Internal Audit Report

Grant Administration Processes

Contents

Auditor's Opinion

Internal Audit has completed the Grant Administration Processes engagment. We conducted this engagement as part of our 2019 Annual Audit Plan.

The audit objectives were:
- Determine that policies and procedures are adequate to support grants procurement and management.
- Evaluate the effectiveness and efficiency of citywide grant administration processes.

To these ends, Internal Audit:
- Interviewed Finance staff and grant managers
- Issued surveys to grant managers and other city staff, and
- Developed and evaluated process maps for grant processes citywide.

It is our opinion, based upon the results of our engagement procedures, that policies and procedures support grants processes for most areas, but could be improved. The citywide grants processes are inefficient in some areas and could be more effective in others. We have detailed our issues and recommendations in the Milestone reports.

Wayne E. Sommer, CPA, CGMA
Internal Audit Manager

Audit Profile

Audit Team
Wayne Sommer, CPA, CGMA – Internal Audit Manager
Michelle Crawford, M.Acct, CIA, CFE, CRMA – Lead Auditor

Background
The City grant process is decentralized. Individual departments are responsible for seeking out and applying for grants. They are also responsible for the management of the grant funds—including all compliance aspects—throughout the grant's life cycle.

Compliance by departments with established grant management protocols is critical to providing accurate data related to grant activities and avoiding unnecessary financial and reputational risks. The City offers eCivis©, a grants management system that allows departments to research grants, apply for them, and track and manage any awarded grants.

Scope
January 1, 2018 through July 31, 2019

Milestone Reports

Milestone Reports	Issued Date
Milestone 1 Engagement Letter	August 7, 2019
Milestone 2 Client Evaluation	November 19, 2019
Milestone 3 Process Controls and Efficiency	February 20, 2020

November 19, 2019

BACKGROUND

In Milestone 2, we gain a deeper understanding of the client's operating environment and client issues that may affect the engagement objectives and influence subsequent engagement procedures. We accomplish this by reviewing policies and procedures, performance measures, statistics, and administering surveys.

PROCEDURES	CONCLUSIONS
• Review policies and procedures	The *Grants Policy and Guidelines* mostly comply with best practices, but we identified some additional best practices that could be addressed within the policy.
• Review performance measures	Finance began tracking citywide grant performance measures in 2019, but not all departments are tracking grants in the eCivis software, resulting in incomplete data. Finance has no internal performance measures related to grants administration and management.
• Issue Grants survey	We surveyed Grant Managers, Project Leads, and representatives from any departments not included in the Grant Manager or Project lead lists. The survey results identified several areas where grant processes can be improved.

Wayne C. Sommer, CPA, CGMA
Internal Audit Manager

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Issue Details
ISS.1 - Grant Manager

Finance has not defined what is a Grant Manager and does not maintain a complete list of Grant Managers.

The *Grants Policy and Guidelines* ("The Policy") establishes guidelines and provides detailed procedures for City employees handling grants. The policy states, "City grant activities are primarily the responsibility of individual Grant Managers. As city Grant Managers are frequently responsible for grant knowledge and processes outside of their recurring city functions, these guidelines are intended to provide guidance and information to Grant Managers as they perform their grant function."

Finance does not have a complete list of employees responsible for managing grants. Finance provided us a grant manager email distribution list of 83 names, which included City staff who do not actively manage grants and five former employees. Finance also provided a list of project leads from eCivis that included 87 names, 33% of which were no longer city employees and thirty were also on the grant managers list. Some City Departments were not represented on either list. The Policy does not define or establish criteria for what designates an employee as a Grant Manager or a Project Lead.

The policy outlines clear responsibilities for Grant Managers. It needs a clear definition of what constitutes a Grant Manager and those designated as Grant Managers need to know that they are so they can become well-versed on the policies. The Grants policy should be clear enough that a staff person would know they are a Grant Manager responsible for adhering to this policy rather than someone supporting a grant. Additionally, without a complete list, how can Finance exercise adequate grant oversight if they do not know who should be managing grants across the City?

The Government Finance Office Association (GFOA) recommends as a best practice, "*A grants policy should include a requirement that the government obtain a detailed understanding of grant terms and conditions and specify the how the grant will be monitored. Examples of what should be required include establishment of procedures related to:*

> *5. Identify the individual/department responsible for carrying out the grant and making sure that proper resources are available to support that grant (emphasis added).*"

Recommendation

Establish criteria and a definition for Grant Manager and Project Lead in the *Grant Policy and Guidelines*. Create a list of all department Grant Managers and Project Leads citywide and regularly (e.g. quarterly) update the list for personnel changes.

Management Response

We agree with the recommendation. We will revise the Grant Policy and Guidelines document to incorporate definitions and criteria for Grant Manager and Project Lead. We will also create a process to maintain updated citywide lists of all department Grant Managers and Project Leads.

Estimated Implementation Date: June 30, 2020
Issue Owner: Nancy Wishmeyer
Issue Final Approver: Terri Velasquez

ISS.2 - Grants Policy and Guidelines

Our review of the *Grants Policy and Guidelines* and survey of Grant Managers and Project Leads identified some areas for improvement.

Survey Results

Twenty percent of individuals surveyed who self-identified as having fiscal responsibility for grants were unaware of the citywide *Grants Policy and Guidelines*. Sixty percent of those with fiscal responsibility for grants also found the policy "somewhat" to "not so" useful. Finance needs to expand its outreach to ensure all city staff involved in grants are aware of the policy. Finance should also seek to identify ways to increase the policy's perceived usefulness.

Best Practice Review

The Government Finance Officers Association recommends best practices for grant policies. The *City Grants Policy and Guidelines* included many of the GFOA best practices; however, we identified below several missing or incomplete best practices.

Strategic Alignment

GFOA Best Practice, *"Accepting a grant that is not consistent with the overall strategic direction of a government creates the risk that the government will spend its own funds to support a grant inconsistent with overall strategic direction or commit the government to own-source spending beyond the grant period. Such a requirement could be for a <u>formal strategic analysis</u>, including the creation of outcome measures, or simply a statement of the way in which the grant would further the organization's mission or strategies <u>followed by a review by a central agency such as finance</u> or budget office, strategic planning office, or legislative staff <u>(emphasis added)</u>."*

The Policy does not address components of a formal strategic analysis, such as outcome measures and a strategy statement, nor does not require a review or sign off by Finance on any analysis provided. A template for a strategic analysis including required components and a review from Finance ensures that accepted grants are in line with the needs and strategy of the City.

Funding Analysis
GFOA Best Practice, *"Along with a review of strategic alignment, a grants policy should require a multi-year cost/benefit analysis prior to application or acceptance (emphasis added)."*

The Policy, Section III Responsibilities subsection 3 states, "The grant cost/benefit analysis indicates that the citywide costs of pursuing and administering the grant do not outweigh the funding benefits of the grant."

The Policy does not identify who is required to perform the cost/benefit analysis, how to produce the cost/benefit analysis, nor does it provide a template that might be used to do so. Clear guidance including a template for performing a cost/benefit analysis ensures consistency across the City.

Evaluation Prior to Renewal or Grant Continuation
GFOA Best Practice, *"A grants policy should include an overall approach to grant renewals. Additionally, a grants policy should require an evaluation of the impacts of the grant-funded program or asset prior to deciding whether to continue a grant at the end of the initial grant period. Creating outcome measures before receiving a grant will help the government to determine the extent to which the grant program or asset has produced desired benefits. Such an analysis should also include a review of actual costs and the potential benefits of using general revenues associated with the grant for other purposes (emphasis added)."*

The Policy does not include a procedure to evaluate grant renewals before deciding to continue a grant, nor does the policy require the development of outcome measures.

Administrative and operational support
GFOA Best Practice, *"A grants policy should also include a requirement that the government obtain a detailed understanding of grant terms and conditions and specify how the grant will be monitored. Examples of what should be required include establishment of procedures related to:*

1. The development of a project plan that would include how new programs or activities funded by the grant would be implemented and who would be responsible for the implementation.

The Policy is missing the requirement for a project plan and a standard format for developing said plan. A standard format for a project plan ensures consistency in project execution and provides a clear understanding of project expectations for all parties involved.

2. The provision of training for those responsible for the grant, so they can effectively carry out their roles.

Finance lacks a formal training program and curriculum for grant managers. (See ISS.4)

3. Terms and conditions for grant-funded personnel, such as severance and unemployment costs related to employees who are terminated upon expiration of the grant or operating and maintenance costs for assets that are acquired.

The Policy requires that sufficient budget be available for hiring full-time employees to administer the grant but does not address how to handle severance or unemployment costs for grant-funded personnel. Standard procedures for grant-funded personnel ensure equitable treatment and compliance with laws and regulations.

4. The system/process that will be used to charge expenses against the grant and to obtain reimbursement. This might require both technical procedures to account for time and materials and reporting, as well as training for employees that they fully appreciate the importance of charging time and materials correctly.

The policy is missing technical procedures to ensure time and materials are correctly reported. Tracking time and materials can be challenging; detailed procedures ensure compliance with requirements and consistency in tracking.

5. Identify the individual/department responsible for carrying out the grant and making sure that proper resources are available to support that grant (emphasis added)."

The Policy needs a definition of who is a grant manager. (See ISS.1) Without this definition and an accurate identification of to whom it applies, Finance cannot be sure they are providing proper resources to support all those who technically are grant managers.

OMB Uniform Guidance
"State and Local governments should take all of the following steps to ensure they fully comply with the provisions of the OMB's Uniform Guidance.

> *4. For subrecipients that will require monitoring, the subaward agreement should include:*
>
> > *1) all of the requirements that must be met by the subrecipient to ensure that the Federal award is used in accordance with Federal statutes, regulations, and the specific terms and conditions of the Federal awards; and 2) any additional requirements that the subrecipient must need for the government to fulfill its own responsibility to the Federal awarding agency, including identification of any required financial and performance reports; (emphasis added)"*

The Policy lacks guidance on subaward agreements with subrecipients who require monitoring. Subaward agreements should be standardized to ensure consistency and that requirements are passed on to the subrecipient.

Recommendation

We recommend Finance ensure that all City employees who handle grants are aware of the *Grant Policy and Guidelines*. We further recommend that Finance solicit feedback from policy users to identify any perceived shortcomings and that they update the *Grants Policy and Guidelines* to address the best practices identified above.

Management Response

We agree with the recommendation. We will increase our outreach efforts to city staff as well as seek feedback/input from city staff on the usefulness/effectiveness of the Grant Policy and Guidelines document. We will begin incorporating the best practices identified into the Grant Policy and Guidelines document as future revisions are made.

Estimated Implementation Date: December 31, 2020
Issue Owner: Nancy Wishmeyer
Issue Final Approver: Terri Velasquez

ISS.3 - eCivis

The City uses eCivis software for its grants management. The City has two subscription and service agreements, one for Research and training and the other for Tracking and Reporting, Subrecipient Management, and training. Our concerns related to the eCivis agreements follow.

The current eCivis agreements were not signed by the City or eCivis. The agreements dated July 17, 2017 specified that the pricing was only valid with a signed agreement. While the city has been receiving the pricing in the agreement, best practice is to have a signed agreement. After we brought it to their attention, Finance and eCivis signed the agreement in mid-September 2019.

The agreements do not include any details on how eCivis will provide training, who determines the topics of training, or the length of training. Both eCivis agreements include training as a line item of $3,000 with a total cost of $6,000. The agreements include discounts from the total price, but do not directly attribute the discounts to training. It is unclear what price we are truly paying for training and why we are paying for training under both agreements. One might expect by paying twice for training, one would receive two separate trainings, one training on research topics to correlate to the Research agreement and the other training on Subrecipient Management to correlate to the other agreement. The training provided by eCivis to date has been combined with no distinction between each agreement.

Internal Audit believes that the eCivis training could be improved by being better targeted to the users' needs. The 2017 Finance training agenda documents only a 15-minute discussion on any issues grant managers were having and a 55 minute table breakout session on a topic, with time at the end to network. The agenda did not include eCivis providing any training to the group on how to effectively utilize their software and services to obtain and manage grants. Finance stated that eCivis organized the 2017 training and reached out to other government entities that attended. The 2018 training was one and one half days and included a half day training on the software and an opportunity to ask questions the following day. An Internal Audit staff member attended the 2018 training; this was their first exposure to eCivis. In our opinion, the training effectively covered a high-level overview of how to use eCivis and allowed time to ask specific questions. No training will be held in 2019, a Grant Manager Roundtable and training is scheduled for January 2020.

The eCivis agreements do not document the number of users covered, the services to be provided, or what the training involves. Agreements should include sufficient detail to ensure that both parties are clear as to the services to be rendered. Without these details, the City cannot ensure that it is receiving the full benefits for which it is paying.

Recommendation
We recommend Finance ensures that the training they receive from eCivis represents the value being paid.

We recommend any future agreements include:
- The number of users covered by the agreement.
- Detail on what on-site training involves, such as who is responsible for travel expenses, etc.
- Detail on what services the software modules will provide.

Management Response
We agree with the recommendation and will incorporate them during the 2020 contract negotiations for grants management software.

Estimated Implementation Date: August 31, 2020
Issue Owner: Nancy Wishmeyer
Issue Final Approver: Terri Velasquez

ISS.4 - Financial and grant knowledge
Grant activities are decentralized with responsibility for all grant activities at the Department level. We surveyed city staff about their grants knowledge and learned that some Grant Managers and Project Leads may not possess the required financial knowledge to comply with Grants Policy and Guidelines or the specific grant requirements.

Grant Compliance

The Policy requires Grant Managers to account for grant transactions in accordance with Generally Accepted Accounting Principles (GAAP); 40% of survey respondents did not correctly identify GAAP as the appropriate methodology for grant accounting. Twenty percent of respondents did not identify correctly when suspension and debarment reviews should occur.

Sub-recipient monitoring
Three of eight respondents with sub-recipients were unsure whether anyone had verified that their subrecipient was required to have a Single Audit. The Policy requires conducting a sub-recipient risk assessment to determine the degree of risk of non-compliance and the creation of a monitoring plan. Two of eight respondents had performed a risk assessment and five of eight respondents had a monitoring plan for sub-recipients.

Grant Managers are made up of City staff across multiple departments that may not have the requisite grant or financial knowledge or experience necessary to manage grants according to the Policy. If the City chooses to continue with a decentralized grant process, Finance must ensure that Grant Managers can demonstrate proficiency in applying the Policy requirements.

Recommendation
Internal Audit questions the efficacy of a decentralized approach to grants management. If Management chooses to continue this approach, we recommend that Finance develop processes to ensure that Grant Managers possess the requisite financial and grant understanding to administer properly these programs.

Management Response
City management chooses to continue the decentralized approach to grants management. As recommended by IA, Finance will develop processes to ensure that Grant Managers possess necessary financial and grant understanding to properly administer their grant programs.

Estimated Implementation Date: September 30, 2020
Issue Owner: Terri Velasquez
Issue Final Approver: Roberto Venegas

ISS.5 - Data capture
In 2019, Finance began tracking citywide grant related performance data including the number of grants applied for but not awarded. City staff managing grants are not fully utilizing eCivis resulting in incomplete performance data. Twenty-three percent of staff surveyed responded that they did not have all of their grants in eCivis.

Sixty-seven percent of respondents with denied grants followed up with the grantor for the denial reasons and most shared that information within their department. Of those who received a reason, seventy percent documented the reason in eCivis.

To capture accurate data, all denials should be documented in eCivis and attempts should be made to determine the denial reasons to be better prepared for future applications.

Recommendation
We recommend City Management stress the importance of inputting <u>all</u> grant application and denial information into the eCivis system. This could include holding the Directors accountable for the accuracy of their department's eCivis data. We recommended Finance identify all grants that are not in eCivis and provide the information to Management.

Management Response
We agree with the recommendation and Finance will develop citywide performance measures and a departmental communication plan with department director and executive management support to require the use of eCivis for all grants at all stages of the grant life cycle.

Estimated Implementation Date: September 30, 2020
Issue Owner: Terri Velasquez
Issue Final Approver: Roberto Venegas

ISS.6 - Grant training
Finance provides grant training annually to Grant Managers. As previously identified in ISS. 1, Finance does not have a complete list of all Grant Managers or Project Leads. Departments receive most of their grant training from Finance or the granting agency. Approximately 25% of respondents were unsure if grants training was adequate and 4% expressed the opinion that it was not adequate.

Grant management is a complex topic. Improper or inadequate management practices can expose the City to financial risks in questioned costs that would need to be repaid. The current training is voluntary and may not be reaching all employees who handle grants. Utilizing different methods such as webinars, lunch and learns, recorded trainings, or newsletters would extend the reach of the information.

An area where training could focus is period of availability. Currently staff are utilizing a variety of methods to track the period of availability of their grant funds including Outlook, eCivis, Excel, or manually tracking. Training over best practice to track the period of availability would ensure consistency across the departments.

Recommendation
We recommend Finance increase the frequency of Grant training and expand the avenues available for training. Finance should work with HR training to develop a grants curriculum including topics such as period of availability and compliance.

Management Response
We agree with the recommendation and will explore additional grant training options. In addition, we will work on creating a grants training curriculum in LMS.

Estimated Implementation Date: September 30, 2020
Issue Owner: Nancy Wishmeyer
Issue Final Approver: Terri Velasquez

ISS.7 - Pursuing grants
The City could improve how it pursues grants. The City does not <u>require</u> departments to search for grant funding. The majority of survey respondents identify grants either because they previously applied for the same grant or the grantor notifies them of a grant. Half of the survey respondents' departments do not require a regular search of internal or external resources for potential grant funding.

Twenty-seven of fifty-six respondents of the survey applied for less than five grants in 2018. They identified a lack of resources as a barrier to applying for grants. Respondents stated that, if additional resources were available to identify, apply for, and manage grants, they would likely seek more grant funding.

Grant funds can be useful in filling funding gaps and financing new initiatives; they also require time and effort to manage properly. The City needs to determine how aggressively it wants to pursue grant funding. One option is to require a search for grant funding as part of all Service Level Adjustment Requests (SLAR.)

Recommendation
We recommend that the City develop a business case that compares an aggressive and *laissez faire* approach to grant funding. The City should employ a SWOT (Strength, Weakness, Opportunity, and Threat) analysis to inform the business case and resulting recommendation. As part of the business case, consideration should be given to developing overhead, fringe, and General & Administrative rates that might underwrite some of the costs of managing a larger portfolio of grants.

Management Response
Finance will work with department and executive management to develop a business case that compares aggressive with laissez faire approach to citywide grant funding; including consideration of the pros and cons of an indirect cost rate.

Estimated Implementation Date: September 30, 2020
Issue Owner: Terri Velasquez
Issue Final Approver: Roberto Venegas

Auditor Observation: Internal performance measures

Finance lacks internal performance measures for Grants. Finance has a decentralized structure for Grants, relying on Departments to own most of the grant processes. Finance Accountants and staff perform essential roles in the grants process including creating Org numbers for grants, reconciling eCivis to OneSolution, and completing eCivis workflow and task reviews. Finance staff have numerous duties in addition to grants. Internal performance measures for the key processes for which Finance is responsible could ensure that tasks are completed timely and effectively. We will explore this area in greater depth during our process reviews in Milestone 3.

February 20, 2020

Internal Controls

In Milestone 3, we determine whether appropriate process controls exist for key processes and whether processes are efficient. We accomplish *this by flowcharting and performing walkthroughs of key processes and identifying missing controls and process inefficiencies.*

PROCEDURES	CONCLUSIONS

• Flowchart key processes. Evaluate key processes for
   o missing or weak internal controls,
   o efficiency issues, and
   o IT related issues.
	The *Grants Policy and Guidelines* provide a wealth of information on grant processes for users; we offered recommendations to further improve the guidance.
	
	 Controls are in place for most key processes. We identified some weak or missing controls and areas for improvement. Some processes were ineffective due to inconsistencies across departments and were inefficient due to a lack of standardized templates.

Wayne C. Sommer, CPA, CGMA
Internal Audit Manager

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Issue Details

Issues 1-7 were included in Milestone 2.

ISS.8 - Grant Manager monitoring

Finance staff does not regularly monitor grants or Grant Managers to ensure compliance with grant requirements.

Finance staff tasked with oversight of grants have other accounting duties, as a result, the approach to grant oversight is more reactive than proactive. The *Grants Policy and Guidelines Section VI. A. Financial Set-Up* require the Grant Manager to "Meet with the designated department Accountant in the Controller's Office to review the grant." Most Grant Managers do not meet with their respective Accountant, however, there is some informal correspondence.

If Finance lacks the resources to proactively oversee grant compliance, they should use a risk assessment approach to determine which grants or Grant Managers may be at higher risk for non-compliance. Finance can create a monitoring plan to ensure they are consistently monitoring grants and Grant Managers based on their risk determination.

Recommendation

We recommend Finance develop a risk assessment for grants and Grant Managers to determine the level of non-compliance risk and use that information as the basis for an internal monitoring plan. Finance staff should meet with all divisions and departments at least annually to ensure Grant Managers understand their responsibilities.

Management Response

We agree with the recommendation. We will develop an internal risk assessment to use as a basis for an internal grants and grant managers monitoring plan. In addition, we will meet at least semi-annually with each department's designated grant point of contact. Finance's monitoring process will be included in the revised Grant Guidelines.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.9 - Finance reviews

Finance lacks a review process for items it requires of Grant Managers.

The *Grants Policy and Guidelines* ("*the Policy*") requires Grant Managers to "Verify grant internal controls are established to ensure resources are used as effectively and efficiently as possible in accordance with applicable requirements and restrictions." The majority of Grant Managers did not have formal documented internal controls for grants and relied mostly on existing controls. Finance does not provide a template or guidance for assessing and developing grant internal controls. (See ISS. 13) Finance also lacks procedures to evaluate department grant internal controls for efficiency and effectiveness.

The Policy requires Grant Managers to "Verify department grant related financial policies and procedures are written and communicated to the Controller's Office. Review and update these as necessary." The majority of Grant Managers did not have grant-related financial policies outside *the Policy*. Finance lacks procedures and criteria to evaluate the financial policies and procedures provided by departments.

The grants management structure for the City is decentralized, with non-financial people filling the role of Grant Manager. Finance's staff are the financial experts for the City; to ensure compliance and effective controls, Finance should develop criteria and review department internal controls and procedures for compliance.

Recommendation
We recommend Finance develop criteria for effective grant internal controls and financial procedures. Finance should compare their criteria to department grant controls and financial procedures to ensure congruence.

Management Response
We agree with the recommendation. We will develop internal control criteria to be used as a benchmark across the city and perform annual comparisons of each department's internal controls to the benchmark. The review process will be included in the revised Grant Guidelines.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.10 - eCivis workflows
The eCivis workflows do not include all required participants and *the Policy* lacks key details regarding workflows.

There are sixteen departments or divisions set up for workflows within eCivis. The grant process uses three eCivis workflows: Application, Award Approval, and Closeout. The workflows are standardized and governed by *the Policy* relating to required users. Some Departments are in eCivis as one unit while other Departments set up multiple divisions within eCivis. Finance does not regularly review the eCivis workflows to ensure they include all the required participants.

We reviewed the eCivis workflows and identified the concerns noted below.
- The Finance department did not have a workflow for Application.
- The Human Services department is listed as a Department/Division. Per Finance, this entity is no longer used, however, it has current employees assigned to it.
- The City Attorney's Office does not have any workflows, but currently has a grant listed in eCivis.

For both Application and Award workflows, 14 of 16 departments/divisions did not include all required participants. Also, for both Application and Award workflows, 12 departments/divisions were missing at least two required participants, including the Department Director.

The Policy does not include any required participants for the Closeout workflow.

While *the Policy* references the three referenced eCivis workflows, we identified these shortcomings.
- *The Policy* does not address what to do when the same person fills the required roles of Grant Manager and Department Budget Coordinator. These are both required roles in the Application and Award workflows.
- The Application workflow does not include approval escalations based on award dollar amounts or required matches. For example, a $1,000 or a $10,000,000 grant has the Director as the highest level of approval.

Recommendation
We recommend Finance update the *Grants Policy and Guidelines* to:
- Document required participants in the Close-out workflow,
- Address the process for when a Grant Manager performs another role, such as Department Budget Coordinator,
- Add dollar thresholds to workflow approvals if the software can support it.

We also recommend Finance develop procedures to regularly review workflows in eCivis for the following:
- Proper set up,
- Inclusion of all required participants.

Management Response
We agree with the recommendation. We will revamp all workflow processes, including a more robust application workflow, which will be clearly defined in the Grant Guidelines. Finance will also establish a schedule to review the workflows no less than two times per year.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.11 - Grant communication

Finance staff and Grant Managers were not always aware of when grant applications were submitted until they were awarded. We could not determine an exact cause for the lack of communication. Possible causes may include:

- A decentralized grants process with no designated points of contact for grants in each department.
- Grant Managers are not required to enter grant applications into eCivis at the time of application.

We previously recommended that City Management stress the importance of entering all grant applications and denial information into the eCivis system. (Milestone 2 report, ISS 5. Data Capture.)

Departments should identify points of contact and require anyone considering applying for grants to involve the point of contact to ensure the proper process is followed. This, in addition to inputting all grant applications into eCivis, should increase Grant communication within Departments.

Recommendation

We recommend Finance require departments to designate a grant point of contact. Departments should develop internal procedures to ensure that the point of contact is aware of all possible grants before application.

Management Response

We agree with the recommendation. We will work with each department to identify a designated grant point of contact for that department and work with that individual on all department grant matters.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.12 - Grant internal controls

Citywide grant processes include internal controls; however, we identified some processes with weak or missing controls.

The grant application process requires the Director's approval to apply for the grant; however, this approval is not always documented. The eCivis Application workflow includes the Director as a required participant, but as documented under ISS. 10, most department workflows did not include a Director. Directors have a broad view of their Department and the organization; they can help ensure that the Department applies for grants for which they have adequate resources and that meet their needs.

Additionally, several Departments do not add grants to eCivis until the application is submitted, circumventing the application workflow.

The principle of *segregation of duties* is based on shared responsibilities for a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable.

The *Grants Policy and Guidelines Section VI B. Revenue*, states if the Grant Manager is the Department Budget Coordinator, someone else must review cash requests. However, there are several other places in *the Policy* where this required segregation of duties is not specified. For example, *the Policy* closeout process states that the Grant Manager reconciles records; however, if the Grant Manager made purchases or requested cash draws, they would be reconciling their work. *The Policy* should be consistent throughout.

Recommendation
We recommend Finance develop procedures to ensure controls are effective and documented. We also recommend that they review *the Policy* and grant processes to ensure that guidance regarding segregating duties is included where cost-effective.

Management Response
We agree with the recommendation. We will develop internal control criteria, which will include segregation of duties, to be used as a benchmark across the city (ISS.9). The Grant Guidelines will be revised to address internal controls, including segregation of duties, consistently within the document.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.13 - Templates
Finance has not developed standardized templates for departments to use to manage grants.

Internal Controls
The Policy requires that Grant Managers establish grant internal controls and verify their establishment. However, *the Policy* does not include any guidance regarding what internal controls to establish, how to establish them, nor how to verify their existence.

Subrecipients
Grant Managers are required to:
- Determine whether someone is a subrecipient or a vendor
- Perform a risk assessment on all subrecipients
- Develop a monitoring plan for subrecipients where appropriate.

The Policy does not include templates, decision trees, or other guidance on how to execute these requirements.

<u>Centralized location</u>
The eCivis software allows for the storage of standard templates and documents. This functionality is not currently used.

Without sufficient guidance, including standardized templates, the City faces an increased financial risk due to inadequate internal controls. The City also faces an increased financial risk and risk of noncompliance due to ineffective evaluation and monitoring of subrecipients.

Recommendation
We recommend that Finance develop and store on eCivis templates, decision trees, and related guidance for the following:
- Establishing and verifying internal controls
- Distinguishing between a contractor and a subrecipient
- Subrecipient risk assessment
- Subrecipient monitoring plan

Management Response
We agree with the recommendation. We will design and incorporate templates and related guidance for internal controls and subrecipients. The templates and guidance will be incorporated into the Grant Guidelines and will also be stored in eCivis.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.14 - Documentation
The Policy lacks a standard list of the required information to document in eCivis and guidance on how to include said documentation in the software.

There are several stages of grant documentation in eCivis. Some Departments upload all grant documentation while others upload minimal information. The Policy does not include a list of what documentation <u>must </u>be uploaded into eCivis nor how to upload it. Without a standard list, documentation in grant files in eCivis can be inconsistent across departments/divisions.

Recommendation
We recommend that Finance develop a standard list of the minimum required documentation for grants in eCivis, such as application, grant agreement, compliance documentation, and final report.

Management Response
We agree with the recommendation. We will develop a standard list of required documentation for grants that will be included in the Grant Guidelines as well as stored in eCivis.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.15 – Grants Policy and Guidelines updates
Clarification and changes are needed for sections of the *Grants Policy and Guidelines* sections for Grant Manager responsibilities.

Grant Policy and Guidelines, Section VI. Grant Financial Management Processes, A. Financial Set-Up (4).
> *Current language:* Meet with the designated department Accountant in the Controller's Office to review the grant.
>
> *Recommended change:* The designated department Accountant in the Controller's Office is responsible for arranging a meeting with the Grant Manager to review the grant

Grant Policy and Guidelines, Section VI. Grant Financial Management Processes, D. Financial Compliance and Analytical Review (1)
> *Current language:* Verify grant internal controls are established to ensure resources are used as effectively and efficiently as possible in accordance with all applicable requirements and restrictions.
>
> *Recommended change:* Finance defines internal controls as…and requires the following internal controls to be established. The Grant Manager documents these grant-related internal controls. The Controller's Office verifies that the internal controls in place are adequate.

Grant Policy and Guidelines, Section VI. Grant Financial Management Processes, D. Financial Compliance and Analytical Review (2)
> *Current language:* Verify department grant-related financial policies and procedures are written and communicated to the Controller's Office. Review and update these as necessary.
>
> *Recommended change:* The Grant Manager documents the required grant-related financial policies and procedures. The Controller's Office verifies that the financial policies and procedures adequately address the required elements. (ISS. 9 includes recommendations for Finance to develop criteria for financial policies.)

Recommendation
We recommend Finance make the recommended changes to *the Policy*.

Management Response
We agree with the recommendation. We will incorporate the recommended changes into the Grant Guidelines and revise Finance internal processes to incorporate the responsibilities related to grant meetings and reviews of internal controls and grant-related financial policies and procedures.

Estimated Implementation Date: December 31, 2020
Issue Owner: Controller
Issue Final Approver: Finance Director

ISS.16 - Internal performance measures

Finance lacks internal performance measures for the efficiency and effectiveness of grant administration processes. While Finance has a decentralized structure for grants, relying on Departments to own most of the grant processes, Finance staff still perform essential roles in the grant administration and oversight processes. Finance staff also have numerous duties besides grants administration.

Internal Audit has recommended improvements in the grant administration processes. After Finance has implemented these recommendations and verified they are operating effectively, Finance should identify their specific roles in key grant processes and evaluate opportunities to utilize automated data—where available—to create measures to monitor the effectiveness and efficiency of the execution of those roles.

Recommendation

We recommend that Finance identify their specific roles in updated grant administration processes and use automated data—where available—to create internal performance measures to monitor the effectiveness and efficiency of the execution of those roles.

Management Response

Estimated Implementation Date: March 31, 2021
Issue Owner: Controller
Issue Final Approver: Finance Director