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# GRANTS MANAGEMENT PERFORMANCE AUDIT

## JUNE 2015

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**To:** Audit Services Oversight Committee  
**From:** Dr. Germaine Brewington, Director  
Audit Services Department  
**Date:** **June 22, 2015**  
**Re:** Grants Management Performance  
Audit (June 2015)

The Department of Audit Services completed the report on the Grants Management Performance Audit dated June 2015. The purpose of the audit was to determine if adequate administrative controls existed over grant funds received from the federal government .

This report presents the observations, results, and recommendations of the Grants Management Performance Audit dated June 2015. City management concur 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 Office of Economic and Workforce Development in the completion of this audit.

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## BACKGROUND INFORMATION

The Office of Economic & Workforce Development (OEWD) receives grants from various federal agencies for a variety of programs. According to the Schedule of Expenditures of Federal and State Awards for the year ended June 30, 2014, OEWD expended approximately \$2,253,989 in grants received from the U.S. Department of Labor, passed-through the North Carolina Department of Commerce: Workforce Investment Act (WIA)-Cluster. In addition, the department received and expended approximately \$121,877 of a U.S. Environmental Protection Agency award.

The Office of Economic and Workforce Development's grants management responsibility primarily resides with the Administrative Services function and the program managers. Administrative Services personnel are responsible for the overall financial monitoring activities such as preparing monthly financial reports, performing drawdowns and monitoring expenditures. The grant program managers are responsible for the daily programmatic and administrative activities and are ultimately responsible for ensuring grants are managed in accordance with grant agreements and applicable regulations.

The following table lists the federal grants available to OEWD for FY 2015:

GRANT NAME	Grant Award
WIA Pilot Demonstration	\$162,356
WIA 2013-2015 ADMIN	\$168,532
WIA 2013-2015 ADULT WORKER	\$535,078
WIA 2013-2015 DISLOCATED WORKER	\$381,258
WIA 2013-2015 YOUTH	\$600,458
WIA 2013-2015 INCUMBENT WORKER	\$ 23,817
WIA 2014-2016 ADMIN	\$192,397
WIA 2014-2016 ADULT WORKER	\$556,547
WIA 2014-2016 DISLOCATED WORKER	\$544,020
WIA 2014-2016 YOUTH	\$631,005
WIA 2014-2015 JOB DRIVEN	\$355,049
WIA 2014-2016 INCUMBENT WORKER	\$ 2,618
EPA 2012-2015 JOB TRAINING GRANT	\$199,998
EPA 2014-2017 JOB TRAINING GRANT	\$200,000
EPA BROWNFIELDS HAZARDOUS SUBSTANCE	\$199,999
EPA BROWNFIELDS PETROLEUM SUBSTANCE	\$200,000

## EXECUTIVE SUMMARY

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### Purpose

The purpose of the audit engagement was to determine if adequate controls existed over the management of Federal grant funds at the Office of Economic and Workforce Development.

We conducted this performance audit in accordance with generally accepted government 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.

### Audit Results

Overall, adequate controls existed over financial grant activities carried out by the Office of Economic and Workforce Development (OEWD) staff. The OEWD staff should perform drawdowns in accordance with Policy FP 103.1- *Administration of Grants* and the Durham Workforce Development Board (DWDB) *Drawdown Policy*; and they should also document the risk assessments performed [that pertained to site visits], which were used to determine varying levels of monitoring. In addition, adequate controls existed to monitor subrecipients. The department could enhance its subrecipient monitoring process by ensuring that the work performed during site visits is sufficiently documented.

## OBJECTIVES, SCOPE AND METHODOLOGY

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### Objectives

The objectives of the audit were to:

- Ensure adequate controls existed over financial grant activities; and
- Ensure adequate controls existed to monitor subrecipients.

### Scope

The scope of the audit included examining the Department of OEWD's current policies, procedures and controls over the grants management process.

### Methodology

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

- 1 Interviewed Department of OEWD staff responsible for monitoring grants;
- 2 Reviewed policies and procedures pertaining to grants management;
- 3 Obtained a list of all Federal grants for fiscal years 2015 and 2014;
- 4 Selected a sample of grant funds for review based on the expenditures;
- 5 For the grants selected, reviewed expenditures and determined if they were allowable per grant agreement/regulations;
- 6 Verified that the grant expenditures were properly approved;
- 7 Examined the basis for charging salary costs to the grants;

## OBJECTIVES, SCOPE AND METHODOLOGY

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- 8 Examined journal entries and verified if proper supporting documentation existed to support the journal entries processed;
- 9 Performed overall financial analysis of grant funds to ensure funds were not expended over budget;
- 10 Verified that the drawdown of expenditures was performed in accordance with Policy FP 103.1- *Administration of Grants* and Durham Workforce Development Board *Drawdown Policy*;
- 11 Reviewed the subrecipient monitoring process and determined the adequacy of the process;
- 12 For the grants selected in Step 4, verified if adequate monitoring of subrecipients was being performed (program and fiscal monitoring); and
- 13 Verified internal processes in place to ensure the accuracy of data submitted by subrecipients regarding the program participants.

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

## AUDIT RESULTS

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**Overall, adequate controls existed over financial grant activities. Drawdowns need to be performed in accordance with Policy FP 103.1 and the DWDB Drawdown Policy.**

Effective practices existed over:

### Grant Expenditures

Audit Services staff examined expenditures for 11 of the 16 grants. Overall, grant expenditures were allowable in accordance with OMB Circular A-87, *General Principles for Determining Allowable Costs*.

Salaries and the Special Contractual Services were the two major expense categories for all of the grants reviewed. The allocation of salaries was examined to ensure the allocation was based on time devoted specifically to the performance of those grants. According to OMB Circular A-87, *General Principles for Determining Allowable Costs*, "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards." Some OEWD staff worked on multiple activities or more than one federal award. The department staff used timesheets to track the number of hours spent on various activities. Journal entries were prepared to allocate salaries based on the actual time spent on the grant funds. Audit Services staff analyzed the job duties of the employees being charged to each grant and determined their involvement with the grant to ensure salaries were charged for actual work performed on grant activities. In addition, Audit Services staff verified 20 personnel timesheets and ensured that salary allocations were based on the hours documented in the timesheets. No exceptions were noted.

Audit staff also verified expenditures charged to the Special Contractual Services expenditure category. The project managers received and reviewed the invoices before forwarding them to the accounting staff for approval and payment. The approval by the

## AUDIT RESULTS

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program managers was documented on the actual invoice. The approval of the accountant/administrative staff was documented in the MUNIS system. Audit Services staff reviewed the invoices to ensure costs charged were allowable and to ensure invoices were properly approved. No exceptions were noted. An invoice submitted by the subrecipient appeared to have items that contained alcohol (Beer and King Cake Jell-O shots) which were served during a special event. After inquiry by audit staff, the Senior Program Coordinator was notified by the caterer that the Beer and King Cake Jell-O shots were “non-alcoholic” items. The information reported on the invoice was misleading and could have been construed as a violation of OMB Circular No. A-87. These items should have been investigated and documented as part of the normal review process.

### Overall accounting for Grant Funds

Audit Services staff analyzed the Workforce Investment Act (WIA) prior year funds and current funds to ensure that prior year funds, if available, were expended prior to accessing new funding. A few instances were noted where the new year funding sources were used before prior year funds were completely expended. However, the amounts were not material. Also, according to the Administrative Senior Manager, it is a practice to review accounts at year end to ensure that they address these types of issues.

Areas for improvement:

### Timely Drawdowns

Audit Services staff compared overall revenues to expenditures for eleven grants per the MUNIS system to ensure drawdowns were performed on a timely basis. Approximately \$587,526 of expenditures were available for drawdown. The expenditures were incurred during the period of March 2015 to May 2015. According to Policy FP 103.1 *Administration of Grants*, “Drawdowns should be requested at least quarterly unless more than \$20,000 of expenditures is incurred for a given grant; then the drawdown should be performed monthly.” For three of these grants with approximately half a million dollars in total expenditures, the monthly expenditures exceeded the \$20,000

## AUDIT RESULTS

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threshold. In addition, the DWDB *Drawdown Policy* states that the draw request should be entered on a monthly basis. Drawdowns were not performed in compliance with these policies. The department has staffing issues that have contributed to the non-compliance. The lack of timely drawdown of funds negatively impacts the general fund cash flow.

**Adequate controls existed over subrecipient monitoring.  
Opportunities to enhance monitoring activities were identified.**

Monitoring of a subrecipient's use of federal awards according to OMB Circular A-133, can be achieved through: review of subrecipient reports, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. Three subrecipients were identified for the 11 grants selected for testing. Audit staff reviewed the monitoring activities performed by OEWD staff for the three subrecipients.

OEWD staff has developed monitoring tools to aid them in the monitoring process. They utilized site visits (supported by a risk assessment of the subrecipients to ascertain the need for a site visit), regular contact, and review of performance reports as tools to perform monitoring of subrecipients. In addition, policies and procedures that address monitoring of subrecipients also existed. Audit staff reviewed the following for the 3 subrecipients:

- Monthly program reports;
- Documentation of site visits performed for programmatic review and financial review;
- Desk reviews performed; and
- Other documentation to support contact with the contractor/subrecipient.

## AUDIT RESULTS

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The monitoring performed by OEWD staff appears adequate. Opportunities for enhancement were noted in the following areas:

- According to OMB Circular A-133 the monitoring work performed should be documented. OEWD staff did document the results of the site visits. However, for one of the site visits performed, the documentation was not sufficient to conclude that the on-site visit was adequately performed. Detailed documentation of the work performed will enable readers of the report/monitoring tool to better understand the review process; and
- A site visit was not performed for one of the subrecipients. Site visits are an overall part of the monitoring process; but are not required by OMB Circular A-133. The OEWD staff should document the results of the risk assessment of the subrecipient that was not selected for a site visit and maintain that documentation in the monitoring file.

### Conclusion

Overall, adequate controls existed over financial grant activities carried out by OEWD Staff. The OEWD staff should perform drawdowns in accordance with Policy FP 103.1 and DWDB *Drawdown Policy*. In addition, adequate controls existed to monitor subrecipients. The department could enhance its subrecipient monitoring process by ensuring that the work performed during site visits is documented sufficiently. The department should also document the results of any risk assessment performed when used to determine the appropriate level of monitoring (including the need for site visits).

## RECOMMENDATIONS

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The Office of Economic and Workforce Development staff should implement the following recommendations.

### **Recommendation 1**

Incorporate the following practices as part of its subrecipient monitoring process:

- Document all monitoring performed in detail; specifically site visits; and
- Document the results of any risk assessment performed, which is used to determine the extent of monitoring the staff will perform.

### **Recommendation 2**

Ensure drawdowns are performed in accordance with applicable policies. In addition, ensure that all questionable items are investigated and sufficiently documented.

## MANAGEMENT'S RESPONSE

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**Memo to:** Dr. Germaine F. Brewington, Director of Audit Services  
**From:** Kevin Dick, Director, Office of Economic & Workforce Development  
**Date:** June 16, 2015  
**Subject:** Management's Response  
Grants Management Performance Audit  
June 2015

Presented here is the Office of Economic & Workforce Development (OEWD) Management's response to the **Grants Management Performance Audit** conducted by Audit Services.

### **Recommendation 1**

Incorporate the following practices as part of the subrecipient monitoring process:

- Document all monitoring performed in detail; specifically site visits; and,
- Document the results of any risk assessment performed, which is used to determine the extent of monitoring the staff will perform.

### **Management's Response**

We concur. Management is in full agreement with the recommendation. OEWD's practice consists of utilizing Workforce Investment Act contractor monitoring procedures for annual reviews. OEWD Management agrees that including documentation consisting of:

- The rationale for the type of review to be conducted (desk review or site visit), and,
- the scope of work of the monitoring engagement

## MANAGEMENT'S RESPONSE

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would strengthen the validity of the work carried out by Workforce Development staff. The Accountant and Administrative Manager will include a section in the Monitoring Report detailing the rationale for the type of monitoring and work performed in the 2015 reports.

### **Recommendation 2**

Ensure drawdowns are performed in accordance with applicable policies. In addition, ensure that all questionable items are investigated and sufficiently documented.

### **Management's Response**

We concur. Management is in agreement with this recommendation. The department intends to address this matter by having the Accountant, Division Manager and Administrative Manager develop and sign off on a monthly checklist related to financial activities for the period. The Administrative Senior Manager will coordinate and implement this process by July 2015. Program Managers and our Accountant will review documentation for questionable items, ensuring that any such identified items are scrutinized and sufficiently documented.