



**CITY OF DALLAS**

**Dallas City Council**

**Mayor**

Tom Leppert

**Mayor Pro Tem**

Dr. Elba Garcia

**Deputy Mayor Pro Tem**

Dwaine Caraway

**Council Members**

Jerry Allen

Tennell Atkins

Carolyn Davis

Angela Hunt

Vonciel Jones Hill

Sheffield Kadane

Linda Koop

Pauline Medrano

Ron Natinsky

Dave Neumann

Mitchell Rasansky

Steve Salazar

**Office of the City Auditor**

**Audit Report**

**AUDIT OF SOUTH DALLAS FAIR PARK TRUST FUND  
FISCAL YEARS 2004 THROUGH 2006**

(Report No. A07-018)

**September 28, 2007**

**City Auditor**

Craig D. Kinton

## Table of Contents

	Page
<b>Executive Summary</b>	1
<b>Audit Results</b>	
I. Trust Fund policies and procedures for monitoring grants and approving loans have improved.	4
II. Trust Fund did not comply with City Council Resolution 99-3439 General Fund contributions and administrative expenditure funding provisions.	5
III. Loan related balance sheet accounts remain incorrect.	7
IV. Grant policies and procedures do not require grantees to use service delivery methods that Trust Fund staff can verify.	8
V. A grant reimbursement was made without a fully executed contract.	9
VI. Grantees are not required to sign conflict of interest statements or provide formal agreements or contracts when using other parties to deliver services.	10
VII. Fifty-seven percent of the Trust Funds' authorized loans are in default.	12
VIII. Encumbrances for expired grants are not closed timely.	13
<b>Appendices</b>	
Appendix I – Background, Objectives, Scope and Methodology	15
Appendix II – Major Contributors to This Report	18
Appendix III – Trust Fund Financial Summaries	19
Appendix IV – Management's Response to the Draft Report	20

## Executive Summary

The South Dallas Fair Park Trust Fund (Trust Fund) authorized 77 grants totaling \$595,135 and five loans totaling \$174,976.52 during the audit period (fiscal years 2004 through 2006). The Trust Fund is administered by the Office of Economic Development (ECO).

Grant and loan controls should improve if the Trust Fund consistently follows its revised grant and loan policies and procedures. The grant policy revisions provide the Trust Fund staff with more specific guidance in administering and monitoring contract compliance and extending grants. The loan policy revisions are designed to reduce the Trust Fund's default rate by requiring staff to more completely assess a loan applicant's financial status before a loan is approved.

The Trust Fund's anticipated improvements from the revised policies and procedures are not fully reflected in the audit results because the policies and procedures have only been in effect during seven months of the audit period.

In addition, the Trust Fund worked with the City Council through Resolution Number 06-1833 to clarify certain issues and to establish policies, procedures, and guidelines to help the Trust Fund become a more effective resource in the South Dallas Fair Park community.

Trust Fund management may not have accurate financial information for budgeting and decision making purposes due to the following issues:

- The Trust Fund did not comply with City Council Resolution 99-3439. As a result, it received \$200,000 in excess General Fund contributions and the General Fund was not reimbursed \$142,638 for fiscal year 2006 budgeted administrative expenditures; and,
- Loan related and other financial transactions were not properly recorded in the accounting system. The Trust Fund also does not close grant encumbrances timely.

### Trust Fund Program Areas

The Trust Fund facilitates economic and community development in the South Dallas Fair Park community through:

- Business and economic development initiatives;
- Housing and community development; and,
- Community service programs

### Trust Fund Revenue and Sources (Fiscal Years 2004 – 2006)

General Fund Transfers - \$693,378

Smirnoff Ticket Sales - \$113,658

Flea Market/Antique Show Rentals - \$58,215

Gifts and Donations - \$150,199

Loan Payments - \$84,276

Other - \$110,226

Total Revenue - \$1,209,952

Grant policies and procedures do not require grantees to use service delivery methods that allow the Trust Fund to verify that the grant funds are used appropriately. Grantees are not required to sign conflict of interest statements or provide formal agreements or contracts when using other parties to deliver services. In addition, a grant reimbursement was made without a fully executed contract and 57 percent of the authorized loans are in default.

## **Summary of Recommendations**

The Director of ECO should continue to implement the revised Trust Fund policies and procedures. To ensure compliance with City Council Resolution 99-3439, the Director of ECO should work with the City Attorney and the Housing Department to clarify the intent of Resolution 99-3439's General Fund contribution and administrative expenditure funding provisions and adjust funding accordingly. In addition, the Director of ECO should:

- Analyze prior accounting entries to correct the Trust Fund's loan related accounts and develop appropriate accounting methodologies to record future loan transactions;
- Revise grant policies and procedures to require grantees to use service delivery methods that allow the Trust Fund to verify that grant funds are used appropriately;
- Require that a fully executed contract be in place prior to approving any reimbursement payments;
- Work with the City Attorney and City management to streamline the contract execution and approval processes;
- Amend the grant application process to ensure that:
  - Grant applicants complete a conflict of interest statement;
  - Grantees are notified that the Trust Fund will not reimburse grantees for services provided by related parties; and,
  - Grantees obtain contracts when using subcontractors to provide service delivery;
- Enforce its revised loan policy and procedures to ensure that thorough credit and financial reviews are conducted prior to authorizing a loan; and,
- Close expired encumbrances and revise policies and procedures to require grantees to file reimbursement requests within a specified time after the grant closes.

## **Summary of Management's Response**

ECO management prepared the responses for each of the recommendations identified in this report. Management agreed with four recommendations and partially agreed with three recommendations. Although management did not completely agree with all seven recommendations, ECO's response indicates that they are taking steps to address the issues noted. The complete response is included as Appendix IV to this report.

## **Summary of Objective, Scope and Methodology**

The objectives of the audit were to determine whether the Trust Fund's grants and loans had been administered in compliance with governing policies, accurate Trust Fund revenues had been made available to the grant and loan programs, Trust Fund expenditures were appropriate, and financial data had been accurately maintained in the accounting system.

The audit covered Trust Fund transactions from fiscal year 2004 through fiscal year 2006. We interviewed Trust Fund and other City staff; reviewed current Trust Fund policies and procedures, City Council Resolutions numbers 99-3439 and 06-1833, various grants and loan documents and transactions, and performed analyses of various account balances.

## Audit Results

### Overall Conclusions

The South Dallas Fair Park Trust Fund (Trust Fund) grant and loan controls should improve if revised policies and procedures, which became effective March 1, 2006, are consistently followed. The revised policies and procedures, however, were only in effect during seven months of the audit period so anticipated improvements are not fully reflected in the audit results.

In addition, the Trust Fund worked with the City Council through Resolution Number 06-1833 to clarify and establish policies, procedures, and guidelines to help the Trust Fund become a more effective resource in the South Dallas Fair Park community.

Trust Fund management may not have accurate financial information for budgeting and decision making purposes because it did not comply with City Council Resolution 99-3439 and it did not properly record loans and close grant encumbrances timely. Grant policies and procedures do not require grantees to use service delivery methods that allow the Trust fund to verify that the grant funds are used appropriately. Grantees are not required to sign conflict of interest statements or provide contracts when using other parties to deliver services. In addition, a grant reimbursement was made without a fully executed contract and 57 percent of the authorized loans are in default.

#### **I. Trust Fund policies and procedures for monitoring grants and approving loans have improved.**

Effective March 1, 2006, the Trust Fund revised its grant and loan policies and procedures. The grant policy revisions provide the Trust Fund staff with more specific guidance in administering and monitoring contract compliance and authorizing grant extensions. The loan policy revisions are designed to reduce the Trust Fund's default rates by requiring staff to more completely assess a loan applicant's financial status before a loan is approved. For example, a Collateral Checklist and a Loan File Checklist were developed and implemented to ensure that the loan application and associated documents are reviewed consistently and more extensively.

In fiscal year 2006, the Trust Fund received five loan applications. The application review notes indicate that the staff followed the Collateral and the Loan File Checklists in the review process. The five applications were eventually denied due to missing documentation and/or the lack of sufficient collateral.

Documentation of grant contract monitoring also showed improvement. Of the 14 fiscal year 2006 grants included in the audit sample, 100 percent had documented site visits. In contrast, only 29 percent of the fiscal year 2004 and 2005 grants included in the sample had similar site visit documentation in the files.

The audit results discussed above, however, indicate that Trust Fund operations should improve if the revised grant and loan policies and procedures are consistently followed. The audit results do not fully confirm the Trust Fund's anticipated improvements resulting from the revised policies and procedures because these policies and procedures were only in effect during seven months of the audit period.

## **II. Trust Fund did not comply with City Council Resolution 99-3439 General Fund contributions and administrative expenditure funding provisions.**

In fiscal years 2004 and 2005 the Trust Fund did not comply with City Council Resolution 99-3439.

- **The Trust Fund received excess General Fund contributions.**

The General Fund contributed \$200,000 to the Trust Fund each year for fiscal years 2004 and 2005, even though the Trust Fund's housing programs received a \$100,000 allocation each year from Federal Community Development (CD) funds. Resolution 99-3439 specified that General Fund contributions be reduced when CD funds are allocated for the Trust Fund's housing programs.

The Housing Department and the Office of Financial Services (OFS) confirmed that the South Dallas Fair Park Minor Home Repair Program received \$100,000 per year during the audit period, fiscal years 2004 through 2006. This program is designated for low income residences in the Trust Fund area and is administered by the City of Dallas Housing Department.

- **The Trust Fund did not reimburse the General Fund for fiscal year 2006 administrative expenditures.**

The Trust Fund did not reimburse the General Fund for fiscal year 2006 budgeted administrative expenditures. Trust Fund administrative expenditures are paid by the General Fund and recorded in unit 1165. For fiscal year 2006, the General Fund budgeted \$142,638 as reimbursement from the Trust Fund for administrative expenditures.

The City's accounting system, however, showed that in fiscal year 2006 General Fund unit 1165 did not receive a reimbursement from the Trust Fund; therefore, for fiscal year 2006 the General Fund covered the Trust Fund's total administrative expenditures.

**Recommendation 1:**

We recommend the Director of ECO:

- Work with the City Attorney and the Director of the Housing Department to clarify the General Fund contribution provisions of Resolution 99-3439 and adjust funding accordingly; and,
- Ensure the Trust Fund reimburses the General Fund for administrative expenditures for fiscal year 2006.

**Management's Response**

Agree. ECO replaced CR 99 3439 with CR 06 1833 dated June 28, 2006 to modify and clarify certain operational procedures which were ambiguous. CR 06 1833 is scheduled on the City Council Agenda for October 10, 2007 to further clarify Community Development housing action on the General Fund contribution provisions. Depending on CAO interpretation, the amended language will read: "if allowable under state and federal law, the City Manager may recommend that Community Development (CD) funds of up to \$100,000 be allocated to the Trust Fund's Basic Home Repair Program, and if such allocation is approved by the Community Development Commission and the City Council, the General Fund appropriation of \$200,000 (contingent upon approval by the City Council) shall be reduced by an amount equal to such allocation.

- ECO will consult with CAO (the Housing Department was not party to CR 99 3439) for their interpretation of "the Board" referenced in CR 99 3439 Section 2 C 4. Prior ECO management believed it to mean Trust Fund Advisory Board and that if they did not make the recommendation that funds be allocated to housing programs in 2004 and 2005, the General Fund contribution should not be reduced for those years. Funds will be adjusted depending upon CAO interpretation of the resolution.
- ECO has reimbursed the General Fund \$142,638 for its share of budgeted administrative expenses for fiscal year 05/06. (See attached.)

Assistant Director, Lee McKinney, is responsible for implementing the recommendation by October 31, 2007.



### **III. Loan related balance sheet accounts remain incorrect.**

The Trust Fund does not properly record loan related accounting transactions. The Trust Fund recorded loans as expenditures rather than establishing a loans receivable account. In addition, the Trust Fund has not managed the associated allowance for doubtful accounts and deferred loan account properly. These issues were identified in a prior audit and remain currently unresolved.

It appears that a former accountant tried to correct the loan related accounting transactions by recording a fiscal year 2001 year-end closing entry. The entry recorded a \$413,625.80 Loans Receivable balance, a \$74,735.21 Allowance for Doubtful Accounts business loan, and a \$338,890.59 liability for Deferred Business Loan. There were no additional accounting entries made to these accounts until fiscal year 2005.

In fiscal year 2005, the Trust Fund accountant began applying current loan principal payments against the recorded Loans Receivable balance. As of September 30, 2006, the balance of Loans Receivable had declined to \$297,489.42. Applying current principal payments to the Loans Receivable balance does not accurately reflect current outstanding loan receivables since the Trust Fund continues to record loan disbursements as expenditures; therefore, the recorded Loans Receivable account balance and related loan accounts will continue to be incorrect.

#### **Recommendation 2:**

We recommend the Director of ECO ensure the Trust Fund analyzes the prior loan related accounting entries to correct the Trust Fund's loan related accounts; and develop appropriate accounting methodologies to record future loan transactions.

#### **Management's Response**

Agree. Prior to March of 2006, financial management of the Trust Fund was charged to the Manager of the Fund. Historically, the person assigned to manage the fund was competent to manage the program but lacked the requisite skills to carry out the financial management of the Fund. In addition, the Trust Fund office does not now nor did it in the past have access to the City's financial systems. New policies, procedures, and guidelines (3/06), as well as CR 06 1833, assigns responsibility for the financial management of the Trust Fund to the ECO Budget/Finance Manager. The Trust Fund does not have an A/R sub ledger integrated in the Financial Reporting System. All

entries are done manually and must be managed manually. To comply with the auditor's recommendations, the ECO:

1. Has established appropriate accounting methodologies (Policies, Procedures and Guidelines (3/06) and CR 06 1834 for recording and managing loan transactions.
2. Will reconcile payments posted and loans outstanding monthly.
3. Will comply with Administrative Directive 4 – 10 for managing delinquent accounts and making adjustments to outstanding A/R for reconciliation.
4. Will review current listing of A/R's, make transfers to CAO for collection efforts, make necessary adjustments, reconcile Loan Receivables, establish a listing of active collectible A/R's and correct the Trust Funds loan related accounts.

Financial Manager, Sheri Price, is responsible for implementing the recommendation by October 31, 2007.

#### **IV. Grant policies and procedures do not require grantees to use service delivery methods that Trust Fund staff can verify.**

Early in the audit, Trust Fund management brought the following issue to the auditors' attention and asked for guidance in establishing appropriate controls over gift cards.

The Trust Fund reimbursed a grantee \$2,440.75 for Wal-Mart and Target gift cards without obtaining the information necessary to verify that the gift cards were used for eligible grant activities. The gift card amounts ranged from \$10 to \$20. Trust Fund personnel attempted to verify that the gift cards were used appropriately; however, the grantee stated that the cards were distributed to medical patients whose names were protected under the privacy provisions of the Health Insurance Portability and Accountability Act (HIPAA).

There does not appear to be a practical way to establish appropriate controls over gift cards to allow Trust Fund staff to monitor compliance with the grant.

#### **Recommendation 3:**

We recommend the Director of ECO ensure the Trust Fund's grant policies and procedures are revised to require grantees to use service delivery methods that allow the Trust Fund to verify that grant funds were used appropriately.

## Management's Response

Partially agree. Service delivery by the grantee takes many forms. After school activities, mentoring and counseling, field trips and numerous other methodologies and processes. The Contract between the City and the grantee spells out the scope of services for which the grant is awarded. Policies, procedures and guidelines (3/06) requires receipts to evidence that reimbursements being requested were for expenses incurred in providing the contracted services. Except that Trust Fund staff be on site at the time and place of service delivery by every grantee, service delivery validation would not be possible. As an alternative to on site validation of service delivery, ECO will:

1. Develop a Certification that the Grantee will sign that spells out that the service expense being reimbursed is within the contracted scope of service.
2. To the extent possible, limit scope of services funded to those things that can be verified by receipt such as supplies, transportation, contracted services.
3. Modify polices, procedures and guidelines to include such certification requirement.

South Dallas Fair Park Trust Fund Manager, Leo Hicks, is the manager responsible for implementing the recommendation by October 31, 2007.

## V. A grant reimbursement was made without a fully executed contract.

The Trust Fund Board authorized a grant on June 13, 2006. On February 12, 2007, the Trust Fund reimbursed the grantee \$10,000 without a fully executed contract. In May 2007, the Trust Fund was still unable to provide the fully executed contract.

According to Trust Fund personnel, the contract was awaiting the City Attorney's approval and signature. Trust Fund personnel stated that the contract approval process takes an excessively long period of time; therefore, to assist grantees, the Trust Fund may approve reimbursement payments when the Trust Fund believes contract approval is reasonably predictable.

Contracts between the Trust Fund and its grantees specify the purpose of the grant, the grant amount, the grant period, and the terms under which the grantee can seek reimbursement. Without a fully executed contract, the

Trust Fund cannot hold the grantee accountable to deliver agreed upon services.

**Recommendation 4:**

We recommend the Director of ECO ensure the Trust Fund's policies and procedures are revised to require that a fully executed contract is in place prior to approving any reimbursement requests. The Trust Fund should also work with the City Attorney and City management to streamline the contract execution and approval processes.

**Management's Response**

Agree. Policies and procedures currently in place (3/06) require that all contracts are fully conformed prior to approving/paying any reimbursement request. The one (1) exception of the 31 grants reviewed was an oversight on the part of the Trust Fund manager. The contract in question currently has the requisite signatures from CAO and CMO (see attached). The Trust Fund will make every effort to expedite getting sign off from the CAO and CMO offices. Until such signoffs are in place, grant reimbursement request will not be approved.

Assistant Director, Lee McKinney, has ongoing responsibilities for implementing the recommendation.

**VI. Grantees are not required to sign conflict of interest statements or provide formal agreements or contracts when using other parties to deliver services.**

A grantee executive approved payments of \$1,431 for program coordinator fees and personnel services to a consulting company owned by the same executive. These fees were reimbursed by the Trust Fund along with other grantee expenditures on March 21, 2007.

Additionally, the Trust Fund reimbursed two grantees for payments made to other organizations or individuals for services. The Trust Fund did not obtain formal agreements or contracts between the grantees and the parties that delivered the services. Without a contract, the Trust Fund cannot verify that the services were delivered under the same terms and conditions as those agreed to in its contract with the grantee.

Conflict of interest statements help the Trust Fund ensure that there is not self-dealing in the conduct of the grantee's business. It also communicates to the grantee Trust Fund expectations that the grant will not be used as a method to employ related parties.

### **Recommendation 5:**

We recommend the Director of ECO ensure the Trust Fund's grant application process is amended to:

- Include a requirement that grant applicants must complete conflict of interest statements;
- Notify grantees that the Trust Fund will not reimburse grantees for services provided by related parties; and,
- Require grantees to obtain formal agreements or contracts when grantees use subcontractors to provide service delivery. The Trust Fund should include copies of these contracts in its files.

### **Management's Response**

Partially agree. Trust Fund policies, procedures and guidelines have not required that a Conflict of Interest Statement be signed by grantees or that grantees enter into or provide contracts for service delivery by parties other than the grantee. It is not uncommon in the very small non profits receiving grants, (usually started in response to a need in the community) that officers and members of grantees Board of Directors contract to provide services to the grantee. The Trust Funds policy is that where such contracts exist, it must be noted in Board Minutes and signed by an officer or board member other than the recipient of the reimbursement.

- The Trust Fund manager will work with CAO to develop a Conflict of Interest Statement to be made a part of the contract between the City and the grantee.
- Policies, procedures and guidelines will be amended to require grantees sign a statement acknowledging their understanding that reimbursements will not be made for services provided by contractors where the recipient of the reimbursement approved the contract for services.
- Policies, procedures and guidelines will be amended to require formal agreements or contracts kept in the file when grantee uses subcontractors to provide service delivery.

South Dallas Fair Park Trust Fund Manager, Leo Hicks, is responsible for implementing the recommendation by October 31, 2007.

**VII. Fifty-seven percent of the Trust Fund’s authorized loans are in default.**

The Trust Fund authorized five loans totaling \$174,977 during the three-year audit period. All five loans were approved prior to the Trust Fund policy revisions that were effective March 31, 2006. As of March 31, 2007, three out of the five loans were past due for more than six months with a total defaulted principal of \$99,206.77, which is 57 percent of the total approved loan principal.

Summary of Loans							
Loan	Loan Amount	Required Monthly Payment	Defaulted Principal Balance	Date Loan Check Issued	Date of First Collection Letter	Date of the Last Payment	Date Referred to the City Attorney
I	\$ 50,000	\$ 898.43	\$46,946.38	12/11/2003	12/28/2004	8/17/2005	10/05/2005
II	\$ 11,400	\$ 204.84	\$ 7,274.31	6/15/2004	N/A*	8/28/2006	10/20/2005
III	\$ 50,000	\$ 898.43	\$44,986.08	2/01/2005	1/19/2006	6/19/2006	12/13/2005
IV	\$ 50,000	\$ 898.43	N/A	3/21/2005	N/A	3/05/2007	N/A
V	\$ 13,577	\$ 243.95	N/A	1/30/2006	N/A	3/05/2007	N/A
<b>Total</b>	<b>\$174,977</b>		<b>\$99,206.77</b>				
* The case was referred to the City Attorney for possible breach of contract.							
<b>Source:</b> ECO South Dallas Fair Park Trust Fund Schedule of Business Loan Payments Received							

When the loans were approved, two of the loans, Loans I and III, currently in default, did not have the documentation needed to properly evaluate the loan applicant’s financial status. For example, the loan applications did not include credit reports, financial statements, tax returns, or bank statements. The payment histories for these two loans show that the borrowers began to immediately experience difficulty in making the required monthly payments.

The borrower for Loan I made only four payments totaling \$3,590 from January to July 2004. A fifth payment was made on August 17, 2005 for \$200. The borrower of Loan III made no payment during the first four months. The borrower paid four \$100 payments and two \$200 payments between August 10, 2005 and October 25, 2005. Four additional payments totaling \$6,000 were made between November 23, 2005 and June 19, 2006.

A loan program’s success depends upon its ability to establish minimum requirements for information and analysis upon which to base credit decisions. Effective March 1, 2006, the Trust Fund revised its loan approval policies and procedures to reduce the Trust Fund’s default rate by requiring staff to more completely assess a loan applicant’s financial status before a loan is approved. These revisions, if consistently followed, should improve the Trust Fund’s default rate.

**Recommendation 6:**

We recommend the Director of ECO ensure the Trust Fund enforces its revised loan policies and procedures that require thorough credit and financial reviews are conducted prior to authorizing a loan.

**Management's Response**

Agree. Trust Fund loan application process has been reviewed and criteria for approval modified to result in more sound underwriting and better quality loans. Documentation requirements and more substantial collateral have been instituted to increase the likelihood that loans will be repaid.

The Trust Fund Advisory Board must have at least two (2) members with loan underwriting experience who serve on the Loan Committee (CR 06 1833). Strict adherence to policies, procedures and guidelines established 3/06 have resulted in five (5) loan declinations and one (1) approval and will in the future result in more quality loans with fewer delinquencies and defaults.

Assistant Director, Lee McKinney, has ongoing responsibilities for implementing the recommendation.

**VIII. Encumbrances for expired grants are not closed timely.**

The Trust Fund's accounting records show open encumbrances for several expired grants that were authorized prior to fiscal year 2004.

Trust Fund management stated that the Trust Fund grant agreements require a grantee to use the grant funds within 12 months after the grant is authorized. The Trust Fund, however, does not require grantees to file reimbursement requests within a specified time after the grants close. In anticipation of additional grant reimbursement requests, the Trust Fund continues to encumber expired grant funds.

Open encumbrances reduce unreserved fund balance and, if not closed timely, result in incorrect fund balance. Consequently, management may not have accurate financial information for budgeting and decision making purposes.

**Recommendation 7:**

We recommend the Director of ECO ensure the Trust Fund notifies the grantees associated with the expired grant encumbrances that reimbursement requests should be made within a specified time period. After

that time period passes, the Trust Fund should close the expired encumbrances. For existing and future grants, the Trust Fund should revise its policies and procedures to require grantees to file reimbursement requests within a specified time after the grant closes.

### **Management's Response**

Partially agree. Grantees are informed at Grant Information meetings and at contract signing that request for reimbursement of the full grant amount should be submitted not later than the anniversary date that the contract is signed. In addition, the grant contract specifies that grants should be utilized within one (1) year from the contract date. Updated policies, procedures and guidelines (3/06) gives the Trust Fund manager the authority to extend the grant reimbursement period for cause with documentation to support the decision.

The ECO Budget/Finance manager will release all grant encumbrances greater than one (1) year old unless informed by the Trust Fund manager and supported by documentation that the encumbrance should be extended.

All expired encumbrances not extended are in the process of being released.

ECO Financial Manager, Sheri Price, is the manager responsible for implementing the recommendation by October 31, 2007.



## Background, Objectives, Scope and Methodology

### 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 City Council Resolution 93-1145 in March 1993 as the guideline for the Trust Fund. The City Council subsequently approved City Council Resolution 99-3439 (to replace City Council Resolution 93-1145) and City Council Resolution 06-1833 (to replace 99-3439) with some minor changes.

According to the Council Resolution 99-3439, the Trust may fund three program areas:

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

The Trust Fund revenue sources include:

- Annual \$200,000 contribution from the General Fund reduced by \$100,000 Community Development funding allocated to South Dallas Fair Park Minor Home Repair Program;
- Revenue from the Visitor's Formula – The Visitor's Formula is based on the estimated hotel, sales tax, and expenditures collected from Dallas visitors that have Fair Park as their primary destination;
- Smirnoff ticket sales. (\$0.15/ticket sold);
- Flea market and antique show rentals. (50% of the rental revenue); and,
- Interest earnings.

During the three year audit period, the Trust Fund had authorized a total of 77 grants and five loans. The authorized grants and loans are summarized in Table 1 of Appendix III.

### **Objectives, Scope and Methodology**

This audit was conducted under authority of City Charter, Chapter IX, Section 3.

The objectives of the audit were to determine whether:

- The Trust Fund's grants and loans had been administered in compliance with governing policies and procedures;
- Trust Fund expenditures were appropriate;
- Financial data had been accurately maintained in the accounting system; and,
- Adequate Trust Fund revenues had been made available to the grant and loan programs.

The audit was conducted in accordance with generally accepted government auditing standards and covered authorized grants, loans, and related transactions from fiscal year 2004 through fiscal year 2006. We also reviewed certain matters, procedures, and transactions occurring outside that period to understand and verify information related to the audit period.

To develop an understanding of relevant internal controls, policies and procedures, we:

- Reviewed the current Trust Fund office policies and guidelines;
- Reviewed the governing policies and procedures for the audit period – City Council Resolution 99-3439 and City Council Resolution 06-1833;
- Interviewed the Trust Fund staff and management and other city department personnel;
- Sampled 31 grants and five loans authorized by the Board during the audit period;
- Reviewed applications, contracting, monitoring and reimbursement documents that related to the 31 sampled grants;
- Reviewed payment records in the accounting system;

**An Audit Report on –  
South Dallas Fair Park Trust Fund Fiscal Years 2004 Through 2006**

---

- Selected and reviewed non-grant/loan expenditure transactions to determine eligibility and reasonableness;
- Reviewed Trust Fund revenue accounts;
- Analyzed financial transactions between General Fund and the Trust Fund.;
- Analyzed loan related balance sheet accounts; and,
- Reviewed Trust Fund documents for the five unapproved loan applications during fiscal year 2006.

**Major Contributors to This Report**

Carol Smith, CPA, CIA, CFE, Audit Manager  
Jing Xiao, CPA, Project Manager  
Thandee Kywe, Auditor  
Adam Wong, CPA, Auditor  
Theresa Hampden, CPA, Quality Control Manager

Appendix III

Trust Fund Financial Summaries

**Table 1 - Summary of Authorized Grants and Business Loans  
 Fiscal Years 2004 – 2006**

<b>Authorized Grants and Business Loans Summary</b>				
	<b>FY2006</b>	<b>FY2005</b>	<b>FY2004</b>	<b>Total</b>
Community Non-Profit Grant	6	8	17	<b>31</b>
Challenge Grant	5	3	6	<b>14</b>
Public Safety Grant	3	8	21	<b>32</b>
<b>Total Authorized Grants</b>	<b>14</b>	<b>19</b>	<b>44</b>	<b>77</b>
<b>Authorized Business Loans</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>5</b>

Source: Summarized from South Dallas Fair Park Trust Fund Board Meeting Minutes

**Table 2 - Summary of Trust Fund Revenue and Expenditures  
 Fiscal Years 2004 – 2006**

<b>Fund 0351 Revenue and Expenditures Summary</b>				
	<b>FY2006</b>	<b>FY2005</b>	<b>FY2004</b>	<b>Total</b>
General Fund Transfer*	\$ 54,505	\$305,679	\$333,194	<b>\$ 693,378</b>
Smirnoff Ticket Proceeds	\$ 42,197	\$ 28,120	\$ 43,341	<b>\$ 113,658</b>
Flea Market Proceeds	\$ 21,848	\$ 19,328	\$ 17,039	<b>\$ 58,215</b>
Gift and Donation	\$ 50,000	\$100,000	\$ 199	<b>\$ 150,199</b>
Payment Received on Loan Principal	\$ 0	\$ 846	\$ 83,430	<b>\$ 84,276</b>
Others	\$ 55,688	\$ 29,824	\$ 24,714	<b>\$ 110,226</b>
<b>Total Revenue</b>	<b>\$224,238</b>	<b>\$483,797</b>	<b>\$501,917</b>	<b>\$1,209,952</b>
<b>Total Loan and Grant Expenditures**</b>	<b>\$169,521</b>	<b>\$228,750</b>	<b>\$274,805</b>	<b>\$673,076</b>
Supplies & Other Services Expenditures	\$ 2,422	\$ 27,090	(\$9,064)	<b>\$ 20,448</b>
Administrative Expenditures charged by General Fund unit 1165	\$ 0	\$ 0	\$285,276	<b>\$285,276</b>
<b>Total Administrative Expenditures</b>	<b>\$ 2,422</b>	<b>\$ 27,090</b>	<b>\$276,212</b>	<b>\$305,724</b>
<b>Total Expenditures</b>	<b>\$171,943</b>	<b>\$255,840</b>	<b>\$551,017</b>	<b>\$978,800</b>

\* Includes General Fund Contribution and Visitor's Formula.

\*\* Amounts include adjustments by management.

Source: Resource and Advantage 3 Reports

**Table 3 - Summary of Trust Fund Cash and Fund Balance  
 Fiscal Years 2004 – 2006 (WP D3, 2/3)**

	<b>FY 2006</b>	<b>FY 2005</b>	<b>FY 2004</b>
Cash	\$1,349,890	\$1,248,908	\$ 972,129
Unreserved, Undesignated Fund Balance	\$ 911,917	\$ 960,608	\$1,009,708

Source: Resource and Advantage 3 Reports

Management's Response to the Draft Report

Memorandum

RECEIVED  
SEP 21 2007  
CITY AUDITOR'S OFFICE



DATE September 20, 2007

TO Craig Kinton, CPA

Subject Management Response – Audit of South Dallas/Fair Park Trust Fund

The Office of Economic Development was requested to provide a response to the audit report of the South Dallas/Fair Park Trust Fund's program and financial management. Responses to the audit recommendations follow.

**Recommendation 1.**

We recommend the Director of ECO:

- Work with the City Attorney and the Director of the Housing Department to clarify the General Fund Contribution provisions of Resolution 99 3439 and adjust funding accordingly; and
- Ensure the Trust Fund reimburses the General Fund for administrative expenditures for fiscal year 2006

Agree

Disagree

Partially Agree

**Management Response**

ECO replaced CR 99 3439 with CR 06 1833 dated June 28, 2006 to modify and clarify certain operational procedures which were ambiguous. CR 06 1833 is scheduled on the City Council Agenda for October 10, 2007 to further clarify Community Development housing action on the General Fund contribution provisions. Depending on CAO interpretation, the amended language will read: "if allowable under state and federal law, the City Manager may recommend that Community Development (CD) funds of up to \$100,000 be allocated to the Trust Fund's Basic Home Repair Program, and if such allocation is approved by the Community Development Commission and the City Council, the General Fund appropriation of \$200,000 (contingent upon approval by the City Council) shall be reduced by an amount equal to such allocation.

- ECO will consult with CAO (the Housing Department was not party to CR 99 3439) for their interpretation of "the Board" referenced in CR 99 3439 Section 2 C 4. Prior ECO management believed it to mean Trust Fund Advisory Board and that if they did not make the recommendation that funds be allocated to housing programs in 2004 and 2005, the General Fund contribution should not be reduced for those years. Funds will be adjusted depending upon CAO interpretation of the resolution.

**An Audit Report on –  
South Dallas Fair Park Trust Fund Fiscal Years 2004 Through 2006**

---

- ECO has reimbursed the General Fund \$142,638 for its share of budgeted administrative expenses for fiscal year 05/06 (see attached)

Implementation Date

October 31, 2007

Responsible Manager

Lee McKinney

**Recommendation 2.**

We recommend the Director of ECO ensure the Trust Fund analyzes the prior loan related accounting entries to correct the Trust Funds loan related accounts; and develop appropriate accounting methodologies to record future loan transactions.

Agree X

Disagree

Partially Agree

**Management Response**

Prior to March of 2006, financial management of the Trust Fund was charged to the Manager of the Fund. Historically, the person assigned to manage the fund was competent to manage the program but lacked the requisite skills to carry out the financial management of the Fund. In addition, the Trust Fund office does not now nor did it in the past have access to the City's financial systems. New policies, procedures and guidelines (3/06) as well as CR 06 1833 assigns responsibility for the financial management of the Trust Fund to the OED Budget/Finance Manager. The Trust Fund does not have an A/R sub ledger integrated in the Financial Reporting System. All entries are done manually and must be managed manually. To comply with the auditors recommendations, the OED:

1. Has established appropriate accounting methodologies (Policies, Procedures and Guidelines (3/06) and CR 06 1834 for recording and managing loan transactions.
2. Will reconcile payments posted and loans outstanding monthly.
3. Will comply with Administrative Directive 4 – 10 for managing delinquent accounts and making adjustments to outstanding A/R for reconciliation.
4. Will review current listing of A/R's, make transfers to CAO for collection efforts, make necessary adjustments, reconcile Loan Receivables, establish a listing of active collectible A/R's and correct the Trust Funds loan related accounts.

Implementation Date

October 31, 2007

Responsible Manager

Sheri Price

**Recommendation 3.**

We recommend the Director of ECO ensure the Trust Fund’s grant policies and procedures are revised to require grantees to use service delivery methods that allow the Trust Fund to verify that grant funds were used appropriately.

Agree                      Disagree                      Partially Agree X

**Managements Response**

Service delivery by the grantee takes many forms. After school activities, mentoring and counseling, field trips and numerous other methodologies and processes. The Contract between the City and the grantee spells out the scope of services for which the grant is awarded. Policies, procedures and guidelines (3/06) requires receipts to evidence that reimbursements being requested were for expenses incurred in providing the contracted services. Except that Trust Fund staff be on site at the time and place of service delivery by every grantee, service delivery validation would not be possible. As an alternative to on site validation of service delivery, ECO will:

1. Develop a Certification that the Grantee will sign that spells out that the service expense being reimbursed is within the contracted scope of service.
2. To the extent possible, limit scope of services funded to those things that can be verified by receipt such as supplies, transportation, contracted services.
3. Modify polices, procedures and guidelines to include such certification requirement.

Implementation Date

October 31, 2007

Responsible Manager

Leo Hicks

**Recommendation 4.**

We recommend that the Director of ECO ensure the Trust Fund policies and procedures are revised to require that a fully executed contract is in place prior to approving any reimbursement request. The Trust Fund should also work with the City Attorney and City Manager to streamline contract execution and approval processes.

Agree X                      Disagree                      Partially Agree

**Management Response**

Policies and procedures currently in place (3/06) require that all contracts are fully conformed prior to approving/paying any reimbursement request. The one (1) exception of the 31 grants reviewed was an oversight on the part of the Trust Fund manager. The contract in questions currently has the requisite signatures from CAO and CMO (see attached). The Trust Fund will make every effort to expedite getting sign off from the



CAO and CMO offices. Until such signoffs are in place, grant reimbursement request will not be approved.

Implementation Date

Ongoing

Responsible Manager

Lee McKinney

**Recommendation 5.**

We recommend that the Director of ECO ensure the Trust Fund’s grant application process is amended to:

- Include a requirement that grant applicants must complete a Conflict of Interest Statement;
- Notify grantees that the Trust Fund will not reimburse grantees for services provided by related parties; and,
- Require grantees obtain formal agreements or contracts when grantees use subcontractors to provide service delivery. The Trust Fund should include copies of these contracts in its files.

Agree

Disagree

Partially Agree X

**Management Response**

Trust Fund policies, procedures and guidelines have not required that a Conflict of Interest Statement be signed by grantees or that grantees enter into or provide contracts for service delivery by parties other than the grantee. It is not uncommon in the very small non profits receiving grants, (usually started in response to a need in the community) that officers and members of grantees Board of Directors contract to provide services to the grantee. The Trust Funds policy is that where such contracts exist, it must be noted in Board Minutes and signed by an officer or board member other than the recipient of the reimbursement.

- The Trust Fund manager will work with CAO to develop a Conflict of Interest Statement to be made a part of the contract between the City and the grantee.
- Policies, procedures and guidelines will be amended to require grantees sign a statement acknowledging their understanding that reimbursements will not be made for services provided by contractors where the recipient of the reimbursement approved the contract for services.

An Audit Report on –  
South Dallas Fair Park Trust Fund Fiscal Years 2004 Through 2006

---

- Policies, procedures and guidelines will be amended to require formal agreements or contracts kept in the file when grantee uses subcontractors to provide service delivery.

Implementation Date

October 31, 2007

Responsible Manager

Leo Hicks

**Recommendation 6.**

We recommend the Director of ECO ensure the Trust Fund enforces its revised loan policies and procedures that require thorough credit and financial reviews are conducted prior to authorizing a loan.

Agree X

Disagree

Partially Agree

**Management Response**

Trust Fund loan application process has been reviewed and criteria for approval modified to result in more sound underwriting and better quality loans. Documentation requirements and more substantial collateral have been instituted to increase the likelihood that loans will be repaid.

The Trust Fund Advisory Board must have at least two (2) members with loan underwriting experience who serve on the Loan Committee (CR 06 1833). Strict adherence to policies, procedures and guidelines established 3/06 have resulted in five (5) loan declinations and one (1) approval and will in the future result in more quality loans with fewer delinquencies and defaults.

Implementation Date

Ongoing

Responsible Manager

Lee McKinney

**Recommendation 7.**

We recommend the Director of ECO ensure the Trust Fund notifies the grantees associated with expired grant encumbrances that reimbursement request should be made within a specified time period. After that time period passes, the Trust Fund should close the expired encumbrances. For existing and future grants, the Trust Fund should revise its policies and procedures to require grantees to file reimbursement requests within a specified time after the grant closes.

Agree

Disagree

Partially Agree X

**Management Response**

Grantees are informed at Grant Information meetings and at contract signing that request for reimbursement of the full grant amount should be submitted not later than the anniversary date that the contract is signed. In addition, the grant contract specifies that grants should be utilized within one (1) year from the contract date. Updated policies, procedures and guidelines (3/06) gives the Trust Fund manager the authority to extend the grant reimbursement period for cause with documentation to support the decision.

The OED Budget/Finance manager will release all grant encumbrances greater than one (1) year old unless informed by the Trust Fund manager and supported by documentation that the encumbrance should be extended.

All expired encumbrances not extended are in the process of being released.

Implementation Date

October 31, 2007

Responsible Manager

Sheri Price



A.C. Gonzalez  
Assistant City Manager

Cc: Mary K Suhm, City Manager  
David K. Cook, Chief Financial Officer  
Karl Zavitkovsky, Director, Office of Economic Development  
Maria Alicia Garcia, Director, Office of Financial Services

An Audit Report on –  
South Dallas Fair Park Trust Fund Fiscal Years 2004 Through 2006

Journal Voucher

*FY 0506 Transfer from 0351 to GF*

Page 1 of 1

View All (1 of 1) : Document submitted successfully - Pending Approval  
JV - ECO- SDFPTF0506GFTRNSFR- 1- New- Pending

CITY OF DALLAS  
COMPTROLLER'S OFFICE

Header

2007 SEP 19 PM 4:29

▼General Information

Document Name : <input type="text" value="FY06 GF Reimb"/>	Budget Control Level Reduction : <input type="checkbox"/>
Record Date : <input type="text"/>	Fund Balance Control Level Reduction : <input type="checkbox"/>
Budget FY : <input type="text"/>	Cash Balance Control Level Reduction : <input type="checkbox"/>
Fiscal Year : <input type="text" value="2007"/>	Reversal Date : <input type="text"/>
Period : <input type="text"/>	Create Reversal Document on Hold : <input type="checkbox"/>
Document Description : <input type="text" value="Transfer \$142,638 from SDFPTF to GF per approved FY06 budget"/>	
Total Credits : \$285,276.00	
Total Debits : \$285,276.00	

▶Extended Description

▶Document Information

Top

Menu

An Audit Report on –  
South Dallas Fair Park Trust Fund Fiscal Years 2004 Through 2006

10/08/1999 00:32 2146708445

CITY OF DALLAS

PAGE 03

GRANT AGREEMENT  
OFFICE OF ECONOMIC DEVELOPMENT  
SOUTH DALLAS/FAIR PARK TRUST FUND

THIS GRANT AGREEMENT (hereinafter called the "Agreement"), effective on the date specified herein, is entered into pursuant to Sections 380.001 and 380.002 of the Texas Local Government Code, between the City of Dallas, a Texas municipal corporation (hereinafter called "City"), and Teens at Work (hereinafter called "Grantee"). In consideration, of the mutual covenants, conditions, promises and representations made herein, City and Grantee agree as follows:

1. PURPOSE OF GRANT

The purpose of this Grant to provide funding for the Teens at Work Career Development Training Program for personnel, student internships, field trips, transportation, supplies and materials, unless otherwise authorized by the Administrator. The program is described more specifically in Exhibit A, attached to and made part of this Agreement. These and other activities are to promote business opportunity and economic development in the South Dallas/Fair Park section of the City of Dallas. The City Council has an ongoing program to promote economic development in the City of Dallas. By providing assistance to the Grantee, it is intended to stimulate business and commercial activity and expand the opportunities of Dallas-based businesses and industries, reduce unemployment and underemployment, and further development and expansion of commerce, and also to promote public welfare.

2. CERTIFICATION

In accepting this Grant, Grantee certifies that Grantee is an entity eligible to receive funding for this purpose under Texas law, and that it will expend the Grant funds received solely to further the public purposes of promoting economic development stimulating economic activity, and promoting public welfare in the South Dallas/Fair Park area, as more specifically described in Exhibits A and B.

3. ADMINISTRATION

This Agreement shall be administered on behalf of the City by its Director of the Department of Development Services, or the Director's designee (hereinafter called the "Administrator"). Grantee shall administer its obligations under this Agreement through Grantee's duly authorized personnel.

4. USE OF GRANT FUNDS

The amount of this Grant is a payment not to exceed ~~\$34,000~~ <sup>\$34,500 RLS</sup>, which shall be disbursed in accordance with the provisions of this Agreement, including Exhibits A and B attached hereto and made a part hereof. The funds granted under this Agreement shall be utilized by Grantee within twelve (12) months of the execution date of this Agreement, unless otherwise authorized by the Administrator. The specific services and administrative needs of Grantee requiring funding from the City and the general activities of Grantee furthering the public purposes are listed in Exhibits A and B. The Grantee shall carry out these activities in a sound, economical and efficient manner, in accordance with the terms and conditions of this Agreement. The Grantee shall also comply with all applicable State, Federal and local laws, ordinances and regulations in the performance of its obligations under this Agreement.

**An Audit Report on –  
South Dallas Fair Park Trust Fund Fiscal Years 2004 Through 2006**

---

10/08/1999 08:32 2146708445

CITY OF DALLAS

PAGE 04

lowed to authorized representatives of the City, upon request, for purposes of evaluating compliance with this and other provisions of the Agreement.

**4. NOTICES**

All notices, communications, and reports required or permitted under this Agreement shall be personally delivered or mailed to the respective parties by depositing same in the United States mail, postage prepaid, at the addresses shown below, unless and until either party is otherwise notified in writing by the other party, at the following addresses. Mailed notices shall be deemed communicated as of five days after mailing.

intended for City, to:

City of Dallas  
Office of Economic Development  
South Dallas/Fair Park Trust Fund Administrator  
2922 Martin Luther King, Jr. Blvd., Suite 132  
Dallas, Texas 75215  
(214) 670-8268

intended for Grantee, to:

Shireal Martin  
Executive Director  
Teens at Work  
P. O. Box 131555  
Dallas, Texas 75213  
Phone: 214/565-9763      FAX: 214/565-9765

**5. VENUE**

The obligation of this Agreement are performable in Dallas County, Texas, and if legal action is necessary to enforce same, exclusive venue shall lie in Dallas County, Texas.

**6. APPLICABLE LAWS**

This agreement is made subject to the provisions of the charter and ordinances of city, as amended, and all applicable State and federal laws. Grantee shall comply with the City's M/WBE Good Faith Effort Plan.

**17. GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with the laws and court decisions of the State of Texas.

**18. LEGAL CONSTRUCTION**

In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability

An Audit Report on –  
South Dallas Fair Park Trust Fund Fiscal Years 2004 Through 2006

10/08/1999 00:32

2146708445

CITY OF DALLAS

PAGE 05

shall not affect any other provision thereof and this Agreement shall be considered as if such invalid, legal, or unenforceable provision had never been contained in this Agreement.

9. COUNTERPART

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and constitute one and the same instrument.

20. CAPTIONS

The captions to the various clauses of this Agreement are for informational purposes only and shall not alter the substance of the terms and conditions of this Agreement.

21. ENTIRE AGREEMENT

This Agreement embodies the complete agreement of the parties hereto, superseding all oral or written previous and contemporary agreements between the parties and relating to matters in this Agreement, and except as otherwise provided herein cannot be modified without written agreement of the parties to be attached to and made a part of this Agreement.

EXECUTED this the 06 day of July, 2006, by City, signing by and through its City Manager, duly authorized to execute same by Administrative Action, adopted by the South Dallas/Fair Park Trust Fund Board on June 13, 2006, and by Grantee, acting through its duly authorized officials. The date of execution of this Agreement is deemed to be the date of acceptance of this Agreement by Grantee.

APPROVED AS TO FORM:  
Thomas P. Perkins, Jr.  
City Attorney

BY Robert D. Sims  
Robert Sims  
Assistant City Attorney

*Assumed to be taken over by City*

CITY OF DALLAS  
Mary K. Suhm  
City Manager

BY [Signature]  
Assistant City Manager

GRANTEE: Teens at Work

BY Sharon Martin  
(Authorized Official)  
Sharon Martin  
(Type or Print Name)  
Executive Director  
(Type or Print Title)