

February 2017

City of Durham Grants Drawdown Audit



**City of Durham Southside Revitalization Project
funded by Federal Grants.**

**City of Durham
Audit Services Department
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Durham, NC 27701
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Staff

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To: Audit Services Oversight Committee
From: Germaine F. Brewington, Director
Audit Services Department
Date: February 27, 2017
Subject: City of Durham Grants Drawdown Performance Audit

Auditor's Report

The Audit Services Department staff completed the report for the Grants Drawdown Performance Audit. The purpose of this audit was to determine that the drawdowns for federal and state funds were done in accordance with Policy FP 103-2 and/or specific funding source regulations. Audit Services staff also performed tests to determine if adequate internal controls existed to ensure drawdowns of federal and state funds were completed in accordance with Policy FP 103-2.

This report presents the observations, results, and recommendations of the Grants Drawdown Performance Audit. In response to recommendation 1, City Management concurs with the recommendation made. In response to recommendation 2, City Management concurs with the recommendation made. The detailed management response to the recommendations is included with the attached report.

The Department of Audit Services staff appreciates the contribution of time and other resources from the employees of the Finance Department, Community Development Department, the Office of Economic and Workforce Development, and the Transportation Department in the completion of this audit.



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Audit Report Highlights

Background

The City of Durham receives funding from federal and state grantor agencies for a variety of departmental programs and projects. City departments administer federal and state grant funds with guidance and oversight by the Finance Department.

Before requesting a drawdown (or a reimbursement of expenditures), the City is required to spend general funds or anticipate spending funds within three days on eligible grant activities. As part of some grant agreements, the City contributes a local match portion from our general fund.



Purpose

The objectives of the audit were two-fold: 1) To ensure that federal and state fund drawdowns were performed in accordance with Policy FP 103-2 and/or specific funding source regulations; and 2) to determine if adequate internal controls existed to ensure drawdowns of federal and state funds were completed in accordance with Policy FP 103-2.

Grants Drawdown Performance Audit February 2017

Audit Services staff selected a sample of grants from the following departments: Transportation, Community Development, and Office of Economic and Workforce Development. A judgmental sample of drawdowns performed by these departments was chosen to be reviewed in detail.

Highlights

The majority of grant drawdowns examined were in compliance with the [Policy FP 103-2](#). However, Audit Services staff identified several grant projects for the Department of Community Development with old activity (FY 2013/FY 2014) that appeared to have expenditures in excess of revenues. Expenditures in excess of revenues could imply that reimbursements were not requested timely or that necessary journal entries were not reconciled. Audit Services staff recommended that Community Development staff review grants on a regular basis and ensure all necessary reconciliations are performed while still ensuring drawdowns are requested timely.

Audit Services staff also found that the Department of Transportation staff did not consistently recognize the local match revenue in the specific general ledger account. Several grant projects were identified where expenditures were in excess of revenues, implying that drawdowns were not requested. Further examination of the general ledger accounts showed that drawdowns were in fact requested timely; however, the local match portion of the grant was not recognized as revenue. As this was a recording error and not a failure to contribute the required local match, the City did not lose any grant privileges. Audit Services staff recommended that the Department of Transportation staff consult with the Finance Department staff to create a consistent method to recognize the local match revenue in the specific general ledger accounts.

Audit Services Department

Internal Audit

The Audit Services Department serves a two-fold role at the City of Durham. As an Internal Audit department, the mission is to provide professional, independent, objective assurance and investigative services.

Specifically staff provide an independent appraisal function designed to evaluate activities within the City as a service to management. Staff also serve as internal fraud examiners when fraud, waste, or abuse is alleged against a City employee or department. Finally, in order to constantly foster high ethical standards, staff provide ethical training to all City employees on a rolling basis. The Internal Audit function supports the Strategic Plan goal: Innovative and High Performing Organization.

To learn more, visit <https://durhamnc.gov/150/Audit-Services>.

Audit Services Oversight Committee

In order to maintain its organizational independence, the Audit Services Department reports to the Audit Services Oversight Committee (ASOC) at a minimum of four times a year. The ASOC approves all proposed audit plans and completed audits prepared by Audit Services staff.

The Audit Services Oversight Committee is made up of 6 members: 2 City Council Members, 3 members of the business community, and 1 alternate City Council Member. The members include a certified public accountant and a person with experience in the finance industry. The City Manager is an ex-officio non-voting member of the ASOC.

Audit Services Oversight Committee Members

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Thomas J. Bonfield
City Manager



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Background

The City of Durham receives funding from federal and state agencies for a variety of departmental programs and projects. The City is required to spend funds or anticipate spending the funds within three days on eligible grant activities before requesting a drawdown, or reimbursement from the grantor agency. The lack of a timely drawdown of funds can negatively impact the general fund cash flow.

The City receives federal aid from the following agencies:

- U.S. Department of Housing and Urban Development
- U.S. Department of Justice
- U.S. Department of Labor
- U.S. Department of Transportation
- U.S. Department of Homeland Security
- U.S. Environmental Protection Agency

The Federal Program expenditures for fiscal year 2016 totaled approximately \$14,901,245.

The City also receives financial assistance from the state from the following agencies:

- N.C. Department of Transportation

The State Program expenditures for fiscal year 2016 totaled approximately \$9,710,633.

Policy FP 103-2

City of Durham [Policy FP 103-2](#) “Administration of Grants” establishes a uniform method for the application, acceptance, budgeting, administration, and management of grants. Grants are accepted from the federal or state government, private sources, or other agencies. According to the policy, as it pertains to drawing down of grant funds, each department shall ensure that all requests for grant funds are promptly submitted to the Finance Department with appropriate documentation. All drawdowns of grant funding must conform to the funding source guidelines and City policy. Whenever possible, the City will request advances before the actual expenditure of grant funds. For awards

conducted on a reimbursement basis, the department must draw down expended funds on a quarterly basis at a minimum; unless otherwise specified by the funding agency. These draws should be submitted to the funding agency no later than thirty days after the close of the quarter. If at month-end, any project has unreimbursed expenditures in excess of \$20,000, the department must perform a draw of funds immediately.

The Drawdown Process

Following eligible grant expenditures, the department begins the drawdown process. All expenditures are paid using General Fund dollars. Depending on the department and the specific rules of the grant, the departmental accountant may submit the expenditures for preliminary approval from the grantor agency or forward the expenditures directly to the Finance Department for review and approval. Following any preliminary approvals, the drawdown request is submitted to the Grantor Agency. Once the drawdown is approved by the Grantor Agency, the department notifies the Treasury Department of the incoming funds which are deposited in the general fund.

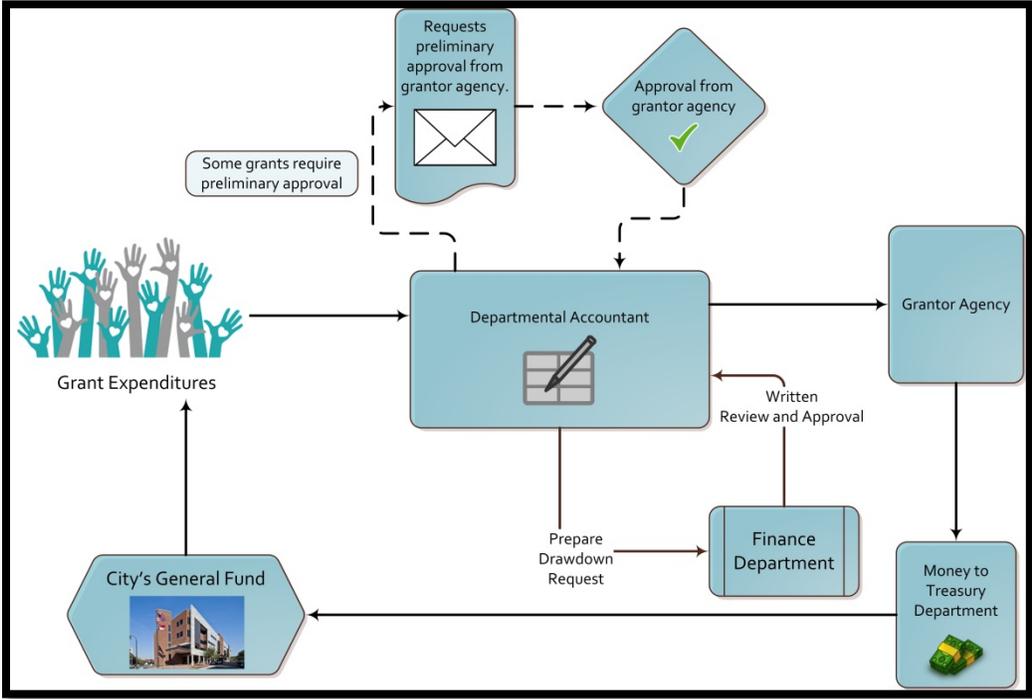


Figure 1. A generalized grant drawdown process from initial expenditure out of the City’s General Fund to money transfer back into the General Fund.

Local Match

Grants may require a local match. For instance, if a city is granted money for a project, some percent is contributed from the General Fund of that city. If a local match or local match certification for eligible expenditures is not provided by the sub-recipient, the reimbursement for those expenditures may not be provided or may be requested to be returned.

Objectives

The objectives of the audit were two-fold: 1) to ensure that federal and state funds drawdowns were performed in accordance with Policy FP 103-2 and/or specific funding source regulations; and 2) to determine if adequate internal controls existed to ensure drawdowns of federal and state funds are completed in accordance with Policy FP 103-2.

Scope, Methodology, and Compliance

Scope

The scope of the audit included examining all current practices as they relate to grant drawdowns at the selected departments:

- Department of Community Development
- Department of Transportation (DOT)
- The Office of Economic and Workforce Development (OEWD)

This audit covered federal and state fund drawdowns during the period July, 2015 through December, 2017.

Methodology

Audit Services Department staff performed the following procedures to accomplish the objectives of the audit:

1. Interviewed:
 - a) personnel within each department receiving federal/state funds; and
 - b) Finance Department personnel responsible for requesting and approving the drawdowns;
2. Examined grant agreements;
3. Examined general ledger postings;
4. Examined reimbursement requests;

5. Selected grants and associated drawdowns judgmentally for fiscal year 2016 and verified that:
 - A. Drawdowns were performed in accordance with FP 103-2 and funding source regulations;
 - B. Reimbursement requests were approved by the Department of Finance staff and that proper supporting documents were provided; and
 - C. Expenditures requested for reimbursement were reported in the City's general ledger and had adequate supporting documentation;
6. Compared revenues to expenditures per the general ledger over the life of the grant in order to identify unreimbursed expenditures; and
7. Reviewed controls in place at the Finance Department to ensure reimbursements were requested on a timely basis.

During this audit, staff also maintained awareness to the potential existence of fraud.

Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that Audit Services staff plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. Audit Services staff believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objective 1

To ensure that federal and state fund drawdowns are performed in accordance with Policy FP 103-2 and/or specific funding source regulations

Finding 1

Audit Services staff found:

Overall the departments requested the reimbursements on a timely basis for the selected sample.

The Audit Services staff judgmentally selected grants from the selected departments receiving federal and state funds. Following is a summary of the grants tested by department.

Department	Number of Grants Tested	Number of Drawdowns Tested	Exceptions Noted			
			1	2	3	4
OEWD	5	60	None	None	None	None
Community Development	3 (15 projects)	27	None	None	None	2 projects
Transportation	6	17	None	None	None	None

1. Drawdowns were performed in accordance with FP 103-2 and funding source regulations;
2. Reimbursement requests were approved by the Department of Finance staff and that proper supporting documents were provided;
3. Supporting documentation was verified to ensure that the expenditures requested for reimbursement were reported in the City's general ledger; and
4. Overall revenues were compared to expenditures to identify unreimbursed expenditures.

In addition, for the selected grants the Audit Services staff compared revenues and expenditures over the life of the grant in order to identify unreimbursed expenditures. A few exceptions were noted for the Department of Community Development grants. Out of the 15 individual projects (3 grants) reviewed,

reimbursements were not requested for two projects amounting to approximately \$44,537 of expenditures. These expenditures were incurred in FY 2016. Failure to draw the funds down in a timely manner resulted in the City paying for these expenditures through its General Fund; negatively impacting the General Fund cash flow.

Finding 2

Audit Services staff found:

Several grant projects for the Department of Community Development with old activity (FY 2013/FY 2014) appeared to have expenditures in excess of revenues.

The Audit Services staff compared overall revenues to overall expenditures over the life of the grant project per the MUNIS system. This analysis identified five grant projects with expenditures in excess of revenues. Expenditures in excess of revenues can imply that reimbursements were not requested timely or that necessary journal entries were not posted to ensure revenues and expenditures reconciled. Closer examination of the general ledger accounts revealed that the most recent activity in these accounts occurred in FY 2013 and FY 2014. Regular review of expenditures and revenue would ensure that errors like these are not missed. The Community Development staff stated that they are in the process of reviewing these accounts.

Finding 3

Audit Services staff found:

The Transportation Department staff did not record the local match revenue in the specific general ledger account on a consistent basis.

The Audit Services staff compared revenues to expenditures for grant projects over the life of the grant project. The DOT staff did not consistently recognize local match revenue in a specific general ledger account. The analysis identified several grant projects where expenditures were in excess of revenues, implying that reimbursements were not requested. Detailed examination of the general ledger accounts showed that reimbursements were requested timely; however, the local match portion of the grant was not recognized as revenue. In two of the grant projects reviewed by the Audit Services staff, revenues exceeded total

expenditures. Excessive local match revenue was recorded instead of the local match portion pertaining to the expenditures incurred. Failure to consistently recognize local match revenue correctly could mislead staff reviewing the accounts. This was a revenue recognition issue where general fund dollars were used to initially pay for all expenditures. Since the federal agencies only reimburse for their share of the expenditures, the City staff did not violate the requirement of a local match.

Objective 2

To determine if adequate internal controls exist to ensure drawdowns of federal and state funds are done in accordance with Policy FP 103-2

Finding 4

Audit Services staff found:

The Finance Department staff have adequate controls in place to ensure compliance with Policy FP 103-2.

The Finance Department staff generated a Grants Deficit Report to compare revenues and expenditures. This report allowed the Finance staff to review whether departments were requesting reimbursements on a timely basis. The Finance staff distributed this report to the departments and identified grant projects that required drawdowns for the time period under the scope of this audit. The departments responded accordingly and took the appropriate actions. In addition, the Finance Department staff also randomly selected grant projects to review. The review included verifying the timeliness of grant drawdowns.

Conclusion

Overall, the examined departments requesting eligible federal and state drawdowns were in compliance with Policy FP 103-2 and/or specific grant regulations. Audit Services staff examined grant drawdowns at the following departments: Department of Community Development, Department of Transportation and Office of Economic and Workforce Development. Several grant projects for the Department of Community Development with old activity (FY 2013/FY 2014) appeared to have expenditures in excess of revenues. Expenditures in excess of revenues could imply that reimbursements were not requested timely or that necessary journal entries were not posted to ensure revenues and expenditures reconciled. The Community Development staff stated that they are in the process of reviewing these accounts. The Community Development staff should on a regular basis review their accounts and ensure that all necessary reconciliations are performed. The DOT staff did not consistently recognize local match revenue in specific general ledger accounts. Failure to consistently recognize local match revenue correctly could mislead staff reviewing the accounts. The DOT staff should consult the Finance Department staff and identify the process to record the local match revenue in the specific general ledger accounts on a consistent basis.

Recommendations

Recommendation 1

The Community Development staff should review grants on a regular basis and ensure all necessary reconciliations are performed. They should also ensure that drawdowns are requested timely.

Value Added: Risk Reduction, Cost Reduction

Recommendation 2

The Department of Transportation staff should consult the Finance Department staff and identify a consistent method to record the local match revenue in the specific general ledger accounts.

Value Added: Risk Reduction, Cost Reduction, Compliance

Value Added Legend



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Management Response



Memo to: Dr. Germaine F. Brewington, Director of Audit Services
From: Reginald J. Johnson
Director, Department of Community Development (DCD)
Date: February 22, 2017
Subject: Management's Response to Recommendation 1
Grants Drawdown Performance Audit February 2017

The following is the management's response to the Grants Drawdown Performance Audit dated February 2017.

Recommendation 1:

The Community Development staff should review grants on a regular basis and ensure all necessary reconciliations are performed. They should also ensure that drawdowns are requested timely.

Management's Response

We concur. The Department of Community Development will continue to follow the process that is currently in place given that the audit did not find that there was a systemic issue with our process. The Department of Community Development (DCD) maintains that there is not a problem with the drawdown requests for federal funds from prior fiscal years and the current fiscal year. With respect to Program Income, DCD, prior to this audit, but subsequent to the dates selected for this audit, had initiated a process that ensure the program income funds transfers are occurring on a timely basis. The DCD prepares monthly drawdown requests to be approved by the Department, City Finance, and City Treasury. The DCD has recognized that the drawdown requests for Program Income require budget transfers and journal entries to be posted on General Ledger. The Department has been made aware of the concerns with Grant associated with FY 2013 and FY 2014. The Department's current processes ensure budget transfers and journal entries will be prepared at the same time the Program Income drawdown requests have been approved.

The Department of Community Development will complete the reconciliation for Grant Years FY 2013 and FY2014 by April 30, 2017.





Memo to: Dr. Germaine F. Brewington, Director of Audit Services
Through: Terry Bellamy, Transportation Department Director
From: Harmon E. Crutchfield, Assistant Director of Transportation
Date: February 22, 2017
Subject: Management's Response to Recommendation 2
Grants Drawdown Performance Audit February 2017

The following is the management's response to the Grants Drawdown Performance Audit dated February 2017.

Recommendation 2:

The Department of Transportation staff should consult the Finance Department staff and identify a consistent method to record the local match revenue in the specific general ledger accounts.

Management's Response

We concur. Management is in full agreement with the recommendation.

We understand that formalizing our process and documentation will require revising the department grant policies and procedures. Consequently, once policies and procedures are established and revised, I will coordinate with the grant administrator and fiscal program accountant and ensure the revised procedures are understood and ensure that all grant projects will be updated to reflect the revised policy. Once implemented, all future grant match activity will be based upon actual expenditure activity. The Assistant Director Harmon Crutchfield is responsible for implementation of this recommendation.

Implementation Date: May 2017.



Distribution of Report

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