

Memorandum



CITY OF DALLAS

DATE: July 28, 2006

TO: Honorable Mayor and Members of the City Council

SUBJECT: Follow-Up Report of the December 23, 2004, Audit of the South Dallas/Fair Park Trust Fund

We conducted this audit under the authority of Chapter IX of the City Charter. We performed this audit according to applicable government auditing standards. We conducted tests of records and reviewed program guidelines and procedures that we considered necessary in the circumstances.

Our objective was to determine whether the Office of Economic Development (OED) has implemented the audit's recommendations or taken other acceptable actions to remedy the control weaknesses identified in the original audit report. When the previous audit report was issued, the South Dallas/Fair Park Trust Fund (SD/FPTF) was administered by the Department of Development Services (DDS); and therefore, the recommendations were addressed to the Director of DDS. Effective December 8, 2004, OED was created to be a division within the City Manager's Office. Thus, all follow-up inquiries have been directed to and responses have been received from OED.

Since September 2005, an Assistant Director in OED has been assigned responsibilities for the Southern Dallas sector which includes the area primarily benefiting from the SD/FPTF. This Assistant Director, along with the Trust Fund staff, have initiated revised policies and procedures to enhance the controls for administering and monitoring the grants and loans awarded by SD/FPTF. Additionally, a Budget Manager has been assigned to assist in the financial oversight for the Trust Fund.

The original audit report contained six findings with 22 recommendations. The following is a summary of the status of the recommendations: 12—implemented, one—acceptable alternate solution implemented, two—partially implemented, seven—not implemented.

Additional issues were noted during our review concerning the grant administration by SD/FPTF and are discussed on page 7.

1. The Trust Fund financial management oversight is inadequate.

We recommended the Director of DDS:

- A. Consult with the Office of Financial Services (OFS) and determine the annual General Fund transfer authorized by the City Council. **(Not Implemented)**
- B. Enforce the use of the Trust Fund Accounting Procedures which will require the review and verification of all revenue. **(Not Implemented)**
- 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. **(Not Implemented)**
- D. Ensure that the Business Loan Receivable and other balance sheet accounts are reconciled. **(Not Implemented)**

We met with the Assistant Director in charge of the SD/FPTF and stated that in order to prove accountability of all revenues and expenditures, the Trust Fund would need to prepare financial statements for FY 2000 through FY 2005. In addition to having prepared financial statements, an audit of the financial statements would also be needed.

As of July 26, 2006, multiple firms have responded to compile the Trust Fund's financial statements for FY 2000 through FY 2005, although this work has yet to be performed. Two firms have been requested to bid to perform the audit once the financial statements are prepared.

2. Grants have not been adequately monitored or administered.

We recommended the Director of DDS:

- A. 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. **(Partially Implemented)**

We reviewed 19 grants that have been awarded since December 23, 2004. Of the 19 grants, eight grants had full or partial reimbursement. One matching grant was made payable to an entity other than the grantee. This exception was identified by the Trust Fund staff during their review of the grant and referred to the City Attorney for input.

- B. 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. **(Partially Implemented)**

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The following is a listing of the types of exceptions found based on our review of the grantee/grant files that received full or partial reimbursement. All exceptions were not noted for every grantee.

- *No cancelled check or cash payment documents associated with vendor's invoice or statement or billing*
- *No invoices for goods or services applicable to payments made to vendor(s)*
- *Volunteer/Community Hours*
 - *No volunteer signatures for activity*
 - *No supervisor signature/date for volunteer hours worked*
 - *Out of scope of grant event time table*
 - *Duplicate volunteers submitted for separate grantee/grant*
- *Invoices, billings prior to contract execution date*
- *Payments made to vendors prior to contract execution date*
- *Payments made for goods outside of the purpose of the grant*
- *No supporting documentation for debit/credit card use by grantee, (that is, the grantee as the owner of the debit/credit card)*
- *Taxes applied to charges (services/goods) for 501 (c) (3) entities*
- *No supporting client lists when services/gift cards are purchased for client*
- *No invoices or time sheets for youth worker's or case worker's reimbursement*
- *Cash receipts do not designate for which grantee location the goods are being bought. The grantee has six locations, one of which is within the SD/FPTF footprint*
- *Payments for personal cell phone and upgrade of the phone for grant director*

C. Ensure the Trust Fund staff receives adequate training on grant administration.
(Implemented)

We found that the Trust Fund staff participated in an annual retreat held on January 21, 2006, and multiple Trust Fund Board meetings from January through April 2006. At these meetings, staff presented the Trust Fund Board with proposed enhancements and solicited their advice and consent.

D. Consider providing grant administration training for grant recipients.
(Implemented)

We found that the Trust Fund staff held four information sessions for grant applicants during March 16-17, 2006. Information packets were provided which included the following:

- *Outline of 05-06 Grant Program, Policies and Procedures*
- *Community Based Nonprofit Grant Application and Guidelines*
- *Challenge Grant Application and Guidelines*
- *Public Safety Grant Application and Guidelines*

- *Grant Extension Form*
- *Grant Change in the Scope of Service Form*
- *Grant File Content Checklist*
- *Map of the Trust Fund target area*

Also, the Trust Fund staff indicated that they have discussed using a consultant to provide technical assistance to the grant applicants depending on the number of grant requests received and/or the amount of assistance needed by the applicants to perfect the applications. Also, considered is the amount of time that would be necessary for the Trust Fund staff to evaluate and prepare the applications for the Board's review.

- E. Require Trust Fund staff to be familiar with grant guidelines prior to grant approvals. **(Implemented)**

We found that a community forum was held on March 27, 2006, that announced the revised guidelines to the public. At that time, staff solicited public input regarding the Trust Fund.

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

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

- A. Develop adequate administrative policies for Special Incentive Grants **(Not Implemented)**
- B. Consider adopting the expense reimbursement method for grant disbursements **(Not Implemented)**
- C. Develop, document, and implement policy and procedures to ensure a more thorough application and approval process for reviewing Special Incentive Grants. This process should minimize Special Incentive Grants being used as an alternative funding source for other existing grant programs **(Not Implemented)**

According to the Assistant Director of OED for the SD/FPTF, the Special Initiative grants have been discontinued and no Special Initiative Grants have been awarded since the previous audit determined that the program had no guidelines and should not make grants until guidelines were established.

Effective June 28, 2006, City Council approved a resolution creating the Special Grant/Loan Program. The resolution states eligibility, application, recommendation and approval requirements. The resolution also states the different methods of disbursements of funds through reimbursement or direct payment to the vendor. However, Special Initiative Grants are not cited as an authorized grant in this resolution.

OED should develop adequate written policies and procedures to address each of the administration responsibilities for the Trust Fund staff for the Special Grant/Loan Program. Additionally, the Trust Fund should develop written guidelines, outlining all aspects of the Special Grant/Loan Program, and make them available to all potential applicants of the program.

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

We recommended the Director of DDS to:

A.

- Develop and implement policy and procedures to ensure a thorough review on each grant and loan application **(Implemented)**
- Revise the “Commercial Loan Procedures” to include guidelines on how to interpret credit information and establish guidelines on loan application qualifications to ensure the ability to repay **(Implemented)**

We found that the TF has a Procedural and Monitoring Review Guide (Guide) for Grant/Loans that was revised on March 1, 2006. The Guide includes the following:

- *Policy and procedures to ensure a thorough review on each grant and loan application*
- *“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.) **(Implemented)**
- Make the Grant Purpose more specific on the Grant Agreements **(Implemented)**

We found that the Guide includes the following:

- *Policies and procedures for applicants to update their grant budgets if the original proposals are changed after the Trust Fund’s review*
- *Policies and procedures that address “Grant Purpose” being more specific in the grant agreement*

C.

- Encourage Neighborhood Challenge Grant applicants to develop organization/program progress plans that can demonstrate possibilities of becoming financially independent after the Trust Fund's assistance **(Alternative Solution Implemented)**
- Develop more detailed Neighborhood Challenge Grant policy to clarify the grant term and grant requirement(s) **(Implemented)**

We found that:

- *The SD/FPTF Board has taken the position that organizations will work for the betterment of their community and should be supported with the Challenge Grant as long as they are in compliance with the guidelines.*
- *The Procedural and Monitoring Review Guide includes policies and procedures, for the Neighborhood Challenge Grant, which specifies the grant term and requirement(s).*

5. The Trust Fund administrative expenditures are excessive.

We recommended 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 **(Implemented)**
- Consider establishing a limitation for Trust Fund administrative expenditures **(Implemented)**

We found that the:

- *Staffing level of the Trust Fund is presently at two FTEs. However, an organization chart (dated January 25, 2006) and FY 2004-2005 Salary Expense provided by the Office of Economic Development lists three FTE's.*
- *Trust fund has established administrative expenditures limitations which states, "Annual Trust Fund expenditures will be no more than 25% of beginning Program Year Allocation balance plus allocations accrued through June 30th of the program year. Expenses will be appropriated and paid from the General Fund. The General Fund will be reimbursed by the Trust Fund for no more than 15% of beginning Program Year allocations plus accrued deposits through June 30th, not to exceed actual expenses."*

6. The vendor payment approval process is inadequate.

We recommended the Director of DDS to:

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

We found that the:

- *Trust Fund has implemented a Procedural and Monitoring Review Guide effective March 1, 2006. The Guide provides internal controls and procedures that are to be used in the awarding of grants and loans.*
- *Assistant Director has set a maximum amount that the Trust Fund Manager may approve for goods and services. Also, approval for reimbursement to grantee is approved by the Trust Fund Manager and Assistant Director.*

Additional Issues Noted:

In addition to the above summary on the status of the recommendations included in the previous audit, we noted that 19 grants have been awarded since December 23, 2004.

For the eight grants we reviewed, we noted the following issues/concerns:

- Reimbursements paid to three of the grantees were not based on a pro-rata reimbursement basis. For these types of grants, the SD/FPTF grant guidelines states, "Each grant recipient must match the funding provided by the Trust Fund with an equal amount of funds from other sources." However, neither the grant guidelines nor the grant agreement has a provision that states the appropriate method for reimbursements, to the grantee, for expenses incurred in the program.
- The contact person for a grant award was a City employee. The employee used their personal account for some expenses for the grantee's program. This employee has sought reimbursement for those expenses paid out of their personal account. The Trust Fund has corresponded with the City employee stating that this procedure may raise conflict of interest issues.

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- The City employee bought items used for the grant program with a personal check. Subsequently, a request for reimbursement for those items purchased was submitted for approval. The approval of the reimbursement and the check made “pay to the order of CASH” were both approved by the City employee.
- A grantee’s expense statement, submitted for reimbursement purposes, indicated that the grantee had paid the City of Dallas for goods or services.

We recommend the Director of Economic Development:

- Revise the Procedural and Monitoring Review Guide to address adequate and appropriate documentation required for reimbursement requests
- Revise the grant guidelines and the grant agreement to include provisions that indicate reimbursements to the grantee will be made on a pro-rata basis
- Consult with the City Attorney to determine:
 - The status/resolution of the matching grant exception that was referred previously to the City Attorney (Discussed in 2A above)
 - If there is a conflict of interest between the City employee, acting in a representative capacity of the grantee, and the City of Dallas and if there is a conflict of interest, determine what steps should be taken to address the issue
 - The nature of payments made to the City of Dallas by a grantee and whether monies from the City’s funds were appropriately expended for grant purposes, and whether the City’s funds have been appropriately reimbursed

We appreciate management’s cooperation during this follow-up.

Paul T. Garner

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Assistant City Auditor

c: Mary K. Suhm, City Manager
Karl Zavitkovsky, Director, Office of Economic Development