

# Memorandum



CITY OF DALLAS  
(Report No. A15-002)

**DATE:** October 31, 2014  
**TO:** Honorable Mayor and Members of the City Council  
**SUBJECT:** Audit of South Dallas Fair Park Trust Fund <sup>1</sup>

The South Dallas Fair Park Trust Fund (Trust Fund) performance measures do not include *outcome* measures to evaluate whether: (1) the Trust Fund grants and loans facilitate new or sustained economic and community development; and, (2) continuous public support of the same grant recipients is achieving the desired results.

Additionally, the Trust Fund has not consistently managed grants and loans according to Trust Fund Policies and Guidelines (Policies). Specifically:

- Applications were approved without required documentation
- Certain grant procedures were not completely met
- Grant policies and checklists are not updated and consistently followed

## Background

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

The Trust Fund is currently governed by City Council Resolutions 06-1833 and 07-2692 and administered by the Department of Economic Development (ECO). The Trust Fund's stated goal is to facilitate economic and community development in the South Dallas Fair Park community through grants and loans that support:

- Business and economic development initiatives
- Housing and neighborhood improvement projects
- Community service programs

The Trust Fund authorized 47 grants totaling \$820,500 and two loans totaling \$90,000 during the audit period (Fiscal Year 2011-2012 through Fiscal Year 2012-2013).

**Source:** Office of Economic Development

<sup>1</sup> The audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2014 Audit Plan approved by the City Council. The objective was to provide an audit of the South Dallas Fair Park Trust Fund's (Trust Fund) operations as required by City Council Resolution 06-1833. The scope of this audit was from October 1, 2012 to June 15, 2014; however, certain other matters, procedures, and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We interviewed appropriate personnel, reviewed Trust Fund Policies and Guidelines, City Council resolutions, grant and loan documents, and analyzed certain grant and loan transactions.

## Performance Measures Do Not Include Outcome Measures

The Trust Fund performance measures do not include outcome measures. Although the current performance measures, as shown in Table I below are relevant, these measures do not indicate whether:

- Trust Fund grants and loans facilitated new or sustained economic and community development in the South Dallas Fair Park community
- Continuous public support of the same grant recipients, which is the norm for the Trust Fund, is achieving the desired results

**Outcome Measures**

Measure the accomplishments or results that occur (at least partially) because of services provided. For example, dollars of private investment leveraged per dollar of public investment. Accomplishments may also include measures of public perceptions of results.

**Source:** Governmental Accounting Standard Board's (GASB) Concepts Statement No. 5, Service Efforts and Accomplishments Reporting

Without outcome measures, the City of Dallas (City) cannot readily assess the impact of the Trust Fund's grants and loans or determine whether other initiatives would better assist the South Dallas Fair Park community.

The United States Department of Housing and Urban Development's (HUD) goal to improve the local community through housing is similar to the Trust Fund's goal. The HUD's performance measures, however, are very specific and consider outcomes, such as job and income growth or preventing homelessness for the funded projects. The Trust Fund management acknowledged that outcome measures would be beneficial; however, they also noted that developing appropriate outcome measures may be challenging given the variety of Trust Fund grants and loans.

**Table I**

### Trust Fund Performance Measures

Indicator Type	Description
Effectiveness	Percent of applications that are approved
Output	Applications processed
Output	Grants/Loans approved
Efficiency	Loans/Grants per Full-Time Equivalent (FTE)

**Source:** City Adopted Annual Budget FY 2013-14

According to the best practices, including the Governmental Accounting Standard Board's (GASB) Concepts Statement No. 5, *Service Efforts and Accomplishments Reporting*, performance measures should be developed to measure whether the objective is being met and being met consistently.

## **Recommendation I**

We recommend the Director of ECO develop outcome performance measures which address whether the Trust Fund grants and loans facilitate new or sustained economic and community development in the South Dallas Fair Park community and whether continuous public support of the same grant recipients is achieving the desired results.

Please see Attachment II for Management's Response.

## **Trust Fund Policies and Guidelines Were Not Consistently Applied**

The Trust Fund has not consistently managed grants and loans according to Trust Fund Policies. Similar issues have been previously reported in prior audit reports. Current audit tests showed:

### Applications Were Approved Without Required Documentation

Grant and loan applications were approved by the Trust Fund although the applications' contents did not meet the requirements of the Trust Fund Policies. As a result: (1) grant funds were awarded to ineligible grant applicants; and, (2) loans may not be recoverable because pledged collateral was not insured.

Specifically, during the two year grant and loan cycles ending in 2012 and 2013, the Trust Fund:

- Approved two \$5,000 Challenge grants to applicants that did not apply for the grants awarded. These applicants initially applied for the Community Based Non-Profit (CBN) Grant and the Public Safety Grant; however, the Trust Fund determined that they were not eligible.
- Did not obtain required documentation for the \$75,000 Special Grant and for one of the \$35,000 CBN grants
- Did not obtain proof of insurance for the pledged collateral for the two commercial loans, \$40,000 and \$50,000, respectively

### Certain Grant Procedures Were Not Completely Met

The Trust Fund did not completely meet certain approval, reimbursement, and monitoring procedures established in the Trust Fund Policies. Specifically, the Trust Fund did not:

- Verify the current non-profit status for five of the six CBN grantees. The 501(c)(3) letters issued by the Internal Revenue Services (IRS) which show the non-profit status for entities were dated two or more years before the grant application was initiated.

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- Retain evidence of Reimbursement Training Workshops for four of the five reimbursed grantees. A public information session was held, but there is not sufficient evidence to show whether the approved applicants attended the required sessions prior to reimbursement.
- Send on-site visit notification letters for 11 of the 11 approved grantees. Per the Trust Fund, sending on-site notification letters prior to on-site visits may prevent the Trust Fund's ability to assess whether the grantees' are using the funds for their intended purposes.

As a result, there is an increased risk that the Trust Fund could: (1) award funds to grantees that may not currently retain their non-profit or 501(c)(3) status; (2) receive requests for reimbursements that are not reimbursable because grantees may not have received proper training; and, (3) operate inconsistently with its written procedures.

Attachment I provides additional details on the issues and the applied criteria from the Trust Fund Policies.

#### Grant Policies and Checklists Are Not Updated and Consistently Followed

The Trust Fund Policies and checklists are not updated and consistently followed. As a result, the Trust Fund is inconsistent when ensuring that all required documentation is obtained during the grant approval, reimbursement, and monitoring phases. For example, the Grant Application/File Content Checklist includes three sections (application, reimbursement, and procedural) which are not all specified in the Policies; however, the Trust Fund only uses the application section requirements when ensuring that all required documentation is obtained.

Audit tests showed for the Special Grant approved in 2012, the Trust Fund:

- Did not obtain four documents that were required in the Policies<sup>2</sup>
- Obtained eight documents that were not were not required in the Policies, but were included on the Grant Application/File Content Checklist

Policies also include a comprehensive On-Site Monitoring Checklist, which the Trust Fund does not use. Instead, the Trust Fund uses a separate On-Site Monitoring Visit Report; however, not all the steps on this additional checklist are completed.

Policies and procedures, such as checklists, ensure that fundamental organizational processes are performed in a consistent way that meets the organization's needs. Well-

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<sup>2</sup> At the time audit tests were conducted, the documents were not included in the applicant's file to demonstrate that the grant requirements were met prior to approval. After issuing the draft audit report, the Trust Fund provided the 2011 Year-to-Date (YTD) Operating Expenses, 2010 tax return for the applicant, and a 2011 tax return for an organization affiliated with the applicant. The 2011 YTD Operating Expenses and the 2011 tax return from the affiliated organization do not satisfy the applicant's requirement to provide current supporting documentation.

defined and documented processes along with supporting records can demonstrate an effective internal control system.

### **Recommendations II to IV**

We recommend the Director of ECO implement the following for the Trust Fund:

- Ensure that all required documentation is obtained and verified for accuracy and completeness prior to approval of grant and loan applications
- Identify third party solutions, including the IRS, to obtain timely verification on applicant's non-profit status
- Reassess the objective of the on-site notification letters and make the necessary procedural changes

### **Recommendation V**

We recommend the Director of ECO ensure the Policies and grant checklists are updated and consistently followed. For example, update the Grant Application/File Content Checklist to include separate sections to show which documents are: (1) required for all grants; (2) required for each specific grant (Challenge Grant, Public Safety Grant, and Community-Based Non Profit Grant); and, (3) optional and obtained based on certain unique grant applicant situations.

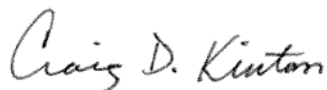
### **Recommendation VI**

We recommend the Director of ECO ensure that the Trust Fund retain sufficient evidence to show reimbursement workshops were held for the approved grantees.

Please see Attachment II for management's response to the recommendations.

We would like to acknowledge management's cooperation during this audit. If you have any questions or need additional information, please contact me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton  
City Auditor

Attachments

Honorable Mayor and Members of the City Council  
October 31, 2014  
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C: A.C. Gonzalez, City Manager  
Ryan S. Evans, First Assistant City Manager  
Karl Zavitkovsky, Director – ECO  
Lee McKinney, Assistant Director – ECO  
Leo Hicks, Trust Fund Manager  
Maurice Franklin, Trust Fund Board Chair

### Additional Details on Identified Issues

Criteria As Stated In the Policies	Issues
<p><b>Did Not Meet Grant Eligibility Criteria for Grants</b> <b>Section I-F, <i>Grant Procedures</i></b> – the management must eliminate from further consideration all grant applications which do not meet the minimum documentation requirements, are untimely submitted, incomplete, or otherwise ineligible.</p>	<p>Approved two \$5,000 Challenge grants to applicants that did not apply for the grants awarded. Per the Trust Fund, the two applicants were not eligible for the Community Based Non-Profit (CBN) Grant and the Public Safety Grant they initially applied for, but were eligible to receive a Challenge Grant. The applicants, however, were not required to submit an application for the grants they received, nor was there evidence to support the Trust Fund's rationale for not following Section I-F, <i>Grant Procedures</i>.</p>
<p><b>Did Not Obtain Documentation for Grants</b> <b>Section I-D, <i>Application Instructions</i></b> – these items are required prior to the approval of Special Grant.</p>	<p>The Trust Fund did not obtain documentation for the one Special Grant application approved in 2012. Specifically:</p> <ul style="list-style-type: none"><li>• The most recent tax returns for the past two years</li><li>• Year-to-Date (YTD) Operating Expense</li><li>• Certificate of good standing from the Texas State Comptroller of Public Accounts</li></ul> <p><b>Note:</b> At the time audit tests were conducted, the documents were not included in the applicant's file to demonstrate that the grant requirements were met prior to approval. After issuing the draft audit report, the Trust Fund provided the 2011 YTD Operating Expenses, 2010 tax return for the applicant, and a 2011 tax return for an organization affiliated with the applicant. The 2011 YTD Operating Expenses and the 2011 tax return from the affiliated organization do not satisfy the applicant's requirement to provide current supporting documentation.</p>

<b>Criteria As Stated In the Policies</b>	<b>Issues</b>
<p><b>Section I-B, Matching Component</b> – grant recipient must match the funding with at least 75 percent in cash</p> <p><b>Section I-K, Application Documentation</b> - grant recipient must include a completed conflict of interest statement</p>	<p>For one of the six CBN grants approved in 2013, the Trust Fund did not obtain: (1) the required matching fund letters for at least 75 percent of the grant amount; and, (2) a completed conflict of interest statement.</p>
<p><b>Did Not Obtain Proof of Insurance for Loans</b></p> <p><b>Section II-D, Collateral</b> – collateral must be properly insured for the loan duration.</p>	<p>The Trust Fund did not obtain proof of insurance for the two commercial loan applications approved in 2012. The Trust Fund did not obtain proof of insurance for the pledged collaterals and did not follow up on the insurance requirements for the duration of the loan. For one of the commercial loans, the Trust Fund did formally request a proof of insurance at the initiation of the loan and again in 2014 from the applicant with no success. For the remaining commercial loan, the Trust Fund only requested a proof of insurance in 2014 from the applicant with no success.</p>
<p><b>Did Not Verify Non-Profit Status of Grantees</b></p> <p><b>Section I-K, Application Documentation</b> – CBN grant applicant must submit a current 501(c)(3) letter.</p>	<p>The Trust Fund obtained 501(c)(3) non-profit status letters that were not current and did not follow-up on whether the grantees’ still maintained the required non-profit status. Five of the six Community Based Non Profit (CBN) Grants approved in 2012 and 2013 provided non-current 501(c)(3) letters that were dated two or more years before the application was initiated.</p> <p>Per the Trust Fund, non-profit status cannot be verified in a timely manner without creating inefficiencies in the process; however, management is researching potential options to readily identify the grantees’ 501(c)(3) current non-profit status.</p>



Criteria As Stated In the Policies	Issues
<p><b>Did Not Retain Evidence of the Reimbursement Training Workshops</b> <b>Item 20 of Grant Guidelines</b> – grant recipients must attend a grant reimbursement workshop prior to receiving reimbursements</p>	<p>The Trust Fund did not retain evidence to show that the Trust Fund conducted reimbursement workshops for four of the five grantees.</p> <p>Per the Trust Fund, grantees were trained on an individual basis and reimbursement requirements were discussed during public information sessions that are held at least once a year. There is evidence to show that a public information session was held, but there is not sufficient evidence to show whether the approved applicants attended the required sessions prior to reimbursement.</p>
<p><b>Did not Send On-Site Visit Notification Letters</b> <b>Section I-I, Onsite Pre Visit</b> – the Trust Fund must notify the agency by telephone at least 14 working days prior to the scheduled date of the review and follow-up with a letter confirming the date and time of the scheduled review.</p>	<p>For 11 of the 11 grantees approved in 2012 and 2013, the Trust Fund did not send formal notification letters indicating that a required on-site visit was scheduled.</p> <p>Per the Trust Fund, sending on-site notification letters prior to on-site visits may prevent the Trust Fund’s ability to assess whether the grantees’ are using the funds for their intended purposes. Therefore, grantees are informed via phone and e-mail based on the Trust Fund’s judgment.</p>

## Management's Response to the Report

**Memorandum**

**RECEIVED**

OCT 21 2014

City Auditor's Office



CITY OF DALLAS

**DATE:** October 14, 2014  
**TO:** Craig D. Kinton, City Auditor  
**SUBJECT:** Response to Audit Report:  
Audit of South Dallas Fair Park Trust Fund

Our responses to the audit report recommendations are as follows:

### **Recommendation I**

We recommend the Director of ECO develop outcome performance measures which address whether the Trust Fund grants and loans facilitate new or sustained economic and community development in the South Dallas Fair Park community and whether continuous public support of the same grant recipients is achieving the desired results.

### **Management Response / Corrective Action Plan**

Agree  Disagree

ECO will work to develop Performance measures related to each individual grant Project outcome in addition to the Program outcomes currently input to the Performance Measurement System. Such measures must be managed manually as the Performance Measurement System is not designed for multiple different outcomes. In addition, the timing of the grant cycle lags the time to input into the Performance Measurement System. The measures will be based on the purpose of each grant and what can reasonably be monitored. Results relative to the objective will be kept in each file.

### **Implementation Date**

January 2015

### **Responsible Manager**

Lee McKinney

### **Recommendation II**

We recommend the Director of ECO ensure that all required documentation is obtained and verified for accuracy and completeness prior to approval of grant and loan applications.

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**Management Response / Corrective Action Plan**

Agree X Disagree

Management will review each application more thoroughly for complete documentation and require a second signature reviewer. When Grantees qualify for a grant other than what was applied for, a new application identifying the grant to be considered for which the grantee meets eligibility criteria will be completed and signed for the file. Insurance coverage required for loan collateral will be verified prior to loan closing and renewed appropriately throughout the life of the loan.

**Implementation Date**

Immediately

**Responsible Manager**

Leo Hicks

**Recommendation III**

We recommend the Director of ECO identify third party solutions, including the IRS, to obtain timely verification on applicant's non-profit status.

**Management Response / Corrective Action Plan**

Agree X Disagree

Management will use the IRS Charities and Non Profits section to verify the good standing of Non Profit organizations and print the verification for the file. A review of the IRS site verifies that all CBN Grantees non-profit status is current.

**Implementation Date**

Immediately

**Responsible Manager**

Leo Hicks

**Recommendation IV**

We recommend the Director of ECO reassess the objective of the on-site notification letters and make the necessary procedural changes.

**Management Response / Corrective Action Plan**

Agree X Disagree

Management will continue on site visitation but will delete the requirement for written prior notification to the Grantee of the visit. Board approval will be requested at the November meeting with modification to Policies and Guidelines to reflect the change.

**Implementation Date**

November 2014

**Responsible Manager**

Leo Hicks/Lee McKinney

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**Implementation Date**

November 2014

**Responsible Manager**

Leo Hicks/Lee McKinney

**Recommendation V**

We recommend the Director of ECO ensure the Policies and grant checklists are updated and consistently followed. For example, update the Grant Application/File Content Checklist to include separate sections to show which documents are: (1) required for all grants; (2) required for each specific grant (Challenge Grant, Public Safety Grant, and Community-Based Non Profit Grant); and, (3) optional and obtained based on certain unique grant applicant situations.

**Management Response / Corrective Action Plan**

Agree  Disagree

Checklists and their functions will be reviewed and modified to reflect requirements relative to each specific grant as well as general requirements for all grants. Request for approval of changes will be brought to the Advisory Board in November. Appropriate changes will be made to Policies and Guidelines.

**Implementation Date**

November 2015

**Responsible Manager**

Leo Hicks/Lee McKinney

**Recommendation VI**

We recommend the Director of ECO ensure that the Trust Fund retain sufficient evidence to show reimbursement workshops were held for the approved grantees.

**Management Response / Corrective Action Plan**

Agree  Disagree

Attendees to Reimbursement Workshops will be documented with acknowledgment by signatures of attendance. Individual Reimbursement Instructions will also be acknowledged by signature.

**Implementation Date**

Immediately

**Responsible Manager**

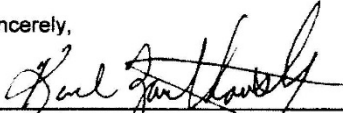
Leo Hicks

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**Audit of South Dallas Fair Park Trust Fund**

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Sincerely,

  
Karl Zavitkovsky  
Department of Economic Development

  
Ryan S. Evans  
First Assistant City Manager

- C: A.C. Gonzalez, City Manager
- Ryan S. Evans, First Assistant City Manager
- Karl Zavitkovsky, Director – ECO
- Lee McKinney, Assistant Director – ECO
- Leo Hicks, Trust Fund Manager
- Maurice Franklin, Trust Fund Board Chair

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