirnoff Ticket sales and Flea Market rental revenue to that received and recorded in RESOURCE.

- C. Management concurs with AUD that appropriations for the SD/FPTF exceeded revenues received by SD/FPTF through its funding formula for the stated fiscal years. However, this occurred because the SD/FPTF is a stand alone unit that functions as a multi-year fund in all aspects but its annual appropriation methodology. Staff recommends that the SD/FPTF be structured as a multi-year fund.

Excess appropriations resulted for two general reasons. First, unspent prior year revenues were considered to be accessible for expenditure in upcoming fiscal years resulting in the request for additional appropriations. Secondly, loan payments collected were incorrectly recorded as revenue (see Management Response 1D for further discussion of this specific issue) further inflating appropriation requests.

At management's request, on February 25, 2004, City Council approved Resolution 04-0801 authorizing the utilization of unused and unencumbered

OPPORTUNITIES FOR IMPROVEMENT

monies that have accrued from prior fiscal years. In effect, this allows for appropriations to exceed annual revenue calculations based on the SD/FPTF's present funding formula but not to exceed available cash. The SD/FPTF functions as a Multi-Year Fund but the methodology for developing appropriations established in Resolution No. 99-3439 is incorrect for such a fund and has previously resulted in excess appropriations. Notwithstanding, procedures have been put in place to ensure that annual appropriations will match funds available for expenditure pursuant to City Council Resolution No. 04-0801.

- D. Management concurs with AUD that Business Loans Receivable, Allowance for Doubtful Accounts and Deferred Business Loans were not reconciled.

Business loan activity has previously been recorded as revenue for payments received and expenditures for loans provided. New loans were recorded as expenditures and payments against loans receivable were recorded as revenue. This methodology makes it difficult to determine the actual business loans receivable and is an erroneous entry to revenue. The entry to revenue also increases the base revenue used to calculate the appropriations for succeeding Fiscal Years and has been corrected (see Management Response 1C).

SD/FPTF staff has prepared journal entries to re-class revenue and expenditures for each year reversing prior the accounting of business loans receivable. The effect of this entry eliminates the deferred revenue shown on SD/FPTF financial records and adjusts the business loans receivable accounts to reflect the current business loans receivable aging. It also adjusts the allowances for doubtful accounts based on an analysis of outstanding loan balances and aging.

2. Grants have not been adequately monitored or administered.

To test the grant administration, we judgmentally selected and reviewed 60 grants that were approved during the audit period. The attributes reviewed are summarized in the following table:

OPPORTUNITIES FOR IMPROVEMENT

Grant Review Summary I						
	No. of Grants Awarded	No. of Grants Reviewed*	Questionable or No Matching	Inadequate Support For Reimbursement	Reimbursed Expenses Outside Grant Period	Grant Purpose or Budget Changed
CBN	48	24	12	1	8	5
CHG	19	13	9	4	1	1
PSG	17	12	4	4	1	2
Sub Total	84	49	25	9	10	8
SPI**	10	10	N/A	N/A	N/A	N/A
EAMG	1	1	N/A	N/A	N/A	N/A
Total	95	60				

* Includes 4 grants (1 CBB, 2 CHG, and 1 PSG) that had no fund draw-down. Therefore, the review of matching and reimbursement attributes was not applicable for these four grants.

** SPI grants selected were reviewed, however these grants were not subject to the criteria established by CR 99-3439. See Opportunity #3 for SPI grant review detail.

N/A: Not Applicable

Based on our review, we noted that:

- 51% (25/49) of the grants did not have adequate documentation to support the matching commitment required by the grant agreements.
- 18% (9/49) of the grants had used inadequate supporting documents for their grant reimbursements. For example, vendor quotations and estimates were accepted documentation for grant reimbursements without proof of work being completed.
- 20% (10/49) of the grants had received reimbursements for expenses incurred outside the grant period. (6 grants were reimbursed for expenses incurred prior to grant executions, 4 grants were reimbursed for expenses incurred twelve months after grants were executed).
- 16% (8/49) of the grants were not in full compliance with the approved grant purposes and budgets. Examples include reimbursements made for spending outside respective grant purposes.
- One PSG grant awarded to a neighborhood association for \$5,000 exceeded the \$2,500 maximum PSG grant limit specified for neighborhood associations.
- The EAMG awarded in FY2000 was to assist a social work consultation organization to repair its damaged TXU meter. No explanation on cause of the damage was identified in the grant file. A \$400.00 check was paid to the recipient in August 2000; however, the FY2000 Trust Fund Annual Report only reported \$146. According to the Trust Fund staff, the recipient had refunded the remaining \$254. The grant file did not have any documentation to demonstrate the refund's occurrence.

The possible dollar impact of the preceding conditions, except for grant usage non-compliance, was calculated and summarized in the table below. The grant usage non-compliance was not quantified due to the inconsistency between grant budget amount and final award amount (See Opportunity #4).

OPPORTUNITIES FOR IMPROVEMENT

Grant Review Summary II									
	No. of Grants reviewed	Reviewed Awarded Amount* (1)	Required Matching (2)	Amount of Matching in Question (3)	% (3)/(2)= (4)	Inadequately Supported Reimbursement (5)	% (5)/(1)=(6)	Exp. Incurred Prior The Grant Execution** (7)	% (7)/(1)= (8)
CBN	24	\$524,717	\$524,717	\$280,717	53.50%	\$20,000	3.81%	\$119,064	22.69%
CHG	13	\$50,340	\$50,340	\$40,340	80.14%	\$17,840	35.44%	0	0
PSG	12	\$47,500	1,200 hrs	N/A	N/A	\$12,752	26.85%	\$2,240	4.72%
Total	49	\$622,557		\$321,057	55.83%***	\$50,592	9.73%	\$121,304	19.48%

* Excluded the grants that had no fund draw-down at the time of review

** The reimbursements made for expenses incurred 12 months after the grants were executed were not quantified

*** Calculated as $\$321,057 / (\$524,717 + \$50,340) = 55.83\%$

N/A: Not Applicable

In addition to the financial impact, other issues include:

- Without recipients' matching funds, the Trust Fund is funding the programs entirely and that was not the Trust Fund's intent.
- Disbursing grant funds based on vendor quotations does not provide the control needed to ensure work was performed. Without adequate review and verification of supporting documents for reimbursement requests, the grants may not be used to serve the desired purposes.
- The \$400 EAMG grant did not appear to qualify for that type of grant; also the \$254 refund could not be verified from documentation included in the grant file.

The causes for the above situation include:

- Reimbursements were approved and disbursed without verifying that the required matching funds had been committed.
- Prior to final approval of the grants, the Trust Fund staff did not confirm that the required match had been received (most matching funds were contributed by other grantors or donors).
- Reimbursements were made without adequate review of the supporting documents.
- The established policy and procedures were not followed.

Relevant policies and procedures include:

- CR 99-3439 B.6 regarding the Community-based nonprofit grants (CBN) states "...These funds shall be used to supplement other program matching sources, which may include in-kind contributions as a percentage of the match,..."

OPPORTUNITIES FOR IMPROVEMENT

- The Trust Fund CBN Application section “Source of Required Matching Funds” has a note that states “Remember, at least 75% of amount requested must be matched with cash. Matches will be verified prior to awards from the Trust Fund.”
- CR 99-3439 B.7 regarding Challenge Grants (CHG) states “... These grants shall be a maximum of \$5,000 per grant and shall be matched by an equal amount of funds raised by the selected neighborhood group(s).”
- The South Dallas/Fair Park Trust Fund Procedural and Monitoring Review Guide requires the Trust Fund staff to confirm that matching funds are used first.
- The South Dallas/Fair Park Trust Fund Grant Agreement section 4 “Use Of Grant Funds” states “The funds granted under this Agreement shall be utilized by Grantee within twelve (12) months of the execution date of this Agreement...”
- The South Dallas/Fair Park Trust Grant Agreement section 5.(c). (5) indicates Grantee shall only use Grant funds received to defray expenditures which are “incurred after the date of acceptance of the Grant unless specific authorization from the Administrator to the contrary is received.”
- The South Dallas/Fair Park Trust Grant Agreement section 5.(d) reads “All costs defrayed from Grant funds shall be supported by properly executed checks, orders, payrolls, time records, invoices, contracts, vouchers, or other accounting documents evidencing in detail the nature and propriety of the charges...”
- The South Dallas/Fair Park Trust Grant Agreement section 5.(j) partially reads “The Grant funds of ..., and unless otherwise authorized by the Administrator for the program detailed in the Grant Agreement, including Exhibit A, shall be payable on a reimbursable basis following receipt of proper documentation of expenditures.”
- The SDFPTF Public Safety Grant Guidelines state “The maximum grant amount is \$5,000 for nonprofit organizations and \$2,500 for neighborhood groups and associations.”
- CR99-3439 section B.3 reads “Micro grant contract awards may be provided to businesses at \$1,000 to \$2,000 for emergency situations. Emergency situations are defined as natural disasters (other than a flood), or man-made disasters not covered by insurance.

OPPORTUNITIES FOR IMPROVEMENT

We recommend the Director of DDS:

- Ensure that the required matching fund is verified and documented prior to grant awards. Improve the Trust Fund Grant Reimbursement Procedures to add procedure(s) for verifying adequate matching fund disbursements while approving reimbursement requests.
- Require the Trust Fund Manager to review and approve recipients' requests for eligibility for reimbursement and ensure supporting documents are appropriate prior to fund disbursements.
- Ensure the Trust Fund staff receives adequate training on grant administration.
- Consider providing grant administration training for grant recipients.
- Require Trust Fund staff to be familiar with grant guidelines prior to grant approvals.

Management's Response:

Management concurs with AUD that grants were not adequately monitored or administered over the reviewed period but this situation has been remedied through the implementation of new procedures that will ensure better documentation of all transactions. SD/FPTF staff has been directed to ensure that established policy and procedures are followed. This includes requiring that matching funds are available and verified prior to approving reimbursements. Additionally, staff has been provided training on processes and procedures for grant administration.

SD/FPTF staff now requires organizations to submit copies of checks from the matching source prior to receipt of SD/FPTF funding. SD/FPTF grantees are also required to submit copies of their general ledger to verify expenditures from these funds. Organizations that use funding from internal sources as a match will be required to reflect this amount in their overall budget. Relative to the Challenge Grants, applicants have the option of matching the grant with cash or with volunteer hours, which equal the award amount. Successful applicants will be required to submit evidence of in-kind match (completed volunteer hours, etc.) prior to reimbursement.

Applicants usually have 12 months from the date of contract execution to expend funds. Applicants requiring an extension are required to provide a letter requesting extension, which includes the reason for the extension and the time line for expenditure of the remaining funds. The SD/FPTF administrator must approve all extensions.

SD/FPTF staff now requires applicants to submit revised budgets and revised beneficiary numbers if award is different from request. The scope of services

OPPORTUNITIES FOR IMPROVEMENT

section of contract must now provide detailed funding information including but not limited to how SD/FPTF funds will be allocated. This requirement will enhance the reimbursement and monitoring process.

3. The Special Initiatives Grant has been implemented without an administrative policy.

The Special Initiatives Grant (SPI) was not one of the Council approved grant categories. According to the Trust Fund Manager, the Trust Fund Board created the SPI grant. The first SPI grant during the audit period (FY 2000 to FY 2003) was awarded in FY 2000.

During the four fiscal years FY 2000 to FY 2003, the Trust Fund awarded ten SPI grants totaling \$192,840. There was no documented policy on grant amount limit, matching requirement, or disbursement method.

Unlike other grants, SPI did not have any objective stated on the Trust Fund FY 2000 Annual Report. The report only mentioned that SPI Grant "Meets unforeseen needs of organizations that will benefit the community". A \$5,000 SPI grant was awarded for FY 2000.

The FY 2002 and FY 2003 Trust Fund Annual Reports stated that the objective of SPI was "Underwrite community needs outside the scope of regular Trust Fund programs." The report also included the qualifications for SPI Grants which were:

- Available to nonprofit organizations and neighborhood groups and associations with active memberships.
- Proposal must not fit into one of the Trust Fund's established programs.

We reviewed the ten available SPI grants and noted that:

- The Trust Fund maintained documentation files for eight grants; no documentation for the other two grants.
- None of these grants had documented formal grant applications.
- Seven of the ten grants did not have Grant Agreements.
- Eight of the ten grants were approved in the form of Administrative Actions (AAs). (These AAs' amounts ranged from \$1,000 to \$12,000).
- Recipients' proof of spending was not required for grant disbursements.
- No documentation of any matching requirement.

We did not find any documentation justifying why the eight proposals could not fit into any of the other Trust Fund's established programs. During our review of CBN and CHG grants, we noted requests/proposals with purposes similar to these SPI grants.

OPPORTUNITIES FOR IMPROVEMENT

The Trust Fund office did not have documentation for SPI grants for the Cotton Bowl's "Save The Game" program (\$50,000) and Litter Abatement program (\$100,000).

Two Non-documented SPI Grants				
Program Name	Authorization	Award \$	Grant Payee (In Resource System)	Status
Save the Game/Cotton Bowl	CR 03-3154 (11/12/2003)	\$50,000	Misc. Vendor – Development Services.	The \$50,000 was transferred out of the Trust Fund to Public Private Partnership Fund on 9/26/03.
Litter Abatement		\$100,000	NONE – Vendor code used to clear encumbrances	The \$100,000 was encumbered in the Trust Fund and charged to "City Force" account on 9/26/03.

The \$50,000 was transferred out of the Trust Fund prior to the City Council's authorization. DDS did not provide authorization for the \$100,000 Litter Abatement program.

The conditions existed because:

- The Trust Fund Board failed to develop basic administrative policies for the SPI grant when the Board created it.
- The Trust Fund staff did not follow its own internal guidelines. The Trust Fund staff developed a Special Initiatives Guideline which listed seven items that must be provided by an applicant. The SPI Guideline item #4 reads "The proposal must explain in detail why the request does not fit into one of the existing Trust Fund grant or loan programs".

Since there was no documented administrative policy to guide the grant process:

- The SPI grants were approved without consistent criteria.
- The current objective (stated above) is very vague and may be open to any proposal but the ones that conform to the Council approved Trust Fund design.
- Applicants may use SPI grants as an easier alternative for other Trust Fund established grant programs since there are neither amount and time limitations nor matching requirements. For instance, after receiving a total of \$70,000 CBN grants over three consecutive years, one applicant received a \$10,000 SPI grant in the fourth year. The funding was for a program that was similar to the program previously funded by the CBN grants.

OPPORTUNITIES FOR IMPROVEMENT

- Monitoring of fund usage is weakened since the grants were disbursed without recipients' proof of expenditures.

We recommend the Director of DDS work with the Trust Fund Board to:

- Develop adequate administrative policies for SPI grants.
- Consider adopting the expense reimbursement method for grant disbursements.
- Develop, document, and implement policy and procedures to ensure a more thorough application and approval process for reviewing SPI grants. This process should minimize SPI being used as an alternative funding source for other existing grant programs.

Management's Response:

Management concurs with AUD that the Special Initiatives (SPI) Grant was implemented without an administrative policy and that the grant is not specifically identified in City Council Resolution No. 99-3439. Management will therefore submit SPI for consideration by City Council and has suspended the program during the interim. Notwithstanding, the SD/FPTF recommendation of SPI is purely advisory and expenditures occurred within the administrative powers assigned to City management or by specific City Council action. For example, the Cotton Bowl "Save the Game" grant was approved by City Council on November 12, 2003 as a special purpose grant pursuant to City Council Resolution No. 03-3154. Additionally, AUD notes that the Cotton Bowl "Save the Game" grant was transferred to Public/Public. Funding for the grant was returned to the SD/FPTF prior to execution of the grant agreements and associated payments.

4. The loan and grant application review process needs to be improved.

A. Defaulted loans had high principal default rates.

The Trust Fund had approved 17 commercial loans in the total amount of \$566,645 during our audit period. As of 4/24/2004, four of these loans did not show any payments for more than five months, and for one other loan only two payments (\$275.00 and \$762.66 versus the required monthly payment of \$898.43) were made within five months.

The five (29% of 17) referenced loans had a total defaulted principal amount of \$150,463.43. After adding interest and late fees, the total default amount was \$156,258.08.

OPPORTUNITIES FOR IMPROVEMENT

Default Loan Summary					
	Loan Amount	Cumulative Total Payments	Unpaid Principal	% of Default Principal	Unpaid Total Balance
Recipient I	\$10,000	\$2,335.97	\$8,250.24	82.50%	\$8,660.87
Recipient II	\$50,000	\$15,573.16	\$37,168.37	74.34%	\$39,772.64
Recipient III	\$50,000	\$2,380.69	\$48,451.20	96.90%	\$50,678.25
Recipient IV	\$24,000	\$3,450.00	\$21,577.67	89.91%	\$21,901.32
Recipient V	\$50,000	\$17,209.40	\$35,015.95	70.03%	\$35,245.00
Total/Average	\$184,000	\$40,949.22	\$150,463.43	81.77%	\$156,258.08

Note: This table does not include the defaulted loans that were approved prior to FY 2000

As the table shows, the five loans had an average 81.77% principal default rate. The high principal default rate illustrates that the recipients' financial difficulties had started soon after, or even prior to the release of the loans.

- B. Grant budgets did not reflect the approved grant amounts, and the budget forms were inaccurate.

We reviewed the agreements and applications for the 24 selected CBN grants and noted that:

- 14 (58%) Grant Agreements had significantly lower amounts than the attached Proposed Grant Budgets (Form B).
- 11 (46%) Proposed Grant Budgets were unacceptable:
 - ✓ Grant budget shows program profits (CBN grant plus matching amount greater than program costs).
 - ✓ Grant budget shows program deficits (CBN grant plus matching amount less than program costs).
 - ✓ Less than 100% (required) matching amount.
 - ✓ Excessive administrative costs (included one Form B that showed 91% admin cost of the total program cost).

As mentioned in Opportunity #2, during our review we noted that eight (five CBN, one CHG, and two PSG) out of the 49 reviewed grants had shifted fund usage from their proposed grant budgets or had spent amounts beyond their proposed fund usages. Grants' compliance was not always determinable due to the differences between grant budgets and actual grant awards. Most of the Grant Agreements' purposes were not specific enough to be of benefit in this review.

- C. Some CBN grant awards exceeded program guidelines.

OPPORTUNITIES FOR IMPROVEMENT

The Community-based Nonprofit (CBN) Grant was established to assist business, economic development initiatives, and community service organizations to undertake program activities in the Trust Fund approved program areas. A qualified organization may receive \$35,000 a year for up to three years, with the total award not to exceed \$75,000.

The Trust Fund had awarded 48 CBN grants totaling \$826,444 from FY 2000 to FY 2003. During our review we noted that for the ten year period, FY 1994 through FY 2003, some organizations received multiple CBN grants, which exceeded the grant guidelines. The repetitive recipients are summarized in the table below:

CBN Repetitive Applicants' Award History (amount in thousand \$)											
Nam	FY 94	FY 95	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	Total
Recipient A								\$15.0	\$10.0	\$30.0	\$55.0
Recipient B	\$26.4	\$15.0	\$15.0		\$25.8	\$34.2	\$15.0		\$15.0	\$30.0	\$176.4
Recipient C			\$15.0	\$7.5	\$35				\$20.0		\$77.5
Recipient D			\$15.0	\$35.0	\$25.0		\$20.0	\$20.0	\$20.0		\$135.0
Recipient E		\$20.0	\$15.0	\$35.0		\$35.0	\$25.0	\$10.0	\$10.0*		\$150.0
Recipient F**	\$13.2	\$10.9	\$10.0	\$15.0		\$35.0	\$15.0	\$35.0	\$10.0		\$144.1
Recipient G		\$16.2		\$19.0	\$29.4			\$15.0	\$10.0		\$89.6
Recipient H	\$13.2	\$13.3	\$14.7		\$14.8						\$56.0

Note: Applicants who received CBN grants in decreasing amounts for the three years and have not received a CBN grant after the third year are not included in this table.

* This \$10K was awarded as a Special Initiatives Grant for a program similar to previous CBN grants

** For FY 1994, 1995, and 1996 grants were under the name "F School"; FY 1997 and 1999 grants were under name "F School & Community Center"; FY 2000, 2001, and 2002 grants were under name "F Neighborhood Development Corp". All three organizations had the same address, contact name, and contact phone number.

The table illustrates that:

- Seven recipients had received CBN grants for more than three years and six of them exceeded the maximum of \$75,000 amount.
- Four recipients' grant histories show a pattern of repetitively receiving three-year awards after a break in the fourth year.
- Recipient F received two fourth year CBN grant awards.
- All the grants listed in the above table were not in a decreasing amount as required by the CBN grants.

Several operation and policy deficiencies contributed to the above problems:

- Loan and grant applications were not adequately reviewed.
- Trust Fund "Commercial Loan Procedures" instruct the staff to order a credit report and check tax status when an application is received. However, the Procedures do not provide any guidelines or instruction on how to determine an applicant's eligibility from his/her credit report and tax status.

OPPORTUNITIES FOR IMPROVEMENT

- Trust Fund accepted applications that contained inaccurate budget information.
- Internal control mechanisms were not implemented and followed to ensure program requirements were accomplished.
- Some current CBN requirements and policies are ambiguous.

The Trust Fund “Guidelines and Procedures for Verification of Match” states “(The Trust Fund) Staff confirms that project/program costs were to equal to Trust Fund and matching agency contribution.”

CR 99-3439 B.6 reads “Competitive contract awards for community-based nonprofits may be funded at an amount up to \$35,000 per year per organization for up to three years to undertake program activities in the three approved program areas. These funds shall be used to supplement other program matching sources..., with an objective to provide funding in a decreasing amount over the three year period with the total not to exceed \$75,000.”

The CBN grant is designed to assist businesses, economic development initiatives, and community service organizations to undertake program activities and was not intended to be used repetitively to cover recipients’ daily operating expenses.

Without adequate instruction and review processes, the Trust Fund staff may overlook some obvious high risk indicators related to loans and loan applications. As a result the Trust Fund suffers financial losses from defaulted loans that were preventable.

Comparison of grant budget with actual grant spending is a commonly used monitoring mechanism and an important evaluation measurement for grant compliance. Since the Trust Fund approved budget proposals, which had amounts different from the final awarded/disbursed amounts, it created difficulties for evaluating grant usage compliance.

Some CBN grants might have been awarded to fund recipients’ daily operating expenses repetitively instead of effectively assisting the recipients to undertake the programs. As one consequence, the trust/grant funds may not have been available to fund other qualified program applicants.

We recommend the Director of DDS to:

A.

- Develop and implement policy and procedures to ensure a thorough review on each grant and loan application

OPPORTUNITIES FOR IMPROVEMENT

- Revise the “Commercial Loan Procedures” to include guidelines on how to interpret credit information. Establish guidelines on loan application qualifications to ensure the ability to repay.
- B.
- Require applicants to update their grant budgets if the original proposals are changed after the Trust Fund’s review (amount, program purpose, etc.).
 - Make the Grant Purpose more specific on the Grant Agreements.
- C.
- Encourage CBN grant applicants to develop organization/program progress plans that can demonstrate possibilities of becoming financially independent after the Trust Fund’s assistance.
 - Develop more detailed CBN grant policy to clarify the grant term and grant requirement(s).

Management’s Response:

- A. It is expected that loans from the SD/FPTF will result in higher principal default rates than a typical lending institution because the SD/FPTF generally represents the last available funding source for businesses in its service area. Notwithstanding, in an effort to reduce this occurrence as much as possible, SD/FPTF staff and the Assistant City Attorney assigned to the SD/FPTF have recently met with officials from Southern Dallas Development Corporation (hereafter SDDC), for input on how to improve the loan and grant processes and underwriting procedures.

The result of this and other contact with the SDDC is enhanced policies and procedures for applications, as well as guidelines to ensure that recipients repay the loans to the greatest extent possible. The SD/FPTF Board and staff will also seek and participate in on-going training to adequately review and process loan applications. Additionally, the new SD/FPTF accountant performs an analysis of all applications.

- B. Management concurs with the audit finding. Consistent with the AUD’s recommendation, the SD/FPTF has implemented procedures to ensure that applicants update grant budgets as well as provide appropriate updates to relevant statements of services. Additionally, grant applications and agreements will also be revised to request a greater level of specificity as to the grants purpose.
- C. Management disagrees that SD/FPTF guidelines prohibit recipients from ever reapplying for CBN grants after receiving three years of grant funding for a particular program. Further, although it is an objective, we disagree that grants must be in decreasing amounts over the three year period. Management concurs that a CBN grantee received funding from Special

OPPORTUNITIES FOR IMPROVEMENT

Initiatives after receiving three years of funding from the CBN grant programs. Also, staff agrees that CBN grants were provided to different applicant organizations that were housed at the same location with the same contact information in excess of a three year period.

An organization may receive monies from the three different grant programs in one year (no prohibition to this practice was found in SD/FPTF governing documents). Also, the provision that an organization is limited to \$75,000 over a three-year period pertains only to the CBN grant program. Moreover, the CBN grant can be used to fund administrative costs, which are directly related to program delivery. For example, the SD/FPTF cannot pay the salary of the executive director, but it can pay the program managers' salary because the program manager is directly responsible for carrying the goals and objectives of the program.

The SD/FPTF has met with the Dallas Foundation regarding its grant program applications and review processes. Staff hopes to improve upon the SD/FPTF grant process from information gained from the Foundation. Also, SD/FPTF staff has had extended dialogue with the Center for Non-Profit Management in order to develop a capacity building program to assist grantees develop additional sources of funding. Further, SD/FPTF staff has contacted local banks and financial institutions to pursue a process by which loan applicants can be evaluated and summarized by a professional loan analyst. This effort is still in the planning stages but may provide benefits in the future.

5. The Trust Fund administrative expenditures are excessive.

We retrieved the Trust Fund expenditure transactions from Resource and identified the administrative expenditures. After reclassifying the Trust Fund Public Information Representative's salaries and benefits from City Forces account (charged from the Office of Financial Services) to Salaries & Benefits, we categorized the expenditures and compared them with the revenues. The comparison is summarized in the table below:

Administrative Expenditure Analysis					
Description	FY 2003	FY 2002	FY 2001	FY 2000	Total
Salaries & Benefits	\$199,289	\$212,930	\$120,722	\$140,810	\$673,751
Supplies	25,160	4,303	5,160	9,316	43,939
Other Services	15,810	6,509	14,366	5,178	41,863
Reimbursements	(33)				(33)
Total Admin. Exp.	\$240,226	\$223,742	\$140,248	\$155,304	\$759,520
Grants & Loans	343,003	461,182	383,943	523,062	1,711,190
Total Expenditures	\$583,229	\$684,924	\$524,191	\$578,366	2,470,710
Revenues (excluding Loan Principal Revenue)	479,536	487,846	560,193	426,952	1,954,527
Salaries vs. Revenue	41.56%	43.65%	21.56%	32.98%	34.47%
Admin Exp vs. Revenue	50.10%	45.86%	25.04%	36.38%	38.86%

OPPORTUNITIES FOR IMPROVEMENT

We excluded the Commercial Loan principal from the revenue since the loan payments on principal do not qualify as revenue sources.

The above table illustrates that the administrative expenditures represent 38.86% of the total revenues received during the four years. In addition, the administrative expenditure to revenue ratio has been increasing. For the three year period, FY 2001 through FY2003, administrative expenditure to revenue ratios were 25.04%, 45.86%, and 50.10% respectively.

Among the administrative expenditures, staff cost (salary and benefit) was the main component which averaged 88.7% (\$673,751 / \$759,520) of the total administration expenditures.

Higher administrative costs may be caused by inadequate staff level and structure. The Trust Fund currently has four filled positions: a Manager, a Public Information Representative, a Grant Coordinator/Grant Accountant, and an Office Assistant.

CR 93-1145 C.5, regarding the program administration, clearly stated that “An annual allocation of no more than 15% of the program funds in combination with support from the General Fund shall be appropriated for administrative costs, including administrative staff.”

CR 99-3439 C.5 is almost identical to CR 93-1145 C.5 except the 15% administrative cost limit was eliminated. There is no documented support for the elimination of the 15% cap on administrative expenses.

In an attempt to estimate/acquire a reasonable administrative expenses to revenue ratio, we used United Way as the reference. According to the United Way’s website, its administrative expenses are at an average of 13% of all funds raised at the largest United Ways. The website also indicated that the Better Business Bureau suggested guideline for administrative expenses to revenue ratio is up to 35%.

We recommend the Director of DDS to:

- Determine the staffing level needed to adequately serve the Trust Fund’s needs and assess/reassign current staff to improve efficiency.
- Consider establishing a limitation for Trust Fund administrative expenditures.

Management’s Response:

Management concurs that administrative expenditures have been high. In keeping with AUD’s recommendation, management will establish a cap on administrative expenditures from SD/FPTF revenue sources. Additionally, staff is

OPPORTUNITIES FOR IMPROVEMENT

presently reviewing the administrative and staffing needs of the SD/FPTF to ensure that future administrative expenditures are acceptable and will be submitted to the City Council for consideration. At this time, management anticipates reducing the present four FTE's assigned to the SD/FPTF to 2.5 FTEs.

6. The vendor payment approval process was inadequate.

We identified 15 individual non-payroll administrative expenditure transactions that were over \$1,000 that occurred during the audit period.

Eight transactions were interdepartmental. The other seven expenditure transactions were for payments made to outside vendors. We noted three of the payments were not appropriately authorized.

Non-Payroll Admin Expenditure Approval Exceptions				
Description	Amount	Authorization Level	Employment Status	Goods Receiving Signed by Different Person?
Office Furniture	\$9,906.60	Grant Coordinator	Temporary Employee	No
Office Furniture	\$8,498.29	DDS Purchasing Coordinator	Permanent Employee	\$1,035 signed by the Trust Manager
Custom Framing	\$1,052.10	Grant Coordinator	Temporary Employee	Yes

In addition to the payments not being approved by any management personnel, two of the three payments were approved by a temporary employee. Except for one invoice in the amount of \$1,035, the two payments for office furniture totaling \$18,404.89 had no secondary signature for receiving the goods.

This condition exists because the Trust Fund did not enforce a segregation of duties between receiving goods and payment authorization. Additionally it did not have a written policy for Trust Fund expenditure and payment authorization.

Segregation of duties between goods receiving and payment authorization is one of the basic internal controls.

Allowing a staff employee, especially a temporary employee to approve payments without any management review is not an acceptable business practice.

Without adequate internal controls and management review/approval procedure(s) for payments, the Trust Fund is at risk of financial loss.

We recommend the Director of DDS to:

OPPORTUNITIES FOR IMPROVEMENT

- Implement adequate internal control mechanisms to safeguard Trust Fund assets.
- Require the Trust Fund Manager to be accountable for all Trust Fund cash disbursements.

Management's Response:

Management concurs that three payments to vendors were not properly authorized. Management will fully enforce appropriate payment approval processes including the segregation of receiving goods and payment authorization. Temporary employees will not be allowed to approve payments under any circumstances.