Performance Audit

Operating Grants Fund Balance

Citywide

Report No. 14-102

PERFORMANCE AUDIT REPORT
OPERATING GRANTS FUND BALANCE
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Background

Beginning in fiscal year (FY) 2006, and reported each year thereafter, the City's Comprehensive Annual Financial Report (CAFR) has included Finding #06-16 pertaining to the operating grants fund balance. The finding states that the City is unable to identify the sources making up the fund balance, as old/inactive grants have not been closed-out or reconciled. This finding was categorized as a 'significant deficiency' in fiscal years 2011, 2012, and 2013. Although the finding addresses the City's inability to identify the various sources that make up the fund balance, and not the ending balance itself, the magnitude of the balance is important. At June 30, 2013, the fund balance totaled over $4.5 million dollars. The operating grants fund balance is the result of multiple grants, some dating back to 1998, or earlier, which were not properly reconciled or closed-out. This audit addresses the City's processes to resolve past, and prevent future, unidentified amounts in the operating grants fund balance.

Findings

The City has not established a written corrective action plan to address the remaining unidentified operating grants fund balance. The Department of Finance and Administrative Services (DFAS) Grants Administration Division (Grants Administration) was given the responsibility to resolve CAFR Finding #06-16 but does not have the authority to enforce grantee department compliance. Prior to July 2012, the City did not have formal policies or procedures for accounting for grants. Instead, DFAS – Accounting personnel provided general guidance to grantee departments. Turnover in grantee departments' grant accounting positions and the passage of time have resulted in a loss of historical knowledge and paperwork related to old grants. Due to the complexity of the operating grant fund balance, Grants Administration's philosophy has been not to involve the grantee departments directly. Because of this, the grantee departments have not been notified of their respective portion of the remaining operating grant fund balance. Not involving the grantee departments has led to limited participation, ownership and accountability by the grantee departments.

The City has initiated the implementation of the grants management module, but has not dedicated the resources necessary to complete the project. Grants Administration does not have the available resources to dedicate toward the implementation of the grants management module. Grants Administration is made up of five full-time equivalents (FTEs) but often operates with at least one vacancy. Of the five FTEs, two are temporary grant accountant positions that will be eliminated following the reconciliation of inactive grants and identification of the operating grants fund balance. Adequately staffing Grants Administration will help the Division to effectively manage its responsibilities and achieve its priorities. Continuous training to address Grants Administration's business needs would allow the Division to successfully utilize the Grants module.

To ensure the unidentified fund balance does not recur, the following areas must also be addressed:
- Formal Policies and Procedures
- Grantee Department Training
- Structure of Fiscal Operations of Grants (survey results are included as Appendix B)

If left uncorrected, the unidentified operating grants fund balance could negatively affect the City's ability to receive future grant funding as granting agencies may rely on audit reports to assess the adequacy of the City's financial management controls.

Recommendations and management responses are included within the audit report.

August 27, 2014

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Performance
                  City of Albuquerque – Citywide Audit
                  Audit No. 14-102

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit of the City of Albuquerque's (City) processes to resolve past, and prevent future, unidentified amounts in the operating grants fund balance. The audit was included in OIA's fiscal year (FY) 2014 audit plan. Information pertaining to the audit objectives, scope and methodology are located in **Appendix A**.

The Department of Finance and Administrative Services (DFAS) Grants Administration Division (Grants Administration) defines operating grants as a broad category that includes all grants other than those associated with Capital Implementation Projects (CIP) or Enterprise Funds.
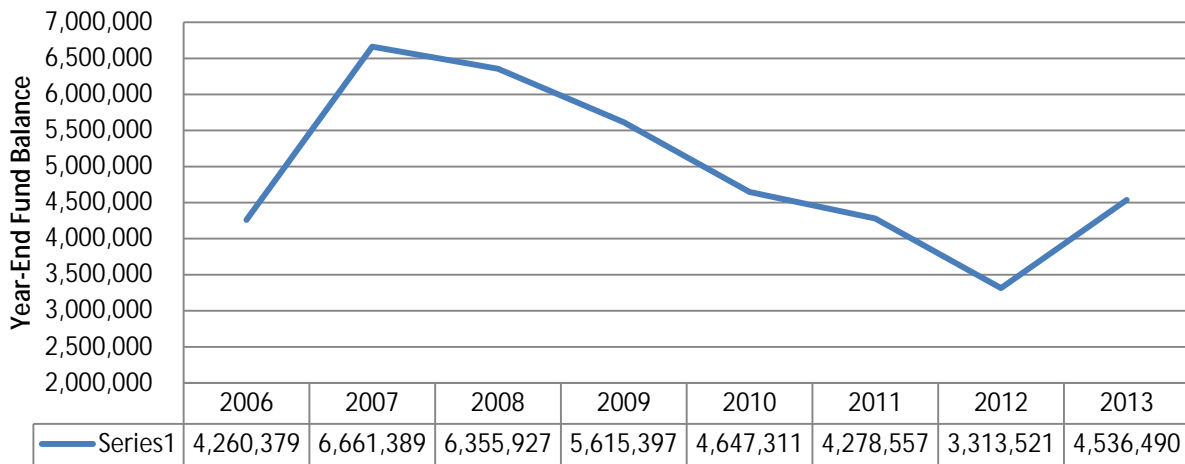
Beginning in FY 2006, and reported each year thereafter, the City's Comprehensive Annual Financial Report (CAFR) has included Finding #06-16 pertaining to the City's ability to identify the operating grants fund balance. The finding is listed as a significant deficiency and asserts that the City is unable to identify the sources that make up the operating grants fund balance, as old or inactive grants have not been closed-out or reconciled.

Significant deficiencies are control deficiencies that adversely affect the City's ability to initiate, authorize, record, process, or report financial data in accordance with Generally Accepted Accounting Principles (GAAP). A significant deficiency suggests that there is more than a remote (slight) likelihood that a misstatement of the City's financial statements will not be prevented or detected.

Grants Administration was created in 2010 to provide centralized oversight of the City's grants and improve accountability. Grants Administration assists the City's Accounting Division and grantee departments by maximizing the use of grant funding, monitoring active grants, streamlining operations, and assisting in the continued implementation of the City's Enterprise Resource Planning (ERP) project costing/operating grants module.

The graph below illustrates the fluctuation of the operating grants fund balance over the eight years that CAFR Finding #06-16 has been reported. Although, the finding addresses the City's inability to identify the various sources that make up the fund balance, and not the ending balance itself, it is important to note the overall fluctuations.

Operating Grants Fund Balance by Fiscal Year

	2006	2007	2008	2009	2010	2011	2012	2013
Series1	4,260,379	6,661,389	6,355,927	5,615,397	4,647,311	4,278,557	3,313,521	4,536,490

Source: City of Albuquerque Comprehensive Annual Financial Statements FY 2006-2013

The ending operating grants fund balance for FY 2013 was $4,536,490. The operating grants fund balance breaks down by City department as listed in the chart on the next page. A negative number indicates that the grant expenditures exceed revenue while a positive number indicates that grant revenue exceeds expenditures. The validity of these amounts will be determined upon the completion of formal reconciliations.

FY 2013 Fund Balance by Department

Department	Total
Chief Administrative Officer Note 1	102,358.37
City Council Services	(76.26)
Cultural Services	996.84
Environmental Health	47,364.36
Family & Community Services	9,780,223.97
Fire	153,358.78
Finance & Administrative Services	0.41
Parks & Recreation	(97,011.50)
Planning	2,105.74
Police	259,066.96
Senior Affairs	(5,344,200.21)
Solid Waste	121,345.21
Transit	(10,840.13)
Unallocated - Grant Clearing Note 2	(478,203.28)
Grand Total:	**4,536,489.26**

Source: Grants Administrative Division

Note 1: Grants belong to the Office of Emergency Management.

Note 2: Made up of prior expenditures not allocated to projects, including wages and fringes. Has been cleared in FY 2014.

Since the creation of the Division, Grants Administration has made progress toward the resolution of CAFR Finding #06-16. A portion of the fund balance has been identified and Grants Administration estimates that the remaining portion of the operating grant fund balance to be identified and reconciled is $2 million. This balance involves approximately 130 projects and 750 activities dated prior to FY 2012.

FINDINGS

The following findings concern areas that OIA believes could be improved by the implementation of the related recommendations.

1. A COMPREHENSIVE ACTION PLAN AND SUPPORT FROM THE CITY'S ADMINISTRATION ARE NEEDED TO RESOLVE THE CITY'S UNIDENTIFIED OPERATING GRANTS FUND BALANCE.

   Grants Administration has a strategy that it is following in its pursuit to identify the remaining unidentified operating grants fund balance and resolve CAFR Finding #06-16. However, the City has not established a written comprehensive corrective action plan to address the remaining unidentified operating grants fund balance. Generally Accepted Government Auditing Standards (GAGAS) Section 4.33 and 2.2.2.10.1 NMAC require audited agencies/municipalities to prepare a corrective action plan to address audit findings.

   Administrative Instruction (AI) 2-26, *Procedures for Applying and Implementing Federal/State Grants*, was approved on July 11, 2012. Prior to AI 2-26, the City did not have formal policies or procedures for accounting for grants received from Federal and State governments. Instead, DFAS-Accounting staff provided general guidance to grantee departments. The operating grants fund balance is the result of multiple grants, some dating back to 1998, or earlier, which were not properly reconciled or closed-out.

   The graphic on the next page represents the multiple challenges affecting the ability of Grants Administration to successful create an action plan, implement the plan and resolve the unidentified operating fund balance outlined in CAFR Finding #06-16.

Repeat CAFR Finding #06-16: *Unidentified Operating Grants Balance*

- Loss of Historical Knowledge
- Limited Accountability, Ownership & Responsibility from Grantee Departments
- Limited Resources in Grants Administration
- Limited Grantee Department Training
- Conversion to PeopleSoft and Limited Knowledge of Grants Management Module

Turnover in grantee departments' grant accounting positions and the passage of time have resulted in a loss of historical knowledge and paperwork related to old grants. According to AI 2-26, the grantee departments are responsible for ensuring that all grant activity is properly recorded in the City's accounting system and prior year grants are properly closed. Due to the complexity of the operating grant fund balance, Grants Administration's philosophy has been not to involve the grantee departments directly. Because of this, the grantee departments have not been notified of their respective portions of the remaining operating grant fund balance. According to the City's Controller, the Division is concerned that the grantee departments do not have the time or ability to research the balances successfully, and might erroneously confirm the fund balances as accurate. Not involving the grantee departments has led to limited participation, ownership and accountability by the grantee departments.

Grants Administration was created and given the responsibility to resolve the finding, but does not have the authority to enforce grantee department compliance. Grants Administration must

have the support of the City's Administration in order to hold each grantee department accountable for identifying and reconciling its respective portion of the remaining unidentified operating fund balance.

Establishing a written corrective action plan, making the resolution of CAFR Finding #06-16 an Administrative priority, and holding each grantee department accountable for its portion of the unidentified fund balance, will expedite the resolution of CAFR Finding #06-16. Grantee departments are responsible for the existence of the accumulated unidentified fund balance and are an integral part in the resolution of the finding.

A CAFR finding, categorized as a significant deficiency and repeated for eight years, may negatively affect the City's ability to obtain future grant funding. If the City is unable to properly account for its operating grants, as noted by the outside auditors, the City may lose future grant funding because it has demonstrated an inability to manage and correct grant issues in a timely manner.

The attachment to the Federal Office of Management and Budget Circular A-102 states, "when assessing the adequacy of an applicant's financial management system, the awarding agency shall rely on readily available sources of information, such as audit reports, to the maximum extent possible."

RECOMMENDATION:

The CAO should:

- Support DFAS in its pursuit of resolving CAFR Finding #06-16 by:
  o Emphasizing the importance of resolving CAFR Finding #06-16 with grantee department directors and fiscal managers,
  o Requesting that each grantee department actively participate in the resolution of CAFR Finding #06-16,
  o Enforcing the grantee departments' compliance with AI 2-26, and
  o Holding grantee departments accountable by monitoring and evaluating monthly status reports.

DFAS should:

- Establish a written comprehensive corrective action plan that includes the following:
  o Set milestones leading to an official deadline for resolution of the CAFR finding:
    § Review progress, and

- § Adjust milestones and deadline as needed
  - o Grantee department requirements, responsibilities and expectations for the identification and resolution of unidentified operating fund balances,
  - o Standard reports for each grantee department that identify the department's portions of the fund balance,
  - o Provide the reports to the appropriate grantee departments and establish a deadline by which they must provide an update of the information.
  - o Develop a tracking process to identify non-compliance by staff responsible for grants and a mechanism to report to appropriate management when this occurs.
- · Consider writing off remaining unidentified operating grant fund balances that are at or below an immaterial specified dollar amount.

RESPONSES FROM DFAS/CAO:

"The Grants management division has a strategy that they are following. The plan is documented in many reports and reviews of the fund balance but not in a formal manner. The division plans to improve on the monitoring with the full implementation of the grants billing module. Until the City fully implements the grants billing module, receivables and deferrals are not automatically set up. The plan while not formally documented has been extremely successful in addressing projects that made up a large portion of the fund balance, reducing the unidentified balance from $4.5 million to approximately $1 million. The division was also successful in closing hundreds of projects and cleaning up the trial balances of the operating grants fund.

"The Grants management division will formalize the plan into a written comprehensive action plan with projected deadlines and assignments, which will be approved by the CAO and shared with the department management and appropriate staff. The division will also report monthly to the departments the fund balance of their inactive grants. In addition, the Grants management division will provide a monthly progress report to the Directors. The grants management division has already set a policy of writing off balances of older inactive grants with balances under $5000."

ESTIMATED COMPLETION DATE:

"Estimated completion date with current resources, the City expects the unidentified fund balance to be reconciled by the end of FY2016."

2. DFAS SHOULD DEDICATE RESOURCES TO FULLY IMPLEMENT THE GRANTS MANAGEMENT MODULE IN ORDER TO PREVENT FUTURE OCCURRENCES OF UNIDENTIFIED FUND BALANCE.

The City has initiated the implementation of the grants management module, but has not dedicated the resources necessary to complete the project. The module is capable of managing the financial aspects of grants and contains internal controls that would allow department users to reconcile and bill their grants in an efficient and timely manner. Full implementation of the module will greatly enhance the City's ability to prevent future unidentified fund balances because of the software's built-in controls.

Grants Administration does not have the available resources to dedicate toward the implementation of the grants management module. Grants Administration is made up of five full-time equivalents (FTEs) but often operates with at least one vacancy. Of the five FTEs, two are temporary grant accountant positions that will be eliminated following the reconciliation of inactive grants and identification of the operating grants fund balance. Though turnover is unavoidable, its impact on such a small division is substantial. Each employee accounts for 20 percent of the Division's workforce, which makes every incident of staff turnover difficult to absorb. Adequately staffing Grants Administration will help the Division to effectively manage its responsibilities and achieve its priorities.

As documented in the Matrix Consulting Group's 2012 Organizational Design Project (Matrix Report), staff training needs to be provided to reduce the stress of learning a new software system. Continuous training to address Grants Administration's business needs would allow the Division to successfully utilize the Grants module. Comfort and confidence in the accounting system will help the Division to timely and formally close each grant at the end of its life without concern of potential negative or unexpected impacts.

To ensure the unidentified fund balance does not recur, the following areas must also be addressed:

· Formal Policies and Procedures – Grants Administration has not established formal policies and procedures to ensure consistency among grantee departments as recommended in the Matrix Report. By establishing and implementing formal written

policies and procedures, Grants Administration will provide grantee departments with the information necessary to ensure operating grants are accounted for consistently. Department expectations for grant reconciliations are included and addressed in AI 2-26.

·   Grantee Department Training – Grants Administration does not conduct Grant User Group (GUG) meetings or other formal departmental training on a regular and consistent basis as required by AI No. 2-26, Section 6. Once implemented, training on the use of the City's new grants management module will need to be a priority for Grants Administration. Conducting GUG meetings and departmental training regularly will enable Grants Administration to relay information consistently across grantee departments. This will increase and strengthen department grant personnel's level of knowledge and understanding involving grant accounting and reporting.

·   Structure of Fiscal Operations of Grants – The City should review the structure for the fiscal operations of grants. The review should identify benefits and limitations to structural models for grants management and determine whether Grants Administration has sufficient staffing resources to effectively manage and address its priorities. More importantly, the City may identify and avoid mistakes and other common challenges. For example, the City of Santa Fe discovered that, as grants become more decentralized, the number of grant-related audit exceptions and weaknesses for financial compliance increase.

   Based on other cities survey information, fully centralizing the fiscal operations of grants allows for efficient and effective grant accounting as well as consistency among grantee departments. Ensuring consistency in reporting and a sufficient understanding of grant accounting at the department level will permit Grants Administration to establish clear expectations for each grantee department. This would allow Grants Administration to serve its original purpose of providing improved oversight and accountability to grantee departments. Survey results are included as **Appendix B**.

Without formal internal controls, written policies and procedures, and active training, the City exposes itself to higher risks. City staff may overlook issues or misuse grant funds, which may result in a range of penalties, including suspension of current and future grants, suspension or debarment from federal grants, and recoupment of monies provided under a grant.

RECOMMENDATION

DFAS should:

·   Make training on the PeopleSoft Grants Billing module a priority for ERP personnel. Assist grantee departments in the implementation of the billing module by helping grantee departments identify data issues and necessary adjustments that would enable the module to be used successfully.
·   Identify the main priorities of Grants Administration.
·   Determine whether the current structure is the most beneficial for the City of Albuquerque in addressing priorities. Dedicate additional staffing resources to the Grants Administration (through increased FTEs, temporary staff, staff from other divisions within DFAS, etc.) in order to:
    o   Establish formal policies and procedures for accounting for operating grants.
    o   Amend AI 2-26 to reflect the current structure, responsibilities, and expectations of Grants Administration and the grantee departments.
    o   Provide applicable grant training to grantee departments.
    o   Conduct Grant User Group meetings and other trainings at a frequency that will best serve the grantee departments' grants personnel. (Ex: monthly while grant personnel are learning new processes or requirements, quarterly after grant personnel have received adequate training, etc.).
    o   Formally close each grant in the accounting system at the end of its life.
·   Implement additional changes and restructure as necessary.

RESPONSE FROM DFAS:

"We agree."

ESTIMATED COMPLETION DATE:

"Management will respond to these recommendations by requesting additional permanent staff in the FY16 Budget."

CONCLUSION

The City of Albuquerque has taken steps toward resolving the unidentified operating fund balance outlined in CAFR finding #06-16. To resolve the finding, a comprehensive written corrective action plan must be created and be supported by the City's Administration. A significant deficiency in the City's CAFR that has been repeated for past eight years is a strong indication that additional action is necessary. Prioritizing the resolution of the unidentified operating grants fund balance by creating a comprehensive corrective action plan and holding grantee departments accountable will help to expedite the process.

To prevent future unidentified fund balance occurrences, the City needs to dedicate resources to fully implement the grants management module. Implementation of the Grants Billing module will greatly enhance the City's ability to prevent future unidentified fund balances because of the software's built-in controls.

Establishing formal internal controls, written policies and procedures, regular training sessions, and reviewing the structure for the fiscal operation of grants will provide future assurance that the operating grants fund balance will remain complete and accurate.

If left uncorrected, this finding could negatively affect the City's ability to receive future grant funding as granting agencies may rely on audit reports to assess the adequacy of the City's financial management controls.

Throughout the audit, Grants Administration personnel were cooperative and involved. The Division is dedicated to the resolution of the CAFR Finding #06-16, has made progress, and is open and receptive to ideas that will help expedite the process. We greatly appreciate the active participation of everyone involved throughout the audit.

_____
Contract Auditor

REVIEWED:

_____
Internal Audit Manager

APPROVED: APPROVED FOR PUBLICATION:

_____   _____
Debra Yoshimura, CPA, CIA, CGAP, CICA   Chairperson, Accountability in
Director, Office of Internal Audit   Government Oversight Committee

APPENDIX A

OBJECTIVES

The objectives of the audit were to determine:

· Is the current (FY 2014) grants management remediation process sufficient to resolve the unidentified operating grants fund balance (CAFR Finding #06-16)?
· Will the current grant management process prevent the previous unidentified fund balance from recurring?

SCOPE

Our audit did not include an examination of all functions and activities related to grants management. Our scope was limited to the objectives above for July 1, 2013 through June 30, 2014.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on July 9, 2014 and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, 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.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following.
· Reviewing City Ordinances, Administrative Instructions, Standard Operating Procedures and other applicable internal policies and procedures,
· Reviewing Governmental Accounting, Auditing and Financial Reporting (GAAFR), published by the Government Finance Officers Association,
· Interviewing key personnel to gain a better understanding of the City's grants management processes,
· Documenting internal control processes involved with managing grants,
· Conducting departmental surveys,
· Conducting regional and comparative city surveys, and

· Reviewing the frequency of Grant User Group meetings.

APPENDIX B

The Office of Internal Audit conducted a survey of regional and comparative cities. The responding cities provided the following information:

	Albuquerque, New Mexico	Salt Lake City, Utah	Santa Fe, New Mexico	Denver, Colorado
Are the fiscal operations of your City's grants centralized or decentralized?	Decentralized	Centralized except for Police and SL International Airport	Mostly Centralized but some department are responsible for their Grants	Decentralized
What are the primary reasons for the fiscal operations of grants as outlined above?	Always done this way	Efficiency, effectiveness	Some Departments wanted more control over their Grants	Effectiveness
Is there consistency between departments for the fiscal operations of grants?	No, there is no consistency. My City's grants are decentralized.	Yes, there is consistency. My City's grants are centralized.	Yes, there is consistency. My City's grants are centralized.	No, there is no consistency. My City's grants are decentralized.
If you answered 'yes' to question #5, whether centralized or decentralized, how does your city ensure that there is consistency between departments regarding the fiscal operation of grants?	N/A	We use a single grant manager for all grants.	We are finding out that as the grants move away from Finance (where most of the grants are centralized) there are more audit exceptions and weakness with financial Compliance.	N/A
Does your City have written policies and procedures or other relevant authority (ex: administrative instruction, city ordinance, etc.) for the fiscal operations of grants?	Yes	Yes	No	Yes

	Albuquerque, New Mexico	Salt Lake City, Utah	Santa Fe, New Mexico	Denver, Colorado
If decentralized, is there a department that provides general oversight for the fiscal operations of grants?	Yes	N/A - Centralized	Yes	Yes