

**Subrecipient Grant Fund Monitoring  
Performance Audit**

**April 2011**

**DURHAM**



**1 8 6 9**  
CITY OF MEDICINE

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**To:** Audit Services Oversight Committee  
**From:** Germaine Brewington, Director of Audit Services  
**Date:** April 4, 2011  
**Re:** Subrecipient Grant Fund Monitoring Performance Audit (April 2011)

The Department of Audit Services completed the report on the Subrecipient Grant Fund Monitoring Performance Audit dated April 2011. The purpose of the audit was to determine if the Department of Community Development (DCD) monitors subrecipient activities in accordance with OMB Circular A-133, and DCD's internal policy "*Grant Subrecipient Monitoring and Contract Management Procedures*".

This report presents the observations, results, and recommendations of the Subrecipient Grant Fund Monitoring Performance Audit. City management concurs with the recommendations made. Management's response to the recommendations is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Department of Community Development in the completion of this audit.

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## BACKGROUND INFORMATION

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The City of Durham passes through certain federal awards to subrecipients. The City is required to monitor these subrecipients to determine if they are administering the awards in accordance with the applicable federal compliance requirements. OMB Circular A-133 compliance requirement M, details the pass through entity's responsibilities.

The Department of Community Development (DCD) has outlined their subrecipient monitoring process in an internal policy, "*Grant Subrecipient Monitoring and Contract Management Procedures*". According to the policy, the DCD will continue its oversight of compliance and monitoring of CDBG, HOME, and ESG activities to ensure both short-term and long-term contract regulatory compliance in accordance with HUD guidelines.

All monitoring visits will be held on-site at the subrecipient's primary place of operations and/ or where files are maintained and will take place once per year while the subrecipient is funded.

### **Purpose**

The purpose of this audit was twofold: 1) to determine if the DCD monitors subrecipient activities in accordance with OMB Circular A-133 compliance requirement M, which addresses monitoring of subrecipients, and 2) to determine if the DCD monitors subrecipient activities in accordance with its internal policy "*Grant Subrecipient Monitoring and Contract Management Procedures*".

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

### **Results in Brief**

Overall, the DCD monitors subrecipients in accordance with OMB Circular A-133, compliance requirement M and their internal policy "*Grant Subrecipient Monitoring and Contract Management Procedures*".

## OBJECTIVES, SCOPE AND METHODOLOGY

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### Objectives

The objectives of the audit were to:

1. Determine if the DCD monitors subrecipients in accordance with OMB Circular A-133, compliance requirement M, which includes the following:
  - a. Verify if the DCD identifies to the subrecipient at the time of the award, the federal award information, the applicable compliance requirements, and approved only allowable activities in the award documents;
  - b. Determine if the DCD monitors the subrecipient's activities to ensure that the subrecipient administers federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements;
  - c. Determine if subrecipients expending more than \$300,000 in federal awards (\$500,000 for fiscal years ending after December 31, 2003) have met the audit requirements of OMB Circular A-133, including:
    - completion of the agency's audit within 9 months of the end of the subrecipient's year end;
    - issuance of a management decision on audit findings within 6 months after receipt of the subrecipient's audit report;
    - ensure the subrecipient takes timely and appropriate corrective action on all findings identified in the audit; and
  - d. Verify that DCD takes appropriate action in cases where the subrecipient is not complying with applicable federal regulations.
2. Determine if the DCD monitors subrecipients in accordance with its internal policy "*Grant Subrecipient Monitoring and Contract Management Procedures*".

## **OBJECTIVES, SCOPE AND METHODOLOGY (CONTINUED)**

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### **Scope**

The scope of the audit included subrecipient agreements identified for the fiscal year ended June 30, 2010 and fiscal year 2011 to date.

### **Methodology**

In order to achieve the objectives of this engagement, audit staff performed the following tests and procedures:

- Obtained and reviewed the OMB Circular A-133, compliance requirement M;
- Obtained and reviewed the DCD's internal policy "*Grant Subrecipient Monitoring and Contract Management Procedures*";
- Interviewed employees of the DCD responsible for monitoring subrecipients;
- Obtained list of subrecipients for FY 2010 and FY 2011 to date; and
- Judgmentally selected a sample of subrecipient contracts to verify monitoring activity.

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

The DCD identified 49 subrecipient contracts for FY 2010 and FY 2011 to date. Audit staff tested 21 of the 49 contracts identified. Following are the results of the tests:

### **Objective 1**

Determine if DCD monitors subrecipients in accordance with OMB Circular A-133, compliance requirement M.

*Audit staff reviewed 21 subrecipient contracts to verify if the DCD was monitoring subrecipient activities. The DCD's subrecipient contracts identify the award amount, award name, name of the federal agency and applicable compliance requirements, as well as allowable activities/scope.*

*Overall, the DCD is monitoring subrecipient activities. Per A-133 subrecipient monitoring guidelines, monitoring activities normally occur throughout the year and can include reviewing financial/performance reports submitted by subrecipients, site visits and keeping regular contact with sub recipients. Based on monitoring performed, all of the selected subrecipients complied with the applicable regulations.*

*OMB Circular A-133 requires only subrecipients expending amounts in excess of the \$500,000 threshold to obtain an independent audit. Audit staff reviewed a copy of the two audit reports of subrecipients required by the OMB Circular A-133 to obtain an audit.*

### **Objective 2**

Determine if DCD monitors subrecipients in accordance with its internal policy "Grant Subrecipient Monitoring and Contract Management Procedures".

*Audit staff reviewed 21 subrecipient contracts to verify if the DCD was monitoring subrecipient activities. DCD staff performed on-site monitoring visits for 11 of the 21 subrecipient contracts selected for audit.*

*The DCD's internal policy does not address the process for selecting subrecipient contracts for on-site review. Per the DCD staff, the intent of the policy is to perform monitoring visits for all subrecipient contracts during the contract period. Presently, the DCD staff may determine that an on-site monitoring visit is not a relevant monitoring tool for specific subrecipient contracts because of the project type.*

### **Recommendation 1**

The Department of Community Development should revise the policy "*Grant Subrecipient Monitoring and Contract Management Procedures*", to address the process for selecting subrecipient contracts for on-site review.



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Date: April 13, 2011

To: Germaine F. Brewington, Director of Audit Services

Through: Mike Barros, Director, Department of Community Development (DCD)

From: Diana Monaco, Assistant Director, Fiscal Management and Planning Administration, DCD

Subject: Management's Response – Subrecipient Grant Fund Monitoring Performance Audit – April 6, 2011

The following is the management's response to the Subrecipient Grant Fund Monitoring Performance Audit dated April 6, 2011.

Recommendation 1:

*The DCD should revise the policy "Grant Subrecipient Monitoring and Contract Management Procedures", to address the process for selecting subrecipient contracts for on-site review.*

Management's Response:

We concur. Management is in agreement with the Recommendation. DCD staff has revised the above mentioned Procedure to include the word "as applicable" in the appropriate paragraph that addresses the process and need for conducting an on-site review. A copy of the revised Grant Subrecipient Monitoring and Contract Management Procedures is enclosed for your review.

*Good Things are Happening in Durham*