

**Performance Audit:
Assessment of
Federal Recovery Act
Grants Controls**

April 2011

**City Auditor's Office
City of Atlanta**

File #10.03



CITY OF ATLANTA
City Auditor's Office
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April 2011

Why We Did This Audit

We undertook this audit because use of federal recovery act (American Recovery and Reinvestment Act) funds is subject to special procurement, tracking, reporting, and transparency requirements. We previously reviewed the Department of Aviation's controls over its two recovery act grants. This report focuses on controls to comply with the act requirements for the remainder of the city's recovery act grants.

What We Recommended

The Chief Financial Officer should:

- periodically review and document whether departments are ensuring compliance with recovery act and grant-specific requirements, including expected project completion dates
- monitor draw down of grant funds from awarding agencies to ensure that funds are received and recorded promptly
- provide department guidance for monitoring sub-recipients at least quarterly
- establish standard procedures for departments to record and track administrative hours spent on grants as work progresses
- ensure that administrative costs are allocated to grants promptly as grant-funded projects progress

For more information regarding this report, please contact Eric Palmer at 404.330.6455 or epalmer@atlantaga.gov

Performance Audit:

Assessment of Federal Recovery Act Grant Controls

What We Found

City departments require stronger controls to mitigate the risks of fraud, ensure timely drawdown of grant funds, monitor sub-recipient performance, meet project completion dates, and ensure compliance with construction, service, and sub-recipient contracts. While vendor selections were consistent with recovery act requirements, most contracts lack specific required provisions. The Departments of Law and Procurement agreed in June 2010 to provide provisions and guidance on requirements for procurements and contracts to be funded with recovery act grants, but neither department did so.

Central oversight would strengthen citywide grant management. The Department of Finance should monitor drawdown of grant funds and provide departments guidance to effectively monitor projects and sub-recipients. Such oversight could ensure proper accounting of city grant expenditures, ensure timely completion of grants, and provide better assurance that projects are complying with grant provisions and meeting intended goals.

The city's compliance with federal guidelines for allocating administrative costs is unclear. Three grants are directly funding administrative positions in the Police Department and the Office of the Mayor. The staff members in these positions oversee more than one grant. Federal regulations prohibit charging costs allocable to a particular federal award to other federal awards, and amounts not recoverable as indirect or administrative costs under one federal award may not be shifted to another federal award unless specifically authorized.

Using the grant funds to hire 73 additional police officers will increase general fund operating costs once the grant funding periods are over. The city is obligated to fund 50 of the police officer positions for one year after the end of fiscal year 2013 and eliminating the other 23 grant-funded positions after the funding period ends in February 2013 may be difficult. Grant funding for all 73 officers amounts to about \$5.5 million per year.

Management Responses to Audit Recommendations

Summary of Management Responses		
Recommendation #1:	The Chief Financial Officer should periodically review and document whether departments are adequately ensuring compliance with recovery act and grant-specific requirements, including expected project completion dates.	
Response & Proposed Action:	Implementation of this recommendation would require additional resources which may already exist in a decentralized fashion among the departments. It would also require the formal assignment of this activity to the Department of Finance (Office of Grant Services).	Agree
Timeframe:	Fiscal year 2012	
Recommendation #2:	The Chief Financial Officer should monitor draw down of grant funds from awarding agencies to ensure that funds are received and recorded promptly.	
Response & Proposed Action:	Review current draw down procedures and increase monitoring to ensure grant funds are received and recorded promptly.	Agree
Timeframe:	Immediately	
Recommendation #3:	The Chief Financial Officer should provide departments guidance for monitoring sub-recipients at least quarterly.	
Response & Proposed Action:	Federal regulations may require more frequent monitoring. Implementation of the monitoring/compliance responsibility would require additional resources and the formal assignment of this activity to the Department of Finance (Office of Grant Services).	Agree
Timeframe:	Fiscal year 2012	
Recommendation #4:	The Chief Financial Officer should establish standard procedures for departments to record and track administrative hours spent on grants as work progresses.	
Response & Proposed Action:	Procedures should be established. However, full implementation of the monitoring/compliance responsibility would require additional resources and the formal assignment of the activity to the Department of Finance (Office of Grant Services).	Agree
Timeframe:	Fiscal year 2012	
Recommendation #5:	The Chief Financial Officer should ensure that administrative costs are allocated to grants promptly as grant-funded projects progress.	
Response & Proposed Action:	Procedures should be established. Implementation of the monitoring/compliance responsibility to ensure that administrative costs are allocated to grants promptly as grant-funded projects progress would require additional resources and the formal assignment of the activity to the Department of Finance (Office of Grant Services).	Agree
Timeframe:	Fiscal year 2012	



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April 18, 2011

Honorable Mayor and Members of the City Council:

Use of federal recovery act funds is subject to special procurement, tracking, reporting, and transparency requirements. In June 2010, we reviewed the Department of Aviation's controls over its two recovery act grants. This report focuses on controls over compliance with the act requirements for the remainder of the city's recovery act grants.

While project management processes appear sufficient to ensure the city complies with requirements for allowable expenses and reporting, departments lack processes to ensure prompt drawdown of grant funds and timely project completion, and to mitigate risks of fraud. Although vendor selections were consistent with recovery act requirements, most contracts lack provisions intended to mitigate fraud risks. The audit recommendations we made in June 2010 to address this issue were not implemented. The city also faces risk of non-compliance with federal award guidelines for allocating administrative costs and risk of increased operating costs once the grant period is over.

Our recommendations to the chief financial officer focus on strengthening central oversight to ensure compliance with grant requirements, monitor drawing down of grant funds, provide guidance for effective monitoring of sub-recipients, establish procedures for tracking grant administrative hours, and ensure that administrative costs are allocated promptly. The chief financial officer agreed with all of our recommendations, but stated that implementing the recommendations may take additional or reallocated resources and assignment of activities to the Department of Finance. The response is included in Appendix A.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Lesia Johnson and Eric Palmer.

Leslie Ward
City Auditor

Fred Williams
Audit Committee Chair

Assessment of Federal Recovery Act Grant Controls

Table of Contents

Introduction	1
Background	1
Seven City Departments Are Managing Recovery Act Funds	3
Previous Audit Recommended Stronger Central Oversight of Recovery Act Spending..	7
Audit Objectives	8
Scope and Methodology.....	8
Findings and Analysis	11
Additional Controls Needed to Address Recovery Act Requirements.....	11
Controls Are Sufficient to Meet Grant Spending and Reporting Requirements and City Inventory Requirements	12
Stronger Control Design Needed to Address Fraud Risk and Other Recovery Act Requirements	17
Future Operational Costs Could Pose Risk for the City	20
Recommendations.....	23
Appendices	25
Appendix A Management Responses to Audit Recommendations.....	27

List of Exhibits

Exhibit 1 City Recovery Act Grant Awards	4
Exhibit 2 Construction and Service Contracts Funded by Recovery Act Grants	14
Exhibit 3 Controls to Ensure Accurate and Timely Reporting	16
Exhibit 4 Grants Acquiring Property and Property Management Process	17

Introduction

We conducted this performance audit of the city's management of federal recovery act grants pursuant to Chapter 6 of the Atlanta City Charter, which establishes the City of Atlanta Audit Committee and the City Auditor's Office and outlines their primary duties. The Audit Committee reviewed our audit scope in October 2010.

A performance audit is an objective analysis of sufficient, appropriate evidence to assess the performance of an organization, program, activity, or function. Performance audits provide assurance or conclusions to help management and those charged with governance improve program performance and operations, reduce costs, facilitate decision-making and contribute to public accountability. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal controls; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.¹

We undertook this audit because use of federal recovery act (American Recovery and Reinvestment Act) funds is subject to special procurement, tracking, reporting, and transparency requirements. We reviewed the Department of Aviation's controls over its two recovery act grants – totaling about \$34 million – in our June 2010 report, *Aviation Grants Management - Federal Recovery Act*. This report focuses on controls to comply with requirements for the city's remaining nine recovery act grants, which total about \$54.9 million.

Background

The 2009 federal recovery act appropriated \$787 billion in emergency funds, including \$275 billion funding for federal contracts, grants, and loans. The act was intended to:

- create new jobs and save existing jobs
- spur economic activity and invest in long-term growth

¹Comptroller General of the United States, *Government Auditing Standards*, Washington, DC: U.S. Government Accountability Office, 2007, p. 17-18.

- invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits
- stabilize state and local government budgets to avoid or minimize service reductions and tax increases
- assist those most affected by the recession

Public reporting fosters accountability. The recovery act promotes accountability and public transparency in government spending by requiring grant recipients to submit quarterly reports through the federal reporting website. The reports list:

- total amount of funds received and expended or obligated
- description of project
- project percentage completion status
- estimated number of jobs created or retained
- description of subcontracts and subgrants

The information is publicly available on the recovery.gov website within 30 days of the end of each calendar quarter.

Granting and recipient agencies must ensure spending meets the intent of the act. The act includes additional requirements to ensure that funds are used for appropriate purposes and that use of funds is transparent to the public. Funds may not be used for any casino or gambling establishment, aquarium, zoo, golf course or swimming pool. Federal agencies awarding grants are required to:

- give preference to projects that can be started quickly
- give priority consideration to projects that can be awarded within 120 days and that can be completed within two to three years, depending on grant type
- spend 50 to 60% of funding within two years depending on grant type
- ensure economic recovery funds supplement rather than supplant planned expenditures

Government agencies receiving grants are required to:

- provide certification from the chief executive that infrastructure improvements have received the full review and vetting required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars

- provide certification regarding drug-free workplace, nondiscrimination and equal opportunity, and equal treatment for faith based organizations
- provide certification for lobbying
- comply with the National Environmental Policy Act
- develop separate contract procedures specific to recovery act funding
- develop contract training on specific recovery act requirements
- award contracts through competitive processes and ensure contracts are fixed price to the maximum extent possible and include whistleblower protection provisions
- ensure construction contracts include “Buy American” provisions and prevailing wage rate requirements
- register on the federal website with Dun and Bradstreet contractor numbers
- monitor contracts to ensure that performance, cost, and schedules are met
- track recovery act funds separately and prevent commingling with other funds
- report project status to federal agencies within 10 days of quarter end
- establish processes to ensure data quality
- mitigate instances of fraud, waste and abuse

Multiple levels of government provide oversight. The recovery act created the Recovery Transparency and Accountability Board to oversee use of funds and to prevent fraud, waste, and abuse. The board coordinates its activities with federal inspectors general, the GAO (Government Accountability Office), and state and local auditors.

Seven City Departments Are Managing Recovery Act Funds

The city was awarded 11 recovery act grants totaling \$88.8 million as of July 2010 (see Exhibit 1). Nine of the grants were awarded in 2009, and most of the grant-funded projects are expected to be completed within two to four years. Seven city departments are administering the grants: the Office of the Mayor, the Department of Planning and Community Development, the Atlanta Police Department, the Department of Finance, the Department of Public

Works, the Atlanta Workforce Development Agency, and the Department of Aviation.

Exhibit 1 City Recovery Act Grant Awards

Department(s) Administering Grant	Recipient Type	Award Amount	Grant	Award Date/ Completion Date	Granting Agency
Mayor, office of sustainability	Prime	\$5,890,200	Energy Efficiency and Conservation Block Grant	August 2009/ August 2012	U.S. Department of Energy
Mayor, office of sustainability	Sub-recipient	\$1,161,492	Clean Cities FY09 Petroleum Reduction for Transportation Sector	June 2010/ June 2012	Center for Transportation and Environment (CTE)
Police	Prime	\$11,209,300	COPS (Community Oriented Policing Services) Hiring Grant	August 2009/ June 2012	U.S. Department of Justice
Police	Prime	\$5,654,431	Byrne Justice Assistance Grant	July 2009/ February 2013	U.S. Department of Justice
Finance, office of grant services	Prime	\$3,441,091	Homelessness Prevention and Rapid Re-Housing	July 2009/ July 2012	U.S. Department of Housing and Urban Development
Planning, bureaus of housing and code enforcement; Mayor, office of human services; Finance, office of grant services	Prime	\$2,249,040	Community Development Block Grant – Recovery	Aug 2009 September 2012	U.S. Department of Housing and Urban Development
Public Works	Sub-recipient	\$16,409,134	Highway Infrastructure Investment Grant: Transportation Enhancements	December 2009/ December 2011	Georgia Department of Transportation
Atlanta Workforce Development Agency	Sub-recipient	\$4,936,489	Workforce Investment - Training and Employment Services - (Youth, Adult and Dislocated Worker) 2009	April 2009/ June 2011	Georgia Department of Labor
Atlanta Workforce Development Agency	Sub-recipient	\$3,914,712	TANF Youth (Training & Employment Summer) 2010	May 2010/ September 2010	Georgia Department of Labor
Aviation	Prime	\$20,000,000	MHJIT In-line Baggage Screening System	September 2009/ June 2013	Transportation Security Administration
Aviation	Prime	\$13,977,695	Apron Pavement MJHIT Ramp 8	September 2009/ February 2011	Federal Aviation Administration
TOTAL		\$88,843,584 Eleven Grants			

Source: Grant Award Documents

The city is the prime recipient for seven of the grants totaling about \$62.4 million and is a sub-recipient for four of the grants totaling \$26.4 million. Prime recipients may delegate reporting responsibilities to sub-recipients and require additional data from some sub-recipients. According to federal guidance, the key difference between a sub-recipient and a vendor is that sub-recipient activities directly execute the program mission, whereas vendors provide products or services that indirectly support the

program mission. Data requirements for reporting vendor information are reduced and vendors cannot be delegated reporting responsibility.²

Energy Efficiency and Conservation Block Grant. The Energy Efficiency grant is funding 15 activities and administrative costs. The city is passing funding through to four sub-recipients and has contracted with 20 service vendors for the following energy efficiency initiatives:

- Sustainable Home Initiative for the New Economy
- Municipal Energy Audits
- Municipal Energy Efficiency Retrofits
- Landfill Gas Study and RFP
- City of Atlanta Fleet Tracking Project
- GSEA Renewable Energy Education
- Congregational Energy Audit Project
- Atlanta Bag Fee Campaign
- Pedestrian Countdown Signal Heads
- Atlanta Sustainable Building Standards Education & Training Program
- City of Atlanta Community Climate Action Plan
- Offer Building Operate Certification
- Net Zero Waste Program Development
- RM Clayton Wind Turbine Installation
- Atlanta Energy Efficiency & Conservation Strategy Development Project

The grant is funding \$620,452 for personnel in the mayor's office of sustainability to manage the grant over three years.

Clean Cities FY09 Petroleum Reduction for Transportation Sector. The clean cities grant is funding purchase of 40 shuttle buses that operate on natural gas for use at the airport, operator training, signs on vehicles, and city administrative costs. The grant requires a city match of \$2,435,400. The city is a subrecipient of the Center for Transportation and Environment, a non-profit organization, which received funding from the U.S. Department of Energy.

² Office of Management and Budget, Frequently Asked Questions—American Recovery and Reinvestment Act of 2009, http://www.whitehouse.gov/omb/recovery_faqs/

COPS (Community Oriented Policing Services) Hiring Grant. The COPS hiring grant is funding the addition of 50 police officers for three years to enhance community policing. The grant stipulates that the city must retain all officer positions for a minimum of 12 months following the three-year federal funding period, which ends June 30, 2012. The city will need to fund the positions for fiscal year 2013.

Byrne Justice Assistance Grant. The Justice Assistance grant is funding a variety of activities in Fulton County, Atlanta, and seven other municipalities (Alpharetta, College Park, East Point, Fairburn, Hapeville, Roswell, and Union City) to support the criminal justice system in preventing and controlling crime. The different jurisdictions proposed different uses of the funds including hiring additional police officers and purchasing patrol cars, equipment, software, network system and consulting services. The city is using funds to hire 23 police officers through fiscal year 2013. The Police Department is administering the grant on behalf of all the jurisdictions and receiving \$282,722 for administrative costs over four years.

Homelessness Prevention and Rapid Re-Housing. The homelessness prevention grant is funding financial assistance and services to prevent individuals and families from becoming homeless and to help those who are experiencing homelessness to be quickly re-housed and stabilized. The city is passing funding through to 21 sub-recipients to provide various services, such as case management, housing subsidies, and financial and legal services to assist low income families, and to assist the city with monitoring homelessness prevention data collection and quality.

Community Development Block Grant - Recovery Program. The Community Development Block Grant - Recovery program is funding activities to renovate the Municipal Market, a historical city owned facility that house 29 small minority businesses, acquire a vacant warehouse to relocate the Furniture Bank facility that provides furniture to homeless individuals and demolish dilapidated residential and commercial buildings ordered by city's In Rem Review Board. In addition, the city is passing funding through to one sub-recipient to fund the clean street team – which employs homeless adults to clean up litter within commercial and business corridors –and one sub-recipient to provide housing weatherization for 122 homes occupied by low/moderate income families.

Highway Infrastructure Investment Grant: Transportation Enhancements. The transportation enhancements grant is funding eight street, sidewalk, and intersection improvements:

- Memorial Drive Sidewalks
- Cascade Mays Phase 2
- Barge at Campbellton Intersections Improvements
- 14th Street Streetscapes
- Downtown Atlanta Pedestrian Improvements (Marietta Street and Centennial Olympic Park)
- Midtown Atlanta Signal Improvements
- Fairlie Poplar Streetscapes
- Simpson-West Peachtree Streetscapes Agreement

The city had entered into six construction contracts for these projects as of July 30, 2010; construction agreements for the Memorial Drive sidewalks and Barge at Campbellton Intersections improvements were not yet completed.

Workforce Investment - Training and Employment Services - (Youth, Adult and Dislocated Worker) 2009. The 2009 Workforce Investment grant is funding activities to hire youth, adults, and dislocated workers for temporary internship positions, career assessments, and job skills training programs. In addition, the grant is funding three consultants hired to administer the programs.

TANF Youth (Training & Employment Summer) 2010. The 2010 Temporary Assistance for Needy Families grant is funding the Georgia Summer Teen Partnership Jobs Program. The program places youth in an eight week summer job program as clerical aides/office assistants, recreation aides, energy auditors, camp counselors, painters, sculptors, photographers, and cashiers. In addition, the grant is funding 39 consultants hired to administer the program.

Previous Audit Recommended Stronger Central Oversight of Recovery Act Spending

We identified potential compliance risks in our previous audit, *Aviation Grants Management - Federal Recovery Act*. We reviewed the Department of Aviation's internal controls for complying with recovery act requirements. While aviation's controls appeared sufficient to comply with the grant requirements and achieve the recovery act's intent, we concluded that other departments may lack the resources and experience to establish effective controls.

The city lacked an office or staff responsible for central oversight of grants and compliance with grant requirements. Decentralized controls increase the risk of inconsistent reporting methods and data errors. We also noted that aviation did not follow some recovery act provisions specific to project planning and procurement because the projects receiving funding were under way before the city entered into grant agreements with the federal agencies. We recommended the city's chief procurement officer develop specific contracting procedures for recovery act projects and provide training on specific requirements.

Audit Objectives

This report addresses the following objectives:

- Are departmental controls designed to provide reasonable assurance that the city can meet the recovery act requirements?
 - Are departmental controls designed to address the risk of fraud?
-

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. We focused on the adequacy of control design and did not test the extent to which city staff, sub-recipients and contractors were following established controls.

Our audit methods included:

- reviewing recovery act requirements and federal recovery act guidance
- reviewing grant agreements
- interviewing city staff to gain an understanding of the grant requirements, grants management processes, and risks for the recovery act grants
- designing and administering a control assessment questionnaire to city employees responsible for overseeing each recovery act grant
- compiling and analyzing questionnaire responses

- interviewing respondents to clarify answers provided in the questionnaires

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, 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.

Findings and Analysis

Additional Controls Needed to Address Recovery Act Requirements

City departments' project management processes appear sufficient to ensure that the city complies with grant requirements for allowable expenses and vendor procurement. Departments have also developed new processes intended to ensure accurate and timely reporting of recovery act spending and job creation. However, departments lack processes to mitigate fraud risks, and the city faces risk of slow drawdown of grant funds and missed deadlines for project completion. Also, more frequent monitoring of sub-recipients would provide stronger assurance that projects are complying with laws, regulations, and grant agreement provisions, and meeting intended goals.

While vendor selections were consistent with recovery act requirements, most contracts lack specific required provisions. The Departments of Law and Procurement agreed in June 2010 to provide provisions and guidance on requirements for procurements and contracts to be funded with recovery act grants, but neither department did so. Staff overseeing two of the grants expected to enter into additional contracts using the funds.

The city's compliance with federal guidelines for allocating administrative costs is unclear. Three grants are directly funding administrative positions in the Police Department and the Office of the Mayor. The staff members in these positions oversee more than one grant. Federal regulations prohibit charging costs allocable to a particular federal award to other federal awards, and amounts not recoverable as indirect or administrative costs under one federal award may not be shifted to another federal award unless specifically authorized. The Office of Grant Services should establish a standard process for departments to track and record hours spent on grants to support grant administration charges.

City grant management could be strengthened by central oversight. We recommend the Department of Finance's Office of Grant Services periodically review whether departments are ensuring compliance with recovery act requirements. We also recommend that recipient departments monitor drawdowns of grant funds from

awarding agencies and increase frequency of sub-recipient monitoring.

Finally, retaining the additional police officers hired with grant funds will increase general fund operating costs by \$5.5 million once the grant funding period is over at the end of fiscal year 2012. The city is obligated to fund 50 of the police officer positions for one year after the three-year funding period, and may find it difficult to eliminate the other 23 grant-funded positions.

Controls Are Sufficient to Meet Grant Spending and Reporting Requirements and City Inventory Requirements

Departments' project management controls appear sufficient to ensure that grant expenses are allowable, contracts are awarded through the use of competitive procedures to the extent possible, contract terms are fixed price when feasible, and that capital property is classified properly and added to the city's inventory. Staff has developed new processes to provide reasonable assurance that recovery act spending and job creation reports are accurate and on time.

City departments have controls in place to ensure that grant spending is for authorized purposes. The recovery act requires that funds be used for authorized purposes, which are specified in grant documents, granting agency guidance, and federal Office of Management and Budget guidance. City departments ensure costs are allowable by requiring contractors, sub-recipients, or program personnel to submit documentation to support payment requests. Departments require submission of invoices to support expense payments for all nine grants that we reviewed, and require submission of timesheets to support payments for most grants. In addition to invoices and timesheets:

- The mayor's office of sustainability requires performance and accountability reports that demonstrate progress on projects in order to support payments from the energy efficiency grant.
- The Police Department requires sub-recipients to submit cancelled checks and status reports to support payments from the justice assistance grant.
- The Police Department supports drawdown of COPS grant funds with payroll and accounting reports and copies of payroll checks from the city's payroll office.

- The mayor's office of human services requires sub-recipients to submit utility bills, cancelled checks, mileage logs, receipts, and a monthly service summary to support payments from the homelessness prevention grant.
- The bureau of housing requires its contractor to submit source documents to verify eligible households, invoices of materials, a payroll summary, and time allocation sheets to support payments for the CDBG-R weatherization project.
- The bureau of code compliance requires contractors to submit invoices and pay request forms to support payments for the CDBG-R grant.
- The mayor's office of human services requires contractors to submit invoices and real estate documents to support payments for the CDBG-R grant.
- Public Works requires contractors to submit daily and monthly status reports with payment requests for funds from the transportation enhancements grant.
- Workforce development requires contractors to submit documents that verify services performed to support payments from the Workers Investment and Temporary Assistance for Needy Families grants.

Construction and service contract procurements consistent with recovery act requirements. The recovery act requires contracts funded through grants to be awarded as fixed price contracts through the use of competitive procedures to the maximum extent possible. According to the survey responses, city departments appear to have met this requirement (see Exhibit 2). The city had entered into eight construction contracts, 62 service contracts, and 38 sub-recipient agreements as of November 1, 2010. All the construction contracts are fixed price and were competitively bid. All the service contracts are fixed price. Survey responses indicated that fifty-one of the service contracts were competitively bid, while eleven were sole source. All of the sub-recipient agreements are fixed price.

Exhibit 2 Construction and Service Contracts Funded by Recovery Act Grants

Department	Grant	Number of Contracts	Contract Type	Payment Terms	How Procured
Planning – Bureau of Code Compliance	CDBG-R	2	Construction	Fixed	Competitive
Public Works	Highway Infrastructure Investment	6	Construction	Fixed	Competitive
Mayor's Office	Energy Efficiency Grant	20	Service	Fixed	9 Competitive 11 Sole Source
Workforce Development	Workforce Investment	3	Service	Fixed	Competitive
Workforce Development	TANF-Youth	39	Service	Fixed	Competitive

Source: ARRA Compliance Survey Responses

Sub-recipient selection was consistent with the recovery act. Although city departments used different methods to select sub-recipients, the processes met the recovery act’s intent of distributing funds in a prompt, fair, and reasonable manner and emphasizing local hiring.

- Energy efficiency - All four sub-recipients were sole source based on their status of non-profit, ability to provide 100% match, and scope meeting grant goals.
- Homelessness prevention - 21 sub-recipients were selected through a competitive process.
- CDBG-R - One of three sub-recipients was selected because of its status as a state contractor for weatherization and two of the three sub-recipients were selected based on previous business relationships with the city and then ranked.
- Justice assistance - the city, Fulton County and other municipalities jointly applied for the grant, identifying the city as the prime recipient and other governments as sub-recipients for administrative purposes.
- Highway Infrastructure Investment - Local Community Improvement Districts (CID's) were selected based on their efforts to provide funding for the downtown projects.

Reporting controls reduce risk of error and ensure timely reporting. The recovery act requires that agencies receiving funds have controls in place to ensure timely and accurate reporting of recovery act spending and job creation. Reports on the use of the

funding must be submitted to federal agencies no later than the 10th day after the end of each calendar quarter. Aimed at providing transparency into the use of these funds, the recipient reports must include:

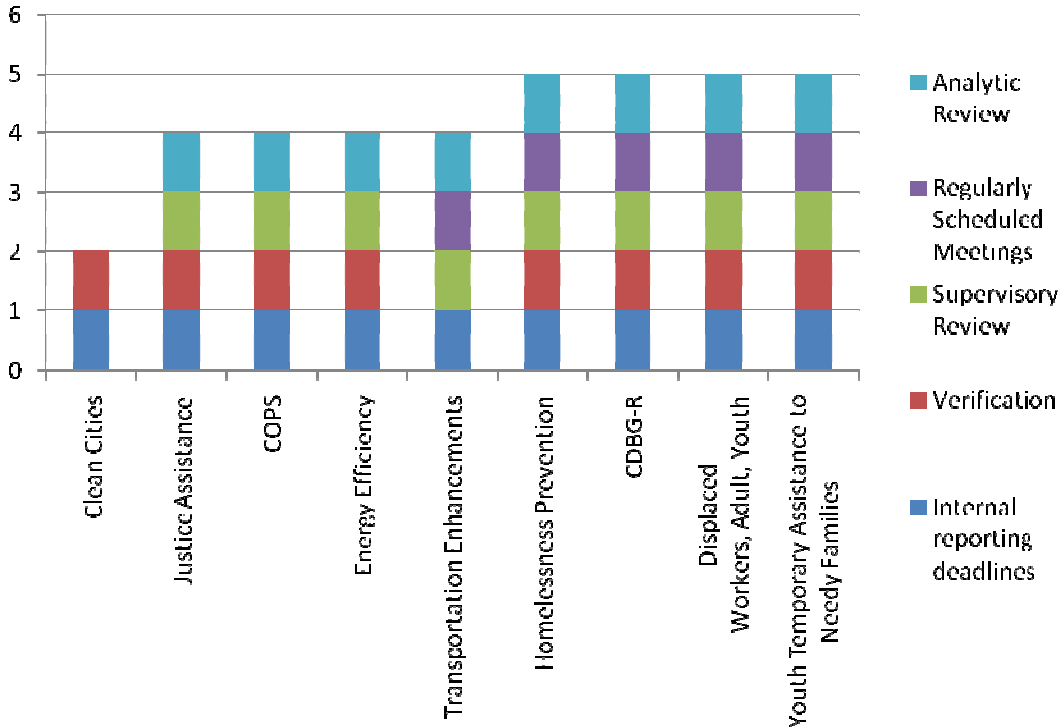
- Total amount of funds received
- Amount spent on projects and activities
- A list of projects and activities funded
- Details on sub-awards
- Estimate of jobs directly created or retained by project and activity or contract

We asked city employees responsible for overseeing each recovery act grant which of the following methods they use to ensure timely and accurate recovery act reporting:

- Setting internal reporting deadlines to prevent missed federal reporting deadlines
- Holding periodic meetings to discuss data and promote communication between the city, contractors and sub-recipients about reporting data and deadlines
- Reviewing reporting data to prevent and detect errors and ensure data quality
- Verifying data with supporting documents to prevent and detect errors and ensure data quality
- Analyzing reporting data for inconsistencies detect possible errors

Exhibit 3 shows the processes staff members use to ensure accurate and timely reporting of recovery act spending and job creation for each grant. We considered use of two or more of these methods to provide reasonable assurance of complying with reporting requirements. Staff reported using at least two methods for all grants and reported using four or more methods on eight of the nine grants we reviewed.

Exhibit 3 Controls to Ensure Accurate and Timely Reporting



Source: Control Assessment Survey Responses

Staff has set internal reporting deadlines in advance of federal deadlines for each of the grants. Staff verifies reporting data with supporting documents for all of the grants except the transportation enhancements grant. Staff analyzes reporting data for inconsistencies and has supervisory review of reporting data for all of the grants except the clean cities grant.

Controls for capital property reduce risk of improper accounting classification of inventory. The city is acquiring capital assets through three of the nine grants we reviewed (see Exhibit 4). The city’s property management policy requires that property items be classified as capital assets - property items that cost \$5,000 or greater and have a useful life of at least two years, controllable property - property valued between \$1,000 and \$4,999, or expensed property - property with extremely short useful lives of minor value. City departments appear to have controls in place to ensure that property is accounted for properly and added to the city’s inventory, which helps to ensure that assets are safeguarded and financial statements are accurate.

Exhibit 4 Grants Acquiring Property and Property Management Process

Department	Grant	Property Management Process
Mayor – Office of Sustainability	Energy Efficiency and Conservation Block Grant	Computers registered with the Department of Information Technology
Mayor – Office of Sustainability	Clean Cities FY09 Petroleum Reduction for Transportation Sector	Vehicle acquisitions are handled by Department of Aviation Fleet Management
Public Works	Highway Infrastructure Investment Grant: Transportation Enhancements	Fixed asset reports are completed at the end of each project

Source: Recovery Act Compliance Questionnaire

Stronger Control Design Needed to Address Fraud Risk and Other Recovery Act Requirements

City departments lack sufficient controls to meet all recovery act requirements. City departments require stronger controls to mitigate risks of fraud, ensure timely drawdown of grant funds, monitor sub-recipient performance, meet project completion dates, and ensure compliance with construction, service, and sub-recipient contracts recovery act requirements.

City departments lack controls to mitigate fraud, waste, and abuse. The recovery act requires agencies to have processes in place to mitigate fraud, waste, and abuse. Departments should establish clear processes to handle suspected instances of fraud and methods to inform potential whistleblowers of their rights and how to report suspected wrongdoing. Additionally, grant agreements with contractors, subcontractors, and sub-recipients should include whistleblower protection provisions that inform employees of their rights and remedies if they report suspected fraud, waste, or abuse related to recovery act projects. The Department of Law agreed to develop by July 2010 specific contract provisions for use by city departments that address the city’s process for dealing with contractors who commit fraud and include the city’s integrity line information for reporting suspected fraud, but did not do so.

Most city departments have no clear process to notify city, contractor, subcontractor, and sub-recipient employees of their rights and remedies if they report suspected fraud, waste, or abuse relating to recovery act projects. Staff members responsible for overseeing eight of the nine recovery act grants that we reviewed

reported having no notification process. Public Works staff notifies contractors for the transportation enhancement grants about their rights if they report suspected fraud through specific contract provisions and at pre-construction meetings. Staff responsible for overseeing the homelessness prevention and CDBG-R grants reported that HUD sent guidelines requiring that city, contractor, subcontractor and sub-recipient employees should be notified of fraud, waste and abuse reporting requirements and given contact information for reporting. After we conducted our control assessment survey, the city posted public displays of the recovery act fraud reporting guidelines and hotline website and phone number in city hall.

Most agreements lack required whistleblower protection provision. We asked in our control assessment survey whether agreements with sub-recipients, consultants, and construction contractors contain whistleblower protection provisions. Responses indicate that contract agreements related to two of the grants included the whistleblower protection provision. Public works reported that construction contracts for the transportation enhancement grant contained the whistleblower protection provision. The office of sustainability responded that the energy efficiency grant sub-recipient agreements include the whistleblower provision but service contract agreements do not.

Other procurement requirements not met. While the Finance Department's office of grants services is monitoring CDBG-R contractor compliance with Davis-Bacon prevailing wage requirements, the office of grant services staff did not include the "Buy American" provision in the two construction contracts funded under the grant. Staff overseeing the CDBG-R grant did not check whether contractors were debarred before entering into contracts funded with the grants. The staff member responsible for overseeing the clean cities grant reported that the city is acquiring shuttles through the Department of Aviation's parking contractor rather than following city procurement processes. The city did not enter into a separate agreement for the procurement.

We recommended in our June 2010 performance audit, *Aviation Grants Management Federal Recovery Act*, that the chief procurement officer develop specific contracting procedures for recovery act projects and provide training on specific requirements. The Department of Procurement agreed to distribute a memorandum by September 2010 with guidance on universal recovery act requirements that must be included in the scope of

work of procurements to be funded with recovery act grants. Procurement could not confirm that the memorandum was issued. While most of the city's procurements for recovery act-funded projects were already completed, staff in two departments told us that they expect to enter into additional contracts using the funds.

Monitoring draw down of grant funds could prevent financial misstatements and ensure proper accounting of city grant expenditures. The city has had previous problems with inaccurate recording of grant transactions. The city's external financial auditor reported in fiscal year 2009 that grants receivables and related revenue did not reconcile to the general ledger. The external auditors noted in the city's single audit – a standard audit required by federal law to provide assurance that recipients' use of federal funds complied with applicable laws and grant provisions – that the city failed to record reimbursements for grant receivables. Improper accounting for use of federal funds can have penalties and affect future funding decisions.

The recovery act specifies target spending dates to ensure that the funds are being used to stimulate the economy. We asked in our control assessment survey about the timeliness of grant fund drawdowns. Staff members responsible for overseeing the justice assistance, COPS, and homelessness prevention grants were unsure about when grant funds were drawn down. Delays in drawing down grant funds increase the likelihood of errors or omissions.

Frequent project monitoring could ensure timely completion of grants. Recovery act grants are required to start quickly to spur economic activity, meet fixed completion dates of two to three years, and some grants require 60% of funds to be spent within two years. Staff members responsible for overseeing four of the grants reported that they monitor progress quarterly, which may not provide enough time to adjust activities to meet deadlines if projects are lagging. The Police Department monitors progress on the justice assistance and COPS grants as part of its quarterly reporting. Staff monitoring the homelessness prevention project conducts site visits of its sub-recipients quarterly. Staff monitoring the clean cities grant receives quarterly performance reports from aviation parking management. The clean cities grant project could extend beyond the planned completion date. Aviation's parking management staff stated that department budget constraints may delay acquisition of the shuttle buses, which requires city matching funds. According to the grant agreement, failure to provide the cost sharing may result in federal recovery of some or all the grant funds.

We recommend departments monitor project progress at least monthly to provide reasonable assurance that the city will meet completion deadlines.

Frequent sub-recipient monitoring could better provide assurance that projects are complying with grant provisions and meeting intended goals. On-site sub-recipient monitoring provides assurance that sub-recipients are achieving performance goals and complying with laws, regulations, and grant provisions. The Police Department has assigned one person to monitor eight justice assistance grant sub-recipients once every quarter. The same person is also responsible for managing the COPS grant. Limited frequency and staff reduce the likelihood that monitoring will identify and address problems promptly. Frequent on-site monitoring reduces the risk of non-compliance and helps ensure that goals are met.

Allocations for grant administration costs pose risk of non-compliance. Federal guidelines allow direct charging of administrative costs to grants when the expense is in support of the grant award. Costs may not be charged to other federal awards unless specifically authorized by federal legislation or regulation. Three of the city's recovery act grants are paying for administrative positions, but the staff in these positions oversees more than one grant, which may violate the federal guidelines for allocating administrative costs. The justice assistance grant funds an administrative position in the Police Department. The staff person also manages the COPS grant, which does not include administration funds. The office of sustainability is funded as a project within the energy efficiency grant, but the office also manages the clean cities grant. Although the clean cities grant funds administration costs and was awarded in June 2010, the city has yet to bill administration costs to the grant. The office of grants services should create a process for departments to clearly support grant administration costs.

Future Operational Costs Could Pose Risk for the City

The city will have to cover increased operating costs once the recovery act funding period is over. The city is using recovery act funds to add 73 police officer positions. Under the COPS grant, the city is obligated to fund 50 police officer positions for one year after the three-year funding period. The cost of funding these positions in fiscal year 2013 would be about \$3.7 million. Costs would increase further if the city also retains the 23 police officers

positions funded by the justice assistance grant. The cost of funding these positions in fiscal year 2013 would be an additional \$1.7 million.

Recommendations

The Chief Financial Officer should:

1. Periodically review and document whether departments are adequately ensuring compliance with recovery act and grant-specific requirements, including expected project completion dates
2. Monitor draw down of grant funds from awarding agencies to ensure that funds are received and recorded promptly
3. Provide departments guidance for monitoring sub-recipients at least quarterly
4. Establish standard procedures for departments to record and track administrative hours spent on grants as work progresses
5. Ensure that administrative costs are allocated to grants promptly as grant-funded projects progress

Appendices

Appendix A Management Responses to Audit Recommendations

Report # 10.03	Report Title: Assessment of Federal Recovery Act Grants Controls	Date: 3/18/11
Recommendation Responses		
Rec. #1	The Chief Financial Officer should periodically review and document whether departments are adequately ensuring compliance with recovery act and grant-specific requirements, including expected project completion dates.	Agree
	<p><u>Proposed Action:</u> Implementation of this recommendation would require additional resources which may already exist in a decentralized fashion among the departments. It would also require the formal assignment of this activity to the Department of Finance (Office of Grant Services).</p> <p><u>Implementation Timeframe:</u> Fiscal year 2012</p> <p><u>Responsible Person:</u> Stephan Jaskulak/Joya De Foor</p>	
Rec. #2	The Chief Financial Officer should monitor draw down of grant funds from awarding agencies to ensure that funds are received and recorded promptly.	Agree
	<p><u>Proposed Action:</u> Review current draw down procedures and increase monitoring to ensure garnet funds are received and recorded promptly.</p> <p><u>Implementation Timeframe:</u> Immediately</p> <p><u>Responsible Person:</u> Stephan Jaskulak/Joya De Foor</p>	
Rec. #3	The Chief Financial officer should provide departments guidance for monitoring sub-recipients, at least quarterly.	Agree
	<p><u>Proposed Action:</u> Federal regulations may require more frequent monitoring. Implementation of the monitoring/compliance responsibility would require additional resources and the formal assignment of this activity to the Department of Finance (Office of Grant Services).</p> <p><u>Implementation Timeframe:</u> Fiscal year 2012</p> <p><u>Responsible Person:</u> Lee Hannah/Stephan Jaskulak</p>	

Rec. #4	The Chief Financial Officer should establish standard procedures for departments to record and track administrative hours spent on grants as work progresses.	Agree									
<table border="1"> <tr> <td data-bbox="65 305 562 431"><u>Proposed Action:</u></td> <td colspan="2" data-bbox="562 305 2024 431">Procedures should be established. However, full implementation of the monitoring/compliance responsibility would require additional resources and the formal assignment of the activity to the Department of Finance (Office of Grant Services).</td> </tr> <tr> <td data-bbox="65 431 562 477"><u>Implementation Timeframe:</u></td> <td colspan="2" data-bbox="562 431 2024 477">Fiscal year 2012</td> </tr> <tr> <td data-bbox="65 477 562 529"><u>Responsible Person:</u></td> <td colspan="2" data-bbox="562 477 2024 529">Bryan Benefiel/Lee Hannah</td> </tr> </table>			<u>Proposed Action:</u>	Procedures should be established. However, full implementation of the monitoring/compliance responsibility would require additional resources and the formal assignment of the activity to the Department of Finance (Office of Grant Services).		<u>Implementation Timeframe:</u>	Fiscal year 2012		<u>Responsible Person:</u>	Bryan Benefiel/Lee Hannah	
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<u>Implementation Timeframe:</u>	Fiscal year 2012										
<u>Responsible Person:</u>	Bryan Benefiel/Lee Hannah										
Rec. #5	The Chief Financial officer should ensure that administrative costs are allocated to grants promptly as grant-funded projects progress.	Agree									
<table border="1"> <tr> <td data-bbox="65 605 562 748"><u>Proposed Action:</u></td> <td colspan="2" data-bbox="562 605 2024 748">Procedures should be established. Implementation of the monitoring/compliance responsibility to ensure that administrative costs are allocated to grants promptly as grant-funded projects progress would require additional resources and the formal assignment of the activity to the Department of Finance (Office of Grant Services).</td> </tr> <tr> <td data-bbox="65 748 562 800"><u>Implementation Timeframe:</u></td> <td colspan="2" data-bbox="562 748 2024 800">Fiscal year 2012</td> </tr> <tr> <td data-bbox="65 800 562 857"><u>Responsible Person:</u></td> <td colspan="2" data-bbox="562 800 2024 857">Stephan Jaskulak/Joya De Foor</td> </tr> </table>			<u>Proposed Action:</u>	Procedures should be established. Implementation of the monitoring/compliance responsibility to ensure that administrative costs are allocated to grants promptly as grant-funded projects progress would require additional resources and the formal assignment of the activity to the Department of Finance (Office of Grant Services).		<u>Implementation Timeframe:</u>	Fiscal year 2012		<u>Responsible Person:</u>	Stephan Jaskulak/Joya De Foor	
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