

Memorandum



CITY OF DALLAS
(Report No. A12-003)

DATE: December 30, 2011

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of American Recovery and Reinvestment Act of 2009:
October 1, 2009 to September 30, 2011

The City of Dallas' (City) implementation and management of American Recovery and Reinvestment Act of 2009 (ARRA) funding has generally been effective. The expenditure of ARRA funds directly received by the City within the allotted performance periods is on track, grant expenditures were generally for authorized purposes, and no fraud-related risks were identified. The City, however, is still resolving issues identified during monitoring visits by the Texas Department of Housing and Community Affairs (TDHCA) regarding the Weatherization Assistance Program (WAP). The descriptions of the ARRA grants directly received by the City are summarized in Attachment I.

One main purpose of ARRA was to preserve and create jobs. The City funded¹ a total of 133 jobs during the period of July 1, 2009 through September 30, 2011 and complied with the applicable reporting requirements.

The City was originally awarded a total of \$136 million in ARRA funds. In Fiscal Year (FY) 2011, the City allocated \$6.1 million of the WAP funds to the County of Dallas. Of the remaining **\$129.9 million** that the City was awarded:

- **\$53.1 million** was directly received by the City. The City is on track to expend all grant funds within the allowed timeframes. As of September 30, 2011, the City expended \$38.4 million, or 72.3 percent, of these funds. Attachment II shows the amount and percent of funds spent as of September 30, 2011 for each program.
- **\$76.8 million** was allocated for transportation projects in Dallas by State and regional agencies. These ARRA grants and projects are administered by the Texas Department of Transportation, the Regional Transportation Commission, and the North Central Texas Council of Governments.

¹ Although labeled "jobs created / retained" on the quarterly Federal ARRA report, the City is required to count every full-time equivalent (FTE) job that is funded using ARRA funds, even if the job existed before funds were received and the job was not in any danger of being eliminated.

Grant expenditures were generally for purposes authorized by the grants and no fraud-related risks were identified; however, the Office of the City Auditor (Office) audit and monitoring activities, Federal and State agency monitoring reports, and the City's FY 2010 Single Audit conducted by Grant Thornton LLP identified various issues:

- 1) Between July 2011 and October 2011, the Office issued three memorandums to City management showing that fraud was not identified during the review of a randomly selected sample of 82 expenditures totaling \$2,487,834 in seven ARRA grants². The expenditures were for payroll, equipment purchases, financial assistance, community development activities, major maintenance, and weatherization material and labor costs. Further, 81 of the 82 expenditures were adequately supported. City management subsequently provided sufficient documentation for the remaining expenditure by obtaining the misfiled electronic fund transfer payment document.
- 2) The Office's Grant Compliance Group (GCG)³ conducted a total of:
 - Sixty-one monitoring visits to Homelessness Prevention and Rapid Re-Housing Program (HPRP) program sub-recipients and City departments. Thirty-three of these visits identified non-compliance issues or areas of concerns ranging from the City reimbursing sub-recipients for non-allowable expenditures to sub-recipients not maintaining adequate documentation in client files. These issues were reported to City management.
 - Sixteen monitoring visits to seven Community Development Block Grant Recovery (CDBG-R) sub-recipients. Eight of these visits identified non-compliance issues or areas of concerns, ranging from the City reimbursing sub-recipients without adequate supporting documents to sub-recipients not having adequate policies and procedures. These issues were reported to City management.
- 3) The Office reviewed the monitoring reports issued by Federal and State agencies regarding the City's ARRA grants. To date, the City paid \$4,477 in reimbursements to the Federal and State governments.
 - The Department of Justice identified that the City incorrectly charged \$3,793 in personnel costs for compensation to reinstate an officer who was not in the approved grant budget. The City repaid the \$3,793 to the grant fund.
 - The TDHCA conducted five monitoring visits and reviews of the WAP between May 2010 and May 2011. These visits:

² The City's accounting records showed 2,687 transactions totaling \$22,726,467 in the seven ARRA grants.

³ Starting October 1, 2011, due to reassignment of monitoring activities, the Grant Compliance Group reports to the City Manager instead of the Office.

- Identified a total of 43 findings and recommended improvements related to the City's administration of the WAP, ranging from subcontractor workmanship deficiencies to inadequate final inspections.
- Identified \$2.5 million in disallowed and questioned costs. The disallowed costs totaled \$58,837 and included issues such as inadequate whole house assessments. The questioned costs totaled \$2,394,114 and included issues such as client file deficiencies. Of the questioned costs, \$2,155,787, or 90 percent, was caused by general ledger accounting records not reconciling to the Monthly Expenditure Report.

City departments are responding to the TDHCA to resolve these findings. As of September 30, 2011, TDHCA has confirmed that 15 of the 43 findings are resolved and the City paid \$684 to the State of Texas.

4) The City's Single Audit – Federal Awards for FY 2010 conducted by Grant Thornton LLP on ARRA grants:

- Identified two findings of "material weakness and material noncompliance". In one ARRA grant, the City was not following the provisions of identifying to sub-recipients the Federal Award number and Catalog of Federal Domestic Assistance (CFDA) number at the time of disbursement for ARRA funds. In another ARRA grant, the City did not have adequate supporting documentation regarding salaries paid to program participants in all cases. This resulted in questioned costs of \$4,755, which represents the payroll charges not supported with timesheets.

This performance audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the FY 2011 Audit Plan approved by the City Council. The audit objectives were to analyze the City's ARRA grants spending benchmarks and program activities and to conduct selected transactional testing to perform an assessment of any fraud-related risks. The audit scope included ARRA procedures and transactions from October 1, 2009 through September 30, 2011; 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.

We conducted this audit in accordance with generally accepted government auditing standards except for the independence requirement that was not followed with respect to the non-audit service described in the second paragraph below. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our assessment based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our assessment based on our audit objectives.

We tested randomly selected transactions to ensure adequate documentation for expenditures, reviewed quarterly Federal reports for program activities and benchmarks, calculated jobs funded, determined results of monitoring visits by the GCG and the

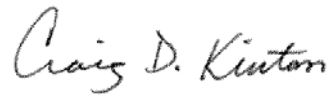
Federal and State agencies, and reviewed results of the City's Single Audit – Federal Awards for FY 2010.

The Office's GCG provided the non-audit service of monitoring ARRA funds for the Homelessness Prevention and Rapid Re-Housing Program and the Community Development Block Grant Recovery grants. The Office is not independent with respect to these monitoring functions.

We appreciate the cooperation and assistance received from City staff and management during this audit.

If you have any questions, please contact me at 214-670-3222 or Gary Lewis, Assistant City Auditor, at 214-670-5347.

Sincerely,

A handwritten signature in cursive script that reads "Craig D. Kinton".

Craig D. Kinton
City Auditor

Attachment

C: Mary K. Suhm, City Manager
Jeanne Chipperfield – Chief Financial Officer
Jack Ireland, Director – Office of Financial Services
Brett Wilkinson, Managing Director – Intergovernmental Services
Rocky Vaz, Executive Officer – Intergovernmental Services

ARRA Grant Descriptions

Edward Byrne Memorial Justice Assistance Grant

The City of Dallas (City), Dallas County, and all other eligible recipient cities within Dallas County use Edward Byrne Memorial Justice Assistance Grant Recovery Act (JAG-R) funding to enhance law enforcement and prosecution efforts throughout the County. The grant is used to hire new police officers, provide training to police officers, purchase equipment and software, enhance citizen information sharing and intelligence analysis, and promote social service programs, including prisoner reentry, community prosecution, and community policing programs.

The City is the fiscal agent for 18 other jurisdictions funded under JAG-R within Dallas County, and the City submits the required aggregated quarterly reports to the Department of Justice.

COPS Hiring Recovery Program

The COPS Hiring Recovery Program provides funding directly to law enforcement agencies to hire and/or rehire career law enforcement officers in an effort to create and preserve jobs and to increase their community policing capacity and crime prevention efforts. The grant-funded law enforcement positions will be retained by the City for at least 12 months after completing the grant performance period.

Internet Crimes Against Children Initiatives Grant

This award will be used to fund two detectives for a 48-month period to assist in the detection, investigation, and apprehension of Internet crimes against children offenses or offenders, including technology-facilitated child exploitation offenses. The addition of the two detectives will increase the investigative capabilities of local law enforcement officers.

Homelessness Prevention and Rapid Re-Housing Program

The overall goal of the Homelessness Prevention and Rapid Re-Housing Program is for participants to achieve housing stability. The program funds provide financial assistance and services to individuals and families who are:

- 1) Currently in housing, but are at risk of becoming homeless and need temporary assistance to maintain housing (prevention – to prevent individuals and families from becoming homeless); and,

- 2) Homeless and need temporary assistance in order to obtain, remain, and maintain housing (rapid re-housing – help those who are experiencing being homeless to be quickly re-housed and stabilized)

The funds provide for a variety of assistance: short-term or medium-term rental assistance, housing relocation and stabilization services, mediation, credit counseling, security or utility deposits, utility payments, moving cost assistance, and case management.

Community Development Block Grant Recovery

Community Development Block Grant Recovery (CDBG-R) is used to assist states, local governments, and a United States territory (Insular Areas) in funding a wide range of community development activities. The program invests in rehabbing affordable housing, improving key public facilities, stabilizing communities, and creating jobs in their communities. The CDBG-R funds provide financing for infrastructure activities, housing activities, economic development activities, public service activities, real property acquisition, and administrative costs. The CDBG-R expected benefits are to stabilize property values and prevent neighborhood blight.

Energy Efficiency and Conservation Block Grant

The purpose of the Energy Efficiency and Conservation Block Grant is to assist eligible entities in creating and implementing strategies to reduce fossil fuel emissions in a manner that is environmentally sustainable and, to the maximum extent practicable, maximize benefits for local and regional communities, reduce total energy use of eligible entities, and improve energy efficiency in the building, transportation, and other appropriate sectors.

Weatherization Assistance Program

Weatherization Assistance Program is designed to help low income customers control their energy costs through installation of weatherization materials and education. The program goal is to reduce the energy cost burden of low income households through energy efficiency.

Clean Cities FY 2009 Petroleum Reduction Technologies Projects for the Transportation Sector

Clean Cities FY 2009 Petroleum Reduction Technologies Projects for the Transportation Sector consists of four funding areas:

- 1) Refueling Infrastructure for Alternative Fuels
- 2) Incremental Cost of Dedicated Alternative Fuel Vehicles

- 3) Education and Outreach Workshops for Petroleum Reduction Fuels and Technologies
- 4) Alternative Fuel and Advanced Technology Vehicles Pilot Program

ARRA Grant Status as of September 30, 2011

As of September 30, 2011, the City and sub-recipients reported expending \$38.4 million, or 72.3 percent, of the \$53.1 million in ARRA grant funds. Each ARRA grant has a different spending plan that is monitored by different grantor agencies.

Source / Program	Performance Period	Total Program Amount	Amount Spent	Percent Spent
Department of Justice Programs				
<i>Edward Byrne Memorial Justice Assistance Grant</i>	FY 2010 - FY 2013	\$ 7,258,077	\$ 6,648,356	91.6
<i>Cops Hiring Recovery Program</i>	July 2009 - June 2012	8,896,300	4,094,742	46.0
<i>Internet Crimes Against Children Initiatives Grant</i>	April 2009 - March 2013	776,503	465,405	59.9
Department of Housing and Urban Development Programs				
<i>Homelessness Prevention and Rapid Re-Housing Grant</i>	FY 2010 - FY 2012	7,187,357	6,419,948	89.3
<i>Community Development Block Grant Recovery</i>	FY 2010 - FY 2012	4,700,469	4,324,483	92.0
Department of Energy Program				
<i>Energy Efficiency and Conservation Block Grant</i>	FY 2010 - FY 2012	12,787,300	7,087,857	55.4 ⁴
Texas Department of Housing and Community Affairs Programs				
<i>Weatherization Assistance Program⁵</i>	September 2009 - October 2011	7,183,180	7,099,524	98.8
<i>Homelessness Prevention and Rapid Re-Housing Grant</i>	September 2009 - August 2011	790,316	790,316	100.0
North Central Texas Council of Governments Programs				
<i>Clean Cities FY 09 Petroleum Reduction Technologies Projects for the Transportation Sector</i>	FY 2011 - FY 2014	2,828,129	745,794	26.4
<i>Edward Byrne Memorial Justice Assistance Grant</i>	October 2009 - October 2010	696,227	696,227	100.0
Total Amount for All Programs		\$ 53,103,858	\$ 38,372,652	72.3

Source: City of Dallas Intergovernmental Services

⁴ The Office's report, *American Recovery and Reinvestment Act of 2009 (ARRA) – January 1, 2010 to March 31, 2010 (Report No. A10-012)* discussed delays by the Department of Energy in approving the Energy Efficiency and Conservation Block Grant program contract.

⁵ Weatherization Assistance Program total program fund originally awarded was \$13.3 million, but in FY 2011, the City allocated \$6.1 million to the County of Dallas which resulted in the current program award amount of \$7.2 million.