



HOUSING AND HUMAN SERVICES

CONTRACT MONITORING

AUDIT REPORT #0118

MARCH 2001



Copies of this audit report #0118 (project #0019) may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

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MEMORANDUM

To: Mayor and Members of the City Commission

From: Sam M. McCall, City Auditor

Date: March 8, 2001

Subject: Audit Report on Housing and Human Services Contract Monitoring (#0118)

We have completed an audit of Housing and Human Services Contract Monitoring (#0118). We submit this report that contains our audit issues and recommended actions and the response from the City Manager. We will periodically review the implementation of these recommended actions. In addition, and as noted in the report, we will be issuing a Guidance and Assistance Report as a follow-up to this audit as soon as practicable.

We thank applicable City staff for their cooperation and assistance during this audit. If you have any questions or need a more detailed briefing on this audit, please contact me.

Respectfully submitted,

Sam M. McCall
City Auditor

SMM/mbd
attachment

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Audit Report



Sam M. McCall, CPA, CIA, CGFM
City Auditor

“Housing and Human Services Contract Monitoring”

Report #0118

March 8, 2001

Executive Summary

Monitoring procedures performed by the Housing and Economic Development (Housing) and Human Services divisions within Neighborhood and Community Services (NCS), can be improved to provide increased assurance that sub-recipients are expending federal, state, and City funds in accordance with program guidelines. As a follow-up to this report, the City Auditor will issue a guidance and assistance report that NCS can refer to in developing a sub-recipient monitoring plan.

NCS contracts with organizations to provide housing and community development programs to low-income families.

Each year, NCS receives federal and state grants to provide housing and community development programs to low-income families. The City also provides moneys from the General Fund to support these programs. These funds are allocated to the Housing and Human Services divisions within NCS. The divisions are responsible for contracting with non-profit organizations to carry out these community programs and for monitoring the organizations for compliance with contract provisions and grant requirements.

This audit was made at the request of NCS for the purpose of identifying areas for increased staff efficiency and effectiveness in monitoring sub-recipient organizations receiving federal, state, or City grant funding. We conducted our review of the fiscal and program monitoring activities of the Housing and Human Services divisions of NCS from August through November 2000. During fiscal year 1999-2000, the Housing and Human Services divisions disbursed approximately \$4 million in grant funding to sub-recipients.

We reviewed the processes used by the divisions to monitor the fiscal and programmatic aspects of organizations receiving grant funding from the City. We also reviewed recommendations contained in audit reports previously issued by the Office of the City Auditor relating to Housing division sub-recipient contract monitoring and management assertions relating to corrective action. We sought to identify further opportunities for improvement.

As a result of recent actions, the divisions' contracts now comply with federal regulations concerning sub-recipients.

The Housing and Human Services divisions are required by federal regulations to include certain grant funding information in sub-recipient contracts. For the contract period October 2000 through September 2001 and in response to an external audit recommendation, the divisions revised sub-recipient contracts so they now include the federal catalog of federal domestic assistance (CFDA) number.

Grant monitoring policies and procedures should be improved.

The Human Services division should continue efforts to finalize policies and procedures that:

- explain the monitoring process,
- outline the tasks to be performed during the process, and
- assign authority and responsibility for those tasks to employees within the department.

In addition, the Housing and Human Services divisions need to review and/or develop procedures that:

- provide for training staff in monitoring activities,
- describe a program of periodic monitoring based upon a plan, available resources, and an assessment of the sub-recipient's risk management, control, and governance process,
- require retention of documentation relating to the monitoring performed, and
- promote consistency in contract management practices.

Human Services should improve the monitoring of sub-recipients.

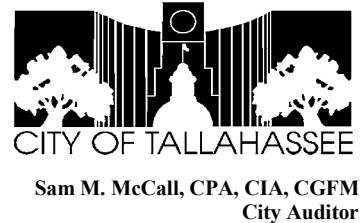
The Human Services division should increase the frequency of periodic on-site visits of sub-recipient organizations to assess contract compliance. The division has developed a standardized reporting instrument for sub-recipient organizations and performed desk reviews of expenditure and client served information submitted by the organization; however, we believe that a comprehensive multi-year monitoring plan could establish an on-site monitoring schedule for sub-recipients.

Employee turnover and a lack of adequate staffing are factors that appear to have contributed to the absence of monitoring procedures at the time of our review. The Human Services division is now in the process of finalizing a monitoring checklist. The checklist should address contract and grant requirements as well as the financial management practices of the organization.

This report contains a summary of issues contained in prior reports and shows where management believes that corrective actions have been taken to address the audit findings. Areas that appear to be in need of additional follow-up actions relate to sub-recipient submission of monthly reports to demonstrate contract compliance and department actions to improve fiscal and programmatic monitoring activities. Management's plans to address the issues contained in this report are presented as Appendix A and B. Additionally, the City Auditor will be issuing a guidance and assistance follow-up report to this audit. That report, when issued, will be provided to NCS to assist in their development of a monitoring plan based on an assessment of sub-recipient risks and controls.

We would like to thank staff from the Housing and Human Services divisions within NCS for their support and assistance during this audit.

Audit Report



“Housing and Human Services Contract Monitoring”

Report #0118

March 8, 2001

Purpose

The purpose of this report is to evaluate the fiscal and program-monitoring processes of the Housing and Economic Development (Housing) and Human Services divisions of the Neighborhood and Community Services (NCS) Department for organizations receiving grant funding. Our review was made at the request of NCS to help identify areas for increased staff efficiency and effectiveness in the performance of their sub-recipient monitoring responsibilities. As requested, we have consulted with NCS in the development of a plan to address issues and recommendations contained in this report.

Scope and Objectives

This report focuses on the process the City used to monitor organizations receiving grant funding from the Housing and Human Services divisions within NCS during the period October 1999 through September 2000. Our objectives were to determine whether:

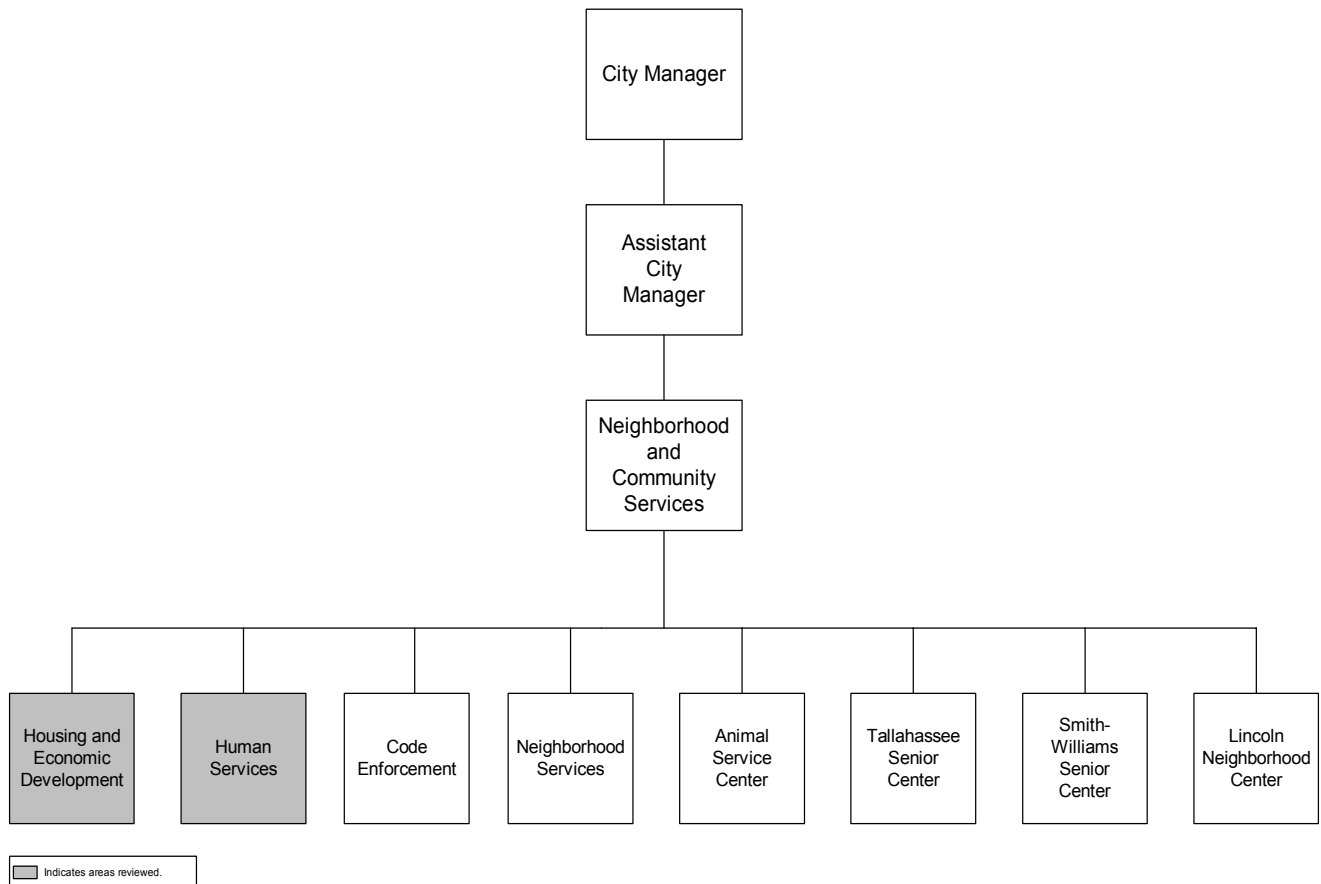
- the Housing and Human Services divisions within NCS complied with applicable federal requirements;
- the Housing and Human Services divisions established and implemented monitoring policies and procedures and maintained adequate documentation to support the granting of funds to the agencies;
- sub-recipients receiving Community Development Block Grant (CDBG), HOME Investment Partnerships Program (HOME), State Housing Initiative Partnership (SHIP), and City general funds are being adequately monitored by the NCS department.

To the extent that issues are identified and improvements need to be made to address sub-recipient monitoring, we will consult with NCS in the development of a management action plan.

Background

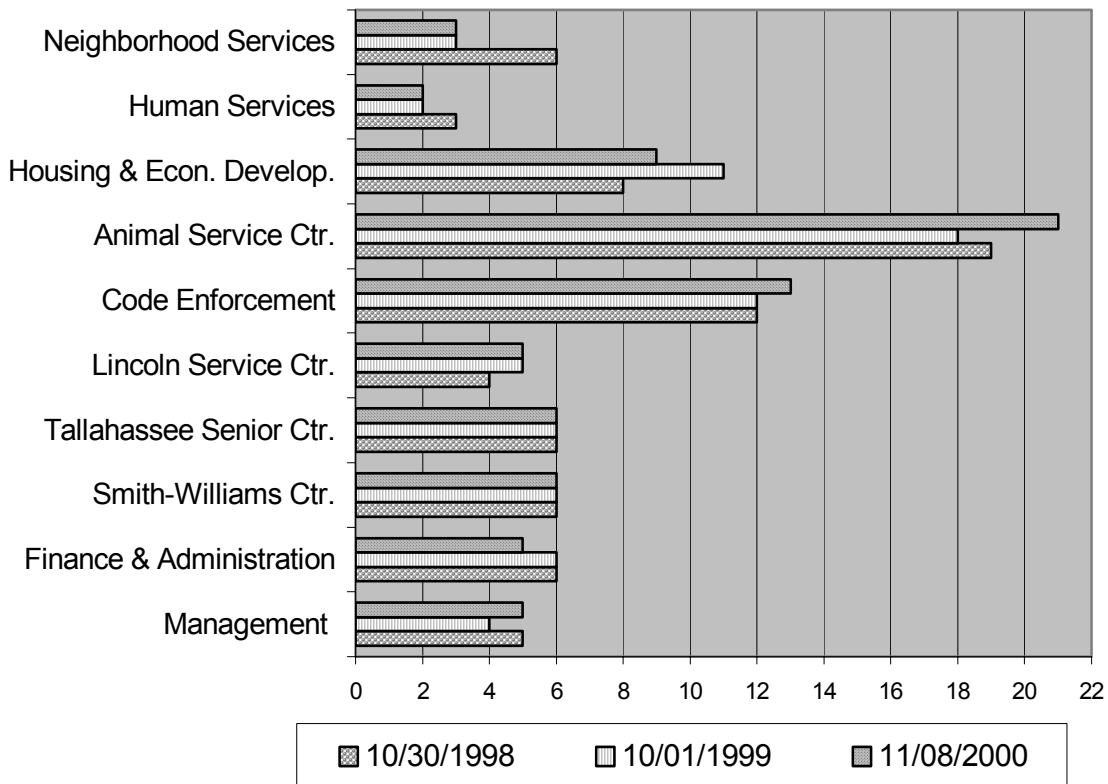
The Neighborhood and Community Services (NCS) Department is responsible for providing programs and services to preserve and improve the integrity of neighborhoods. Services provided include housing and community economic development, code enforcement, human services, neighborhood services, an animal service center, and three community service centers. Each of these services is provided through separate divisions within the department. Figure 1 is an abbreviated representation of the department's organizational structure. Our efforts were focused on the contract monitoring processes within the Housing and Human Services divisions.

Figure 1



Each division is tasked with providing neighborhood and community services to citizens. The level and extent of services provided differ among divisions. As a result, staffing within each of these divisions varies as well. During the three-year period October 1998 through November 2000, the number of filled full-time positions (FTE) in the department has generally remained constant at 75 with the exception of October 1999 when the number decreased to 73. Figure 2 shows the number of filled full-time positions by division for the period October 1998 through November 2000. As shown below, on November 8, 2000, the Human Services and Housing divisions had two and nine filled full-time positions, respectively.

Figure 2
Filled Full-Time Positions



The Housing division provides financial assistance so that low-income families can become homeowners.

The Housing division offers programs to preserve and expand the City's stock of affordable housing and to promote economic and community development within targeted areas of the City. Some of the programs offered through the efforts of this division consist of:

- providing financial assistance to first-time homebuyers for down payment and closing costs;
- assisting with the construction of new affordable single-family homes; and
- assisting low-income homeowners with rehabilitation and health and safety improvements to their existing homes.

The Human Services division has developed a partnership to distribute public service funds.

The Human Services division works cooperatively with Leon County and the United Way of the Big Bend, Inc., to distribute public service funds through the Community Human Services Partnership (CHSP). The CHSP provides a community-wide strategic planning and funding process for organizations providing human services programs. Such programs include substance abuse programs, emergency day care, after school programs, health care, and crisis counseling.

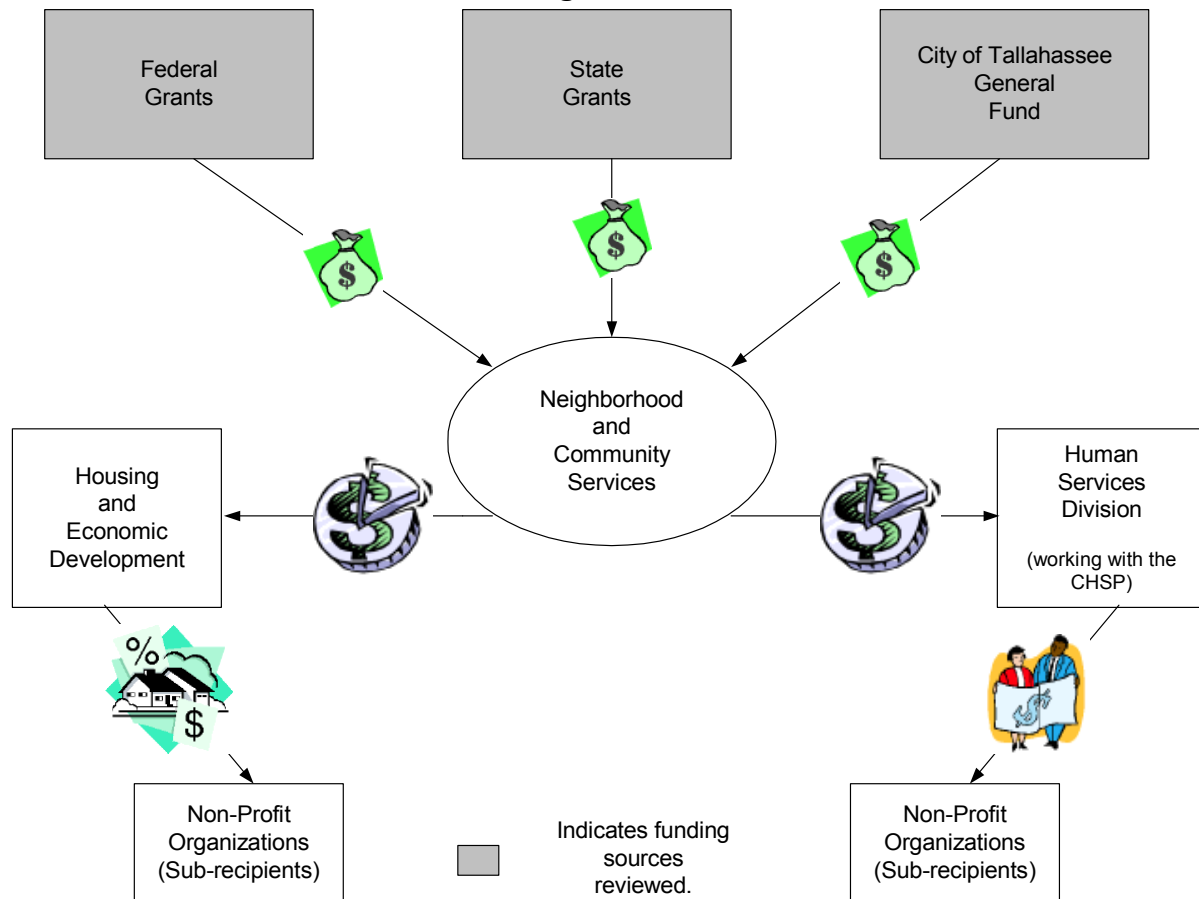
The CHSP funding distribution process includes the following steps:

- public notification process,
- public hearings for interested parties,
- standardized application instrument, which requires agencies to include legal, organizational, financial, managerial, programmatic, and outcome evaluation information,
- technical review of all applications, and
- citizen review teams that review applications and conduct on-site visits, using the CHSP evaluation instrument as a guideline.

The City awards federal and state grant money and general operating funds to organizations providing necessary community programs.

Each year, the City is a recipient of federal and state grants to provide housing and community development programs to low-income families. The City also provides general funds from its operating budget to support these programs. The City awards the funds to non-profit organizations through a contracting process. When the City awards or passes through federal funding to organizations, federal and state guidelines define the organizations as sub-recipients. Federal guidelines require the City to monitor the sub-recipient’s performance and ensure federal funds are spent in accordance with program requirements. Figure 3 provides an overview of the funding process.

Figure 3



As stated above, the City passes through funding to non-profit organizations through a contracting process. Under the terms of the contract, organizations are responsible for

administering programs in accordance with federal, state and City regulations and providing necessary services to the community. Most organizations accomplish this task either by providing the service to the community directly or by sub-contracting with another organization to provide the service. However, not all community programs are provided by non-profit organizations. NCS staff administers some of the programs internally.

The types of programs offered by the non-profit organizations and the Housing and Human Services divisions can be broken down into six categories. With the exception of the NCS service centers and some of the internal programs, the Housing and Human Services divisions manage the contracts associated with these programs and monitor the performance of the organizations providing these services. The categories are as follows:

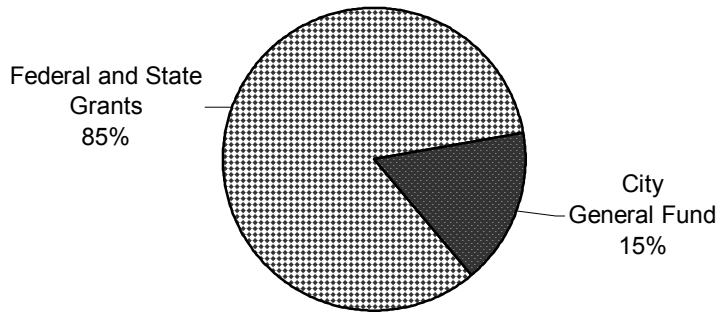
- *Human Services* (examples include Tallahassee Boys Choir, Sickle Cell Foundation, and Big Bend Cares),
- *Housing Programs* (examples include down payment assistance, rehabilitation, and emergency repairs),
- *Internal Programs* (examples include Frenchtown Public Improvements, Community Clean-up and Carolina Place Deep Subsidy)
- *Public Facilities / Other* (examples include Refuge House, Brehon Institute, and Salvita),
- *NCS Service Centers* (consists of the Tallahassee Senior Center, Smith-Williams Service Center, and Lincoln Neighborhood Center), and
- *Emergency Shelter* (examples include American Red Cross, Refuge House, and The Shelter).

Eighty-five percent of the Department's funding is received from federal and state grants.

As shown in Figure 3 above, NCS receives its funding through federal and state grants as well as through the City's general fund. During the period of our review, FY 1999-2000, 85% of the department's funding was received through federal and state grants. The remaining 15% was provided

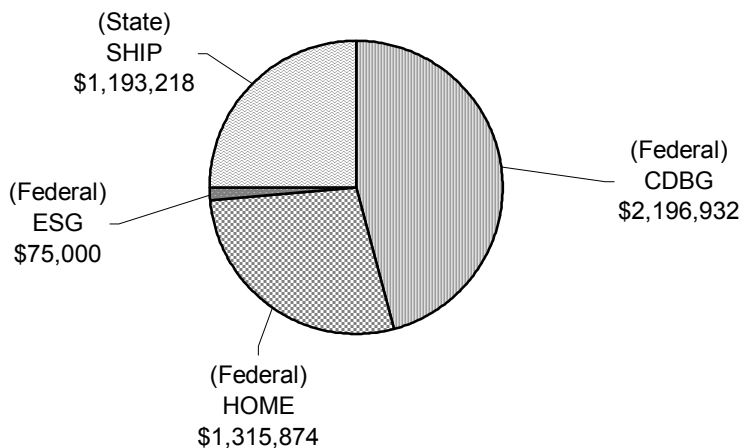
by the general fund. Figure 4 displays the funding sources for the department.

**Figure 4
Department Funding Sources
FY 99-00**



Of the 85% of federal and state grant funding received by NCS, 64% is received through federal sources and 21% is received through state sources. The federal sources (64%) consist of the Community Development Block Grant (CDBG), the HOME Investment Partnership Program (HOME), and the Emergency Shelter Grant (ESG). The state sources (21%) consist of the State Housing Initiatives Partnership Program (SHIP). Figure 5 represents the percentage of federal and state grant funding received by source.

**Figure 5
Federal and State Grant Sources
for the Department
FY 99-00**



The divisions must submit a plan that describes the goals and objectives of the use of the funds.

In order to be eligible to receive federal and state grants, the Housing and Human Services divisions must submit a comprehensive plan that describes the goals and objectives of the department's use of the funds as well as what community needs will be met and the activities that will be performed. When the funding is received, each division is given a percentage of the money and is responsible for contracting with the organizations that will meet their objectives for providing necessary community services.

As a result of this process, the number and type of programs offered through the Housing and Human Services divisions is dependent upon the amount of funding received and the community service objectives submitted in the comprehensive plan. Figure 6 shows the amount of funding awarded per service category, number of organizations/programs within each category, and the range of funding provided to the organizations within each category for a three-year period. With the exception of the NCS service centers and some of the internal programs, the Housing and Human Services divisions manage the contracts associated with these programs and monitor the performance of the organizations providing these services. As shown below, during FY 99-00, the Housing and Human Services divisions disbursed approximately \$4 million in grant funding to sub-recipients.

Figure 6

3-Year Funding Breakdown

| Category | Number of Programs | Amount Expended | Minimum Award | Maximum Award |
|----------------------------|--------------------|-----------------|---------------|---------------|
| Human Services: | | | | |
| FY 97-98 | 20 | \$327,150 | \$3,063 | \$60,000 |
| FY 98-99 | 52 | \$1,121,991 | \$1,250 | \$93,967 |
| FY 99-00 | 44 | \$1,067,241 | \$2,770 | \$113,025 |
| Housing: | | | | |
| FY 97-98 | 8 | \$1,883,866 | \$35,000 | \$400,000 |
| FY 98-99 | 9 | \$2,112,700 | \$50,000 | \$812,500 |
| FY 99-00 | 9 | \$2,193,850 | \$100,000 | \$812,500 |
| Public Facilities / Other: | | | | |
| FY 97-98 | 2 | \$200,000 | \$100,000 | \$100,000 |
| FY 98-99 | 6 | \$580,000 | \$20,000 | \$380,000 |
| FY 99-00 | 7 | \$756,250 | \$3,369 | \$400,000 |
| Internal Programs: | | | | |
| FY 97-98 | 7 | \$603,858 | \$30,000 | \$164,808 |
| FY 98-99 | 2 | \$450,000 | \$100,000 | \$350,000 |
| FY 99-00 | 6 | \$645,000 | \$30,000 | \$350,000 |
| NCS Service Centers: | | | | |
| FY 97-98 | 0 | \$0 | \$0 | \$0 |
| FY 98-99 | 0 | \$0 | \$0 | \$0 |
| FY 99-00 | 3 | \$71,700 | \$16,961 | \$31,358 |
| Emergency Shelter: | | | | |
| FY 97-98 | 7 | \$58,000 | \$2,000 | \$21,750 |
| FY 98-99 | 0 | *\$83,000 | \$0 | \$0 |
| FY 99-00 | 1 | **\$75,000 | \$0 | \$71,250 |

*The ESG grant was not allocated to an organization. Instead, a portion was expended for administration and the remainder was placed in a contingency fund.

**The ESG grant was allocated to one program with the remainder being expended for administration.

Organizations must submit an application to be considered for grant funding.

The divisions determine which organizations will be funded through an application process. Organizations interested in receiving grant money must submit an application to the department. The application contains the organization's goals, objectives, performance measures, and specific services that will be provided to the community. The divisions use this information to identify the organizations that will meet the needs the department has identified in the comprehensive plan. Once the organizations have been selected, the

divisions assign a project manager to prepare and manage the contracts. Throughout the life of the contract, the project managers are responsible for monitoring the organizations to ensure funds are spent in accordance with the terms and conditions of the contract as well as federal and state grant requirements. In addition, the project manager is to review the controls over financial and grant reporting.

The monitoring process results in a written report that identifies problems and makes recommendations for improvement.

Sub-recipient monitoring occurs through desk reviews, on-site visits, and field operation reviews. The monitoring results are then communicated to the organization via a written report. The report consists of an assessment of facts found during the review, a description of accomplishments or improvements since the last review, problems identified, recommendations for improvement, and corrective action plans. The last step of monitoring includes following up on any findings or corrective action plans noted in the organization's annual independent audit report to ensure appropriate action has been taken by the organization.

Prior Audits within the Housing division of NCS

Since December 1997, the Office of the City Auditor has issued four audit reports relating to the sub-recipient contract monitoring process within the Housing division of NCS. The reports issued are as follows:

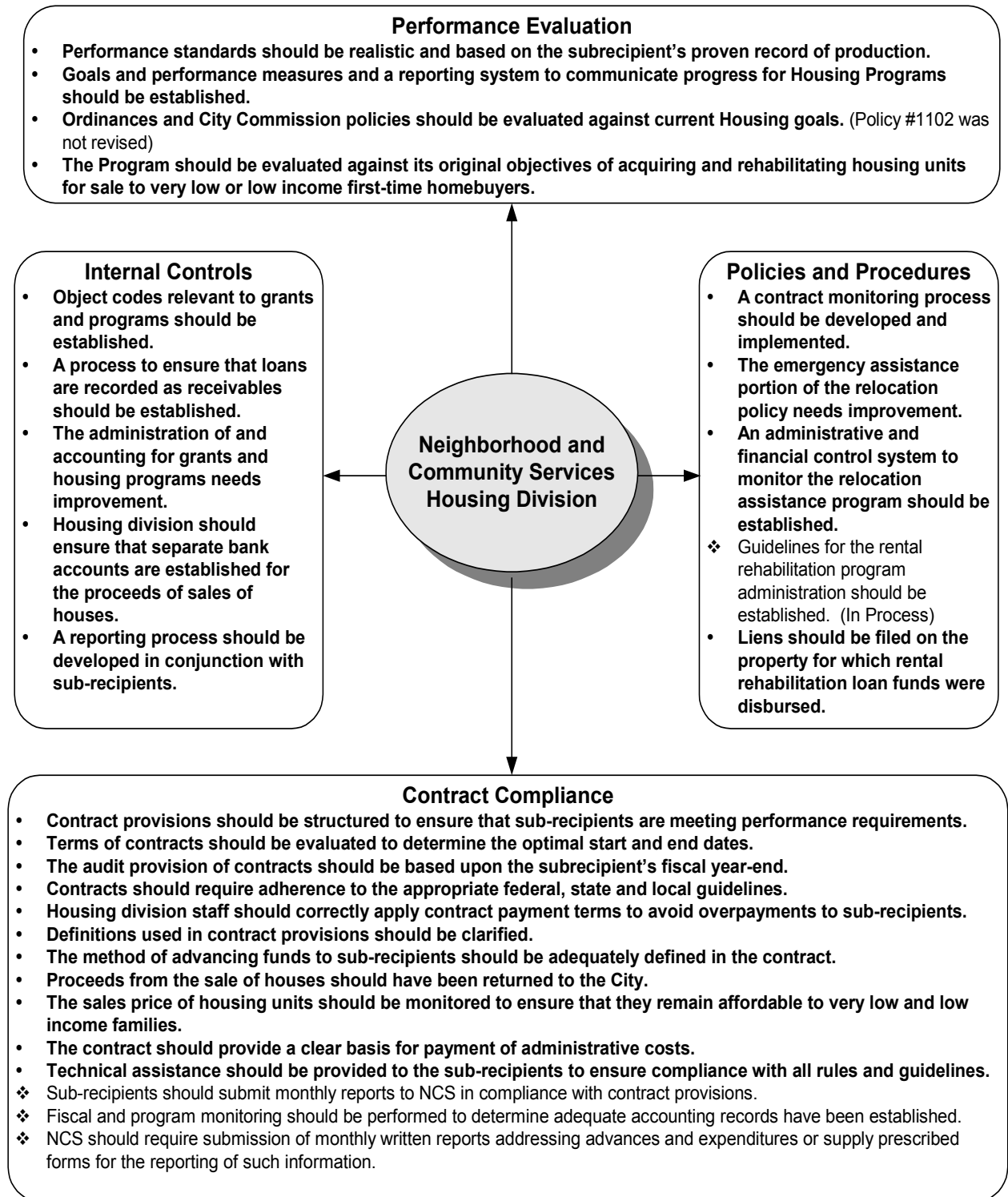
- 1) Report on an Audit of the Housing and Economic Development Division of the NCS Department (Audit Report #9704, issued December 1997)
- 2) Report on a Special Review of the Housing Acquisition and Rehabilitation Program (Audit Report #9843, issued January 1998)
- 3) City Grant to Bethel Community Development Corporation (Audit Report #0016, issued July 2000)

4) City Grant to the Housing Foundation, Inc. (Audit Report #0105, issued December 2000)

In each report, recommendations to improve the contract monitoring process in the Housing division were identified. We reviewed the reports and compiled a listing of the audit recommendations applicable to the sub-recipient contract monitoring process. Using the compilation, we divided the recommendations into the following categories: performance evaluation, internal control, policies and procedures, and contract compliance as shown in Figure 7.

The NCS Housing Administrator reviewed Figure 7 and provided comments as to department follow-up actions. As a result, we have indicated **(in bold type)** those recommendations where NCS believes corrective actions have been taken to address the audit findings. Areas that appear to be in need of further follow-up actions relate to sub-recipient submission of monthly reports to demonstrate contract compliance and department actions to improve fiscal and programmatic monitoring activities.

**Figure 7
Contract Monitoring
Prior Audit Recommendations**



Note: The Housing Administrator indicates that those recommendations shown in BOLD have been addressed as they relate to the individual housing programs contained in the audits.

❖ Areas needing further follow-up actions.

Methodology

In our examination of the program monitoring process, we reviewed and evaluated the policies and procedures established by both divisions. We reviewed division and sub-recipient files and conducted tests to determine whether documentation to support the granting of funds was adequate. This documentation included financial and programmatic reports required in the contract, on-site monitoring reports, and other documents required in the contract such as non-discrimination policies and collaboration agreements.

In addition, we reviewed four audit reports issued by the Office of the City Auditor to identify prior issues and audit recommendations in the program monitoring process.

To determine whether sub-recipients were being adequately monitored during the audit period, we reviewed division files for monitoring reports and conducted interviews with division employees responsible for managing the contracts to determine whether on-site visits had been performed. The monitoring reports were reviewed to identify recommendations and corrective action plans. In addition, we evaluated the criteria used by the divisions to evaluate the organizations' performance and determine compliance with applicable federal, state, and City regulations.

To identify grant requirements, we reviewed applicable City policies and procedures, state laws and rules, the Code of Federal Regulations, and U.S. Office of Management and Budget circulars.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

**Significant Issues
and
Recommendations**

Below is a description of the significant issues and related recommendations identified during our review. We have categorized these issues into the following areas: 1) compliance with federal regulations, 2) policies and procedures, and 3) sub-recipient monitoring plan. The objective of this audit is to identify sub-recipient monitoring issues so they can be prioritized by management for further needed action. By focusing on federal monitoring requirements and an assessment of sub-recipient risk and controls, NCS management will be in a better position to develop a plan of action.

Compliance with Federal Regulations:

The divisions award federal funds to sub-recipients and are required by federal regulations to comply with certain requirements. The compliance requirements identified in Figure 8 provide examples of some of the specific federal requirements used to determine the divisions' compliance with applicable regulations.

Figure 8

| Compliance Requirement Examples |
|---|
| <ol style="list-style-type: none"> 1. Identify federal awards by informing each sub-recipient of Code of Federal Domestic Assistance (CFDA) title and number, award name and number, and award year. 2. Advise the sub-recipients of requirements imposed on them by federal laws, regulations, and provisions of contracts or grant agreements. 3. Monitor the activities of the sub-recipients through internal monitoring and/or external independent audits to ensure federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and performance goals are achieved. 4. Issue a management decision on audit findings within six months after the receipt of the sub-recipient's audit report and ensure the sub-recipient takes appropriate and timely corrective action. |

Improvements can be made in Human Services to better document the process used to monitor sub-recipients for federal compliance.

Human Services should increase the frequency of on-site monitoring of sub-recipients.

During the period October 1999 through September 2000, fourteen contracts (\$247,500) within the Human Services division received federal funding. Of the fourteen contracts issued, the division indicated that five (\$103,550) had not received an on-site monitoring visit.

Federal regulations require the City to ensure federal funds are used in accordance with program requirements. In addition, these regulations require the City to determine the adequacy of performance under sub-recipient agreements and to take appropriate action when performance issues arise. Division monitoring can be accomplished by having staff perform on-site monitoring or the division can also require an independent audit when state or federal expenditures are more than \$300,000 in a fiscal year.

Periodic on-site monitoring visits allow the division to assess the overall adequacy of selected sub-recipient organizations' performance and federal compliance during the contract year. Periodic on-site monitoring also provides for timely corrective action.

Periodic on-site visits should be conducted based upon available resources and an assessment of sub-recipient risk management, control, and governance processes.

Staff within NCS is in the process of conducting on-site reviews of sub-recipients within the Human Services division. We recommend staff continue with their efforts. The extent and frequency that monitoring is performed for sub-recipient organizations should be based upon available resources and an assessment of the organization's risk management, control, and governance processes. (See Sub-recipient Monitoring Plan on page 27.) The on-site visits should be documented to support the outcome of the visit and the areas needing improvement.

Current contracts include information required by federal regulations.

Housing and Human Services sub-recipient contracts for the period October 2000 through September 2001 now contain required federal information.

Federal regulations require the divisions to provide certain information to sub-recipients to assist the organizations and their independent auditors as applicable in identifying federal compliance and audit requirements. The City's external auditor determined that the divisions were not including this information in the contracts issued during the period October 1998 through September 1999. However, this issue was not reported to the department until January 2000. As a result, the divisions were unable to include this information for the contracts issued during the period October 1999 through September 2000. Subsequently, NCS management took corrective action, and the contracts issued for the period October 2000 through September 2001 were revised to include the required federal information.

By including CFDA and award information in contracts and other documents, sub-recipients are made aware of applicable federal requirements that should be followed. These recent changes by the divisions will assist in demonstrating that the federally funded programs are managed and operated in accordance with federal program requirements.

Improvements can be made in Housing and Human Services monitoring efforts to document the review of sub-recipient audit reports and any action taken to follow up on audit findings.

We reviewed ten sub-recipient files from the Human Services and Housing divisions. Each sub-recipient file should contain the contract, applicable sub-recipient monitoring reports, expenditure reports, program narrative reports, and clients served reports. Currently, division contracts require every sub-recipient to submit either a financial audit report or an

OMB Circular A-133 audit report to the City after the contract year has expired. Both of these audits are required to be performed by an external auditor. Sub-recipients are only required to have an OMB Circular A-133 audit if federal expenditures are in excess of \$300,000.

We should note that under federal regulations, the City would have to pay for an audit where a sub-recipient is required to submit a financial audit and federal expenditures are less than \$300,000. In those instances where federal audits are not required and where federal financial participation is not allowed, the City may be unnecessarily requiring audits and obligating City general revenues.

Although nine of the ten sub-recipient files we reviewed contained copies of the most recent audit report, we were unable to find documentation to support the staff's review of the audit report. In addition, due to lack of documentation, we were unable to determine for those audits what follow-up steps were taken by staff to ensure the sub-recipient had taken corrective action on audit findings reported in the audit report.

For OMB Circular A-133 audits, federal program guidelines require entities that pass federal funds through to sub-recipient agencies to issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report. This requirement is to ensure that funding organizations have reviewed the audit report and that the sub-recipient has taken appropriate and timely corrective action on reported audit findings.

Absent documentation to support the divisions' review of the audit reports, it is not possible for the divisions to demonstrate that the review was conducted and that the sub-recipient took corrective action.

Recommend documenting the review of sub-recipient audit reports.

We recommend NCS management review its process for requiring, reviewing, and documenting the review of sub-recipient independent audit reports. This process should include identifying the reported audit findings and following up on the corrective actions taken by the sub-recipient.

Policies and Procedures:

The Human Services and Housing divisions are each responsible for developing and implementing monitoring procedures. In addition, each division should develop and maintain monitoring checklists or questionnaires for conducting on-site monitoring visits. These tools strengthen the monitoring process, assist in ensuring program and contract requirements are being met, and provide support for identified areas of weakness. For each division, we determined whether monitoring procedures were established and if so whether the procedures were adequate. In addition, we evaluated whether the divisions used and retained monitoring checklists and whether the checklists addressed the sub-recipient's record retention, record keeping, and financial management practices.

Housing Division

To improve program efficiency and effectiveness in the Housing division, procedures should address: 1) documenting the risk analysis process and 2) retaining monitoring checklists. In addition, division procedures should provide guidance on the consistent application of contract management practices.

Procedures should include documenting sub-recipient management, control, and governance processes.

Currently contract monitoring procedures established for the Housing division include a review of each sub-recipient based on the following risk analysis factors:

- Organizational exposure – Does the sub-recipient's activity expose the City to any risk of legal action?
- Financial exposure – How much financial penalty is the City subject to if this activity is found to be in non-compliance with applicable laws and regulations?

- Operational exposure – How much does this activity affect the other activities supported by the division, and how critical is this activity to the success in meeting overall goals for the division and the department?
- Management interest – What priority does this activity rate in the ranking of overall City target issues, community concerns, and state and federal priorities for action?

The project manager bases the monitoring strategy on this review. Monitoring strategies performed by the division consist of desk monitoring, site visits, and field operations review. The above risk analysis process is reasonable; however, our concern is that the project manager does not document this review nor the monitoring strategy to be followed. Therefore, if staff turnover occurs, staff would not be aware of the project manager's review nor the monitoring strategy.

Division monitoring checklists should be modified to address questions on the financial management practices of sub-recipients.

Current monitoring procedures need to include the retention of monitoring checklists. The division should either modify the checklists to address the sub-recipient's record retention, record keeping, and financial management practices; or require a sub-recipient self-monitoring checklist on policies, procedures, and financial practices. Checklists serve as the monitor's guide for determining whether the sub-recipient has complied with applicable City contract provisions. In addition, checklists help to identify and document areas of weakness noted during the review.

The division should review record keeping and financial management practices during the contract period to ensure sub-recipients are appropriately expending federal funds. In addition, monitoring checklists or other narrative documentation would identify the areas reviewed and any weaknesses identified during the visit. (See Sub-recipient Monitoring Plan on page 27.)

Consistency is needed in contract management practices.

Improved contract monitoring procedures could provide project managers guidance on the consistent application of contract management practices. For example:

- When it is necessary for project managers to give verbal approval of change orders, that approval should be timely documented in the project file. We noted instances where such approvals were documented only at the end of the project.
- Rehabilitation liens, recorded by the City against houses that undergo rehabilitation, were routinely recorded at \$25,000, although the cost of rehabilitation was less. Procedures should provide for amending the lien when the construction amount is significantly different.
- Two of three contracts reviewed contained changes to or deviations from sub-recipient contract provisions. These changes/deviations were not appropriately documented in the sub-recipient's file. The project manager verbally approved the changes to the contract; however, documentation to support the approval was not maintained.
- Depending on the type of contract awarded, program managers should review sub-recipients' program and administrative costs to assess the viability of the project and the likelihood that the sub-recipient can deliver the contracted services.

Consistent implementation of contract management procedures can assist the division in monitoring and documenting the sub-recipient's performance under the terms of the contract.

Internal control guidelines established by the City identify policies and procedures as control activities that are necessary to assign authority and responsibility for operating activities to employees. In addition, the guidelines require the policies and procedures to include a description of the appropriate practices and resources provided for carrying out those responsibilities.

Recommend documenting risk analysis process and amending checklists to include a review of financial information.

We recommend Housing division management improve monitoring procedures by documenting the risk analysis process. We further recommend that management retain fiscal monitoring checklists or sub-recipient self-monitoring checklists within the agency's file. The checklists should address whether specific contract provisions and applicable federal, state, and City regulations have been met as well as whether the sub-recipients' record retention, record keeping, and financial management practices are adequate.

Recommend contract management procedures be improved.

To further strengthen monitoring procedures and provide guidance to project managers, we recommend management improve procedures, outline contract management practices, and provide training to staff. These practices should include procedures outlining the change order process, amending rehabilitation and/or other housing liens, and documenting changes made to contract provisions. In addition, these procedures should address when sub-recipients should be required to prepare budgets of administrative and program costs prior to the contracts being awarded. As applicable, project managers should review these budgets to assess the viability of the project and the likelihood that the sub-recipient can deliver the contracted services.

Human Services Division

To improve staff efficiency and effectiveness within the Human Services division, monitoring policies and procedures should be finalized and a training program should be implemented.

Monitoring policies and procedures should be finalized.

Policies and procedures for monitoring sub-recipients should be finalized for the Human Services division. For example:

- Procedures should be developed explaining the monitoring process, the tasks to be performed during the process, and the assignment of authority and responsibility for those tasks to employees within the Human Services division.

- The division should establish a policy describing the documentation requirements necessary for contract pay requests. When reviewing sub-recipient files, we noted two organizations that submitted copies of checks with pay requests instead of a copy of the invoice that supported the item, vendor, and amount paid.
- As discussed under the Housing division, policies and procedures should address: 1) documenting the risk analysis process, 2) evaluating sub-recipient performance, and 3) the consistent application of contract management practices.

Internal control guidelines established by the City identify policies and procedures as control activities that are necessary to assign authority and responsibility for operating activities to employees. In addition, the guidelines require the policies and procedures to include a description of the appropriate practices and resources provided for carrying out those responsibilities.

Effective policies and procedures can increase the probability that controls and procedures will be performed correctly due to employee turnover or a change in the employee's perception of the job.

Employee turnover and lack of adequate staffing within the division are factors that appear to have contributed to the absence of monitoring procedures at the time of our review. For example, in our review of seven contracts (\$319,693) issued through the division, we found that six of the seven sub-recipients had not received an on-site monitoring review. Total contract awards for the six contracts amounted to \$303,137 of which two contracts (\$66,710) received federal funding and four contracts (\$203,877) received City funding. While two of the four contracts were for less than \$10,000, division procedures should provide for periodic on-site monitoring based on a multi-year monitoring plan. (See Sub-recipient Monitoring Plan on page 27.)

Recommend establishing policies and procedures for monitoring sub-recipients.

The division is currently developing monitoring procedures to ensure the process is documented when future employee turnover or staff changes occur. To help the division develop these procedures, we have reviewed the proposed procedures and made suggestions for improvement. We recommend management continue with their efforts to develop and implement monitoring policies and procedures and provide training to staff. These procedures should explain the monitoring process and the tasks to be performed during the process including documentation requirements, contract management practices, and assignment of authority and responsibility for those tasks to employees within the Human Services division.

The division is also in the process of developing a monitoring checklist to use when performing on-site visits. To assist the division in their task, we have reviewed the proposed checklist and made suggestions for improvement. We recommend management continue with their efforts to develop and maintain a monitoring checklist to be used when performing on-site visits. Management may also want to consider the development of a self-monitoring checklist that can be completed by sub-recipients on their policies, procedures, and financial practices.

Sub-recipient Monitoring Plan:

The Human Services and Housing divisions need to develop a plan for monitoring sub-recipients based upon a review of those organizations' risk management, control, and governance processes. Subsequent to issuance of this report, the City Auditor's Office will provide NCS a guidance and assistance report that should assist in their development of a monitoring plan.

In response to issues and recommendations contained in this report, we will be following up and issuing a guidance and assistance report that will be provided to NCS management

to assist in their development of a monitoring plan. The report will provide suggested procedures relating to a fiscal and program monitoring checklist and include a self-monitoring checklist for policies, procedures, and financial practices. In addition, the report will provide suggestions relating to development of a sub-recipient monitoring plan based upon:

- the number of years an organization has been receiving grant funding,
- the amount of funding,
- results of department monitoring efforts,
- number of clients served,
- type of contract,
- findings contained in independent audits, and
- sub-recipient efforts to correct noted deficiencies.

The guidance and assistance report will address additional factors when reviewing sub-recipient organizations' risk management, control, and governance processes.

Recommend developing a multi-year monitoring plan.

Using the criteria listed above, the divisions should develop a multi-year monitoring plan that establishes an on-site monitoring schedule for sub-recipients. This plan should identify the sample of sub-recipients that will be reviewed each year and allow for every sub-recipient to be reviewed at least once over a three-year period.

Conclusion

Monitoring procedures performed by the Human Services and Housing divisions can be improved to provide increased assurance that sub-recipients are expending federal, state, and local funds in accordance with program guidelines. This includes:

- improving policies and procedures over the monitoring process,
- reviewing and documenting financial management

practices during those visits, and

- developing a sub-recipient monitoring plan.

In addition, we believe a monitoring checklist should be utilized during these visits to document compliance with program and contract guidelines and to serve as the primary support for any areas of weakness identified during the visit. The divisions may want to consider the use of sub-recipient self-monitoring checklists for policies, procedures, and financial practices.

Management's action plans to address the significant issues identified in this report are presented in Appendix A and Appendix B. As a follow-up to issues and recommendations contained in this report, the City Auditor will issue a guidance and assistance report that NCS can refer to in development of a sub-recipient monitoring plan.

We would like to thank the staff from the Human Services and Housing divisions within NCS for their support and assistance during this audit.

**Response from
Appointed
Official**

City Manager:

This audit was undertaken at the request of the Department of Neighborhood and Community Services (NCS). As was noted in the Auditor's report, a number of the issues noted in the report have been, or are in the process of being, addressed. The assistance being provided by the City Auditor's Office to help NCS refine its monitoring procedures is greatly appreciated.

We concur with the need to standardize and better document the monitoring conducted on subrecipient agencies. This monitoring will focus on ensuring that the subrecipients are in compliance with the terms of their grant agreements.

However, a monitoring review is not tantamount to an audit and therefore is not expected to be a comprehensive review of the subrecipients accounting practices and internal operations. As we work with the City Auditor on monitoring procedures, we will focus on requirements which allow us to (1) document that the services under contract are being delivered, (2) document any applicable federal and state grant requirements are being followed, and (3) identify areas where technical assistance or guidance may be necessary.

Copies of this audit report #0118 (project #0019) may be obtained by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (dooleym@talgov.com).

Audit conducted by:
Angie Welch, Senior Auditor
Jim Carpenter, Audit Manager
Sam M. McCall, CPA, CIA, CGFM, City Auditor

| Appendix A - Action Plan for Human Services Division | | | |
|--|--|--|-------------|
| A. Objective: <i>Finalize and implement monitoring policies and procedures and include steps for maintaining documentation to support the granting of funds to the organizations.</i> | | | |
| Step # | Action/Task | Responsible Employee | Target Date |
| 1. | Finalize monitoring policies and procedures that: <ul style="list-style-type: none"> • Assign authority and responsibility to employees/positions, • Identify monitoring objectives, • Explain the monitoring process, • Outline tasks to be performed during the process (review of pay requests, on-site reviews, risk analysis, etc.), • Define monitoring strategies, • Describe documentation requirements, and • Address contract management practices. | Pat Holliday | 3/30/01 |
| 2. | Communicate policies and procedures to all employees within Human Services. | Pat Holliday | 4/6/01 |
| 3. | Perform training if necessary for monitoring staff. | Pat Holliday | 4/6/01 |
| B. Objective: <i>Conduct monitoring of sub-recipients to ensure federal funds are expended in accordance with grant provisions.</i> | | | |
| 1. | Develop a monitoring or sub-recipient self-monitoring checklist that addresses: <ul style="list-style-type: none"> • Record retention, • Record keeping, • Contract and grant compliance, and • Financial management practices. | Jeanette Francis | 2/26/01 |
| 2. | Distribute the monitoring checklist to all staff within the division responsible for performing monitoring visits. | Pat Holliday | 2/28/01 |
| 3. | Perform on-site monitoring of sub-recipients in accordance with the monitoring plan. | Jeanette Francis Pat Holliday Freddie Hurchins | 4/30/01 |
| C. Objective: <i>Ensure applicable federal requirements that specifically address pass through entity responsibilities are appropriately followed.</i> | | | |
| 1. | Develop a process for: <ul style="list-style-type: none"> • Reviewing sub-recipient audit reports, • Documenting the review of audit reports, and • Following-up on reported audit findings. | Jeanette Francis | 3/1/01 |
| 2. | Communicate review process to applicable staff. | Pat Holliday | 3/5/01 |

Appendix B - Action Plan for Housing Division

| A. Objective: <i>Improve and implement monitoring policies and procedures and include steps for maintaining documentation to support the granting of funds to the organizations.</i> | | | |
|---|---|-----------------------------|--------------------|
| Step # | Action/Task | Responsible Employee | Target Date |
| 1. | Modify monitoring policies and procedures to include documenting the risk analysis process. | Martha Bentley | 6/30/01 |
| 2. | Modify monitoring policies and procedures to include a process for retaining a monitoring checklist. | Martha Bentley | 6/30/01 |
| 3. | Modify monitoring or self-monitoring checklists to address: <ul style="list-style-type: none"> • Record retention, • Record keeping, • Contract and grant compliance, and • Financial management practices. | Martha Bentley | 6/30/01 |
| 4. | Establish procedures that outline contract management practices. | Martha Bentley | 5/31/01 |
| 5. | Communicate policies and procedures to all employees within Housing. | Martha Bentley | 7/13/01 |
| B. Objective: <i>Ensure applicable federal requirements that specifically address pass through entity responsibilities are appropriately followed.</i> | | | |
| 1. | Develop a process for: <ul style="list-style-type: none"> • Reviewing sub-recipient audit reports, • Documenting review of audit reports, and • Following-up on reported audit findings. | Michael Parker | 4/30/01 |
| 2. | Communicate review process to applicable staff. | Michael Parker | 5/30/01 |
| 3. | Perform training for performing review process and follow-up procedures. | Michael Parker | 7/30/01 |

