



City Grant Management Audit - Phase I

City of Minneapolis
Internal Audit Department
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Executive Summary

The City of Minneapolis (the “City”) Internal Audit department conducted an audit of the City’s grant management processes. The objective of this audit was to determine whether internal controls are adequate to ensure grant compliance and efficient City-wide grant management processes.

Grants are an important financial assistance tool used by government agencies to achieve goals. The City receives a number of federal and state grants to support public purposes that are recorded in the Federal (01300), Community Development Block Grant (CDBG) (01400), HOME (01500) and Grants Other (01600) funds. These grants have varying grant periods and are used for a range of purposes. A robust grant administration program helps provide one location for finding detailed information about funding opportunities, applications, forms, submission dates, awarded grants, and grant policies. Strong controls help ensure grants are used for intended purposes and in accordance with regulations.

The audit scope and approach, testing results, and conclusion are discussed below, followed by a description of the City’s grant management processes in the background section and a detailed description of observations and management’s action plans in the final section.

Audit Scope and Approach

The scope of this engagement covered grant administration policies and procedures, the financial and operational information related to grants, and safeguards of grant assets. Specifically, the scope included the processes listed below from January 1, 2017 to February 28, 2019. Audit results will be reported in two phases: Phase 1 reported to Audit Committee on June 10, 2019; and Phase 2 scheduled to report to Audit Committee on October 21, 2019.

City Grant Management Policy and Procedures

- A review of available documentation, including policy and procedure manuals to ensure the following:
 - Rules, regulations, and grant requirements are adequately communicated to grant recipients (Phase 1)
 - Policy and procedures are current and adequate to ensure compliance with grant terms and conditions (Phase 1)

City Grant Monitoring

- A review of the adequacy of the centralized grant risk assessment processes that provide risk-based monitoring of City grant recipients (Phase 1)
- A testing of sample grants within selected City departments to assess adequacy of the control environment to mitigate financial, compliance and fraud risks of grant disbursements (Phase 1)

Subrecipients and Contractors Monitoring

- An assessment of how the City monitors subrecipients and contractors to ensure that grant contracts are appropriately executed, effectively managed, and terms and conditions adhered to. For this test, Internal Audit judgmentally selected two departments to assess their control environment for managing grants:
 - Lead Hazard Control and Healthy Homes within the Health Department (Phase 1)
 - CPED (Phase 2)

Grant Close-out and Reporting

- An assessment of the completeness, accuracy and timeliness of the grant close-out and reporting processes (Phase 1)

Results

As a result of this audit, three issues were identified:

1. There is no single source grant administration to efficiently manage the City's grant-related activity throughout the grants lifecycle (MOD)
2. Grant risk assessment and monitoring prioritization processes do not comprehensively cover all grants and subrecipients (MOD)
3. Grants Administration policies and procedures should be centralized, comprehensive, and communicated in a central location (LOW)

In addition, one issue was identified and subsequently remediated during the audit:

- Process to provide centralized grant administration oversight and feedback to departments through Grant Users Group meetings is not sustainable (CLOSED). Management has scheduled these meetings for the entire year (2019).

Table 1 below contains the overall evaluation of the severity of the risk and the potential impact on operations. There are many areas of risk to consider including financial, operational, compliance, and reputation when determining the relative risk rating. Issues are rated as High, Moderate, or Low.

Table 1

City Grant Management Audit - Phase I Summary of Observations and Issue Ratings

High	Moderate	Low
	There is no single source grant administration to efficiently manage the City's grant-related activity throughout the grants lifecycle.	
	Grant risk assessment and monitoring prioritization processes do not comprehensively cover all grants and subrecipients.	
		Grants Administration policies and procedures should be centralized, comprehensive, and communicated in a central location.

- **High Risk:** Some key controls do not exist or are not effective resulting in impaired control environment; high risk improvement opportunities require immediate corrective action
- **Moderate Risk:** Adequate control environment in most areas; moderate risk improvement opportunities identified which require corrective action
- **Low Risk:** Satisfactory overall control environment; small number of lower risk improvement opportunities identified which do not require a management action plan

The details of these observations are included within the *Observations and Management's Action Plan* section of this report, beginning on page 10.

Conclusion

Overall, the City's internal controls related to grant management and administration process need strengthening to ensure consistent, effective and efficient grant administration processes, and sufficient monitoring coverage for grant compliance. Internal Audit noted a limited number of control deficiencies and opportunities for improved processes.

Internal Audit would like to thank Finance and Property Services, the Grants and Special Projects team in Intergovernmental Relations, and the Lead Hazard Control and Healthy Homes department for their cooperation and time during this engagement.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. 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.

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Background

Grants are used to operate programs, provide community services, and to fulfill policy or regulatory mandates. The City receives Federal, State, and Local grant awards from a variety of entities, and passes through some funds to subrecipients and contractors to carry out programs. Table 2 below summarizes City grant funding levels from Federal, State and other grants of approximately \$85 million in 2018 and \$83 million in 2017, per the Finance grants schedules supporting the CAFR and obtained from the Finance Accounting Manager.

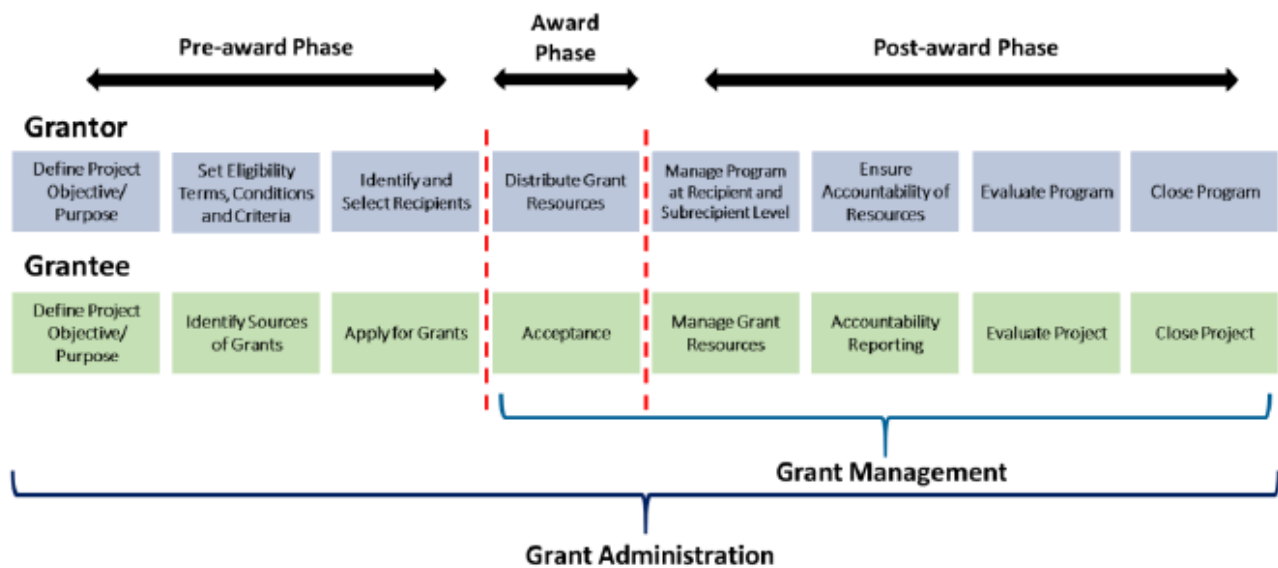
Table 2

City of Minneapolis Grants - 2018 and 2017		
	2018	2017
SEFA Schedule and Audited Fund Statements		
Federal	\$ 13,846,879.50	\$ 13,937,796.92
CDBG, ESG, HOPWA	\$ 18,353,972.89	\$ 13,894,295.81
HOME	\$ 19,338,952.55	\$ 3,289,430.36
Grant Other	\$ 19,361,540.52	\$ 20,182,665.65
Internal Service Fund	\$ 183,000.00	\$ -
Police Special Revenue	\$ 3,687.00	\$ -
Capital Projects Fund		
Federal Rev Rec'd	\$ 8,427,358.84	\$ 10,930,356.67
State Grants		
IGR Sch 04100 CPF-4	\$ 2,447,247.84	\$ 19,204,325.69
Hennepin County		
IGR Sch 04100 CPF-4	\$ 1,477,832.71	\$ 38,000.00
Met Council		
IGR Sch 04100 CPF-4	\$ 116,172.66	\$ 154,596.79
MN Historical Society		
IGR Sch 04100 CPF-4	\$ 18,589.00	\$ 74,359.00
Intergovernmental Revenue Schedule Major Funds (Fund 07300)		
Storm Water Maintenance Agreement	\$ 199,472.92	\$ -
State Grants in General Fund		
Department of public safety	\$ 845,089.00	\$ 268,966.00
Department of transportation	\$ 728,826.00	\$ 704,063.00
Hennepin County	\$ -	\$ 7,875.00
Met Council	\$ -	\$ 42,690.00
MN Department of Veteran Affairs	\$ 11,000.00	\$ -
Total City of Minneapolis Grant Revenue	\$ 85,359,621.43	\$ 82,729,420.89

Source: 2018 and 2017 Finance Grants Schedules that support the CAFR were obtained from the Finance Accounting Manager.

Grant Lifecycle Steps

The City follows a decentralized grant administration model. The chart below illustrates grant activities by phase: pre-award, award, post-award.



Source: IIA: Auditing Grants in the Public Sector, April 2018

Grants staff from Intergovernmental Relations support departments in identifying sources of grants, applying for grants and receiving Council approval where needed, and accepting grants. Finance and Property Services staff support department-level and City-wide grant accounting and reporting needs and conduct annual grant risk assessment and monitoring activities. Department staff are ultimately responsible for all grant administration processes for any grants they handle. Much work must be done throughout the grant lifecycle to ensure that aid reaches the intended beneficiaries. Grant lifecycle steps are summarized below.

1. Pre-Award Phase - Funding Opportunities

The Office of Grants and Special Projects staff have resources to help departments become aware of funding opportunities. In addition to sources listed on the City’s intranet, the Office regularly reviews grants.gov and the State Register, receives email updates, and connects with industry sources. The Office itself does not apply for the grants; departments choose and apply for opportunities.

2. Pre-Award Phase - Application

The Office of Grants and Special Projects can assist in the application process, but it occurs at the department level for those applying for funds. If any of the following conditions are met, the department is responsible for obtaining City Council approval when applying for a grant:

- More than one department applies for the same source of funds, and prioritization is required
- Grant request exceeds \$250,000
- Grant requires any local cash match
- Grant requires new hiring to implement the project
- The project, if funded, would require the City to, or has the expectation that the City would continue the funding
- The application appears to be inconsistent with the City’s Approved Annual Budget

- The application appears to be inconsistent with the City’s Comprehensive Plan, Consolidated Plan, or other approved plans or policies
- The application includes controversial or unclear elements

3. ***Award Phase - Acceptance***

Once a grant is awarded, the department is responsible for a series of initial actions to accept the award. A Request for Council Action (RCA) must be submitted to City Council to accept and appropriate the grant, Finance is to be notified, subrecipient contracts and agreements should be created, and there should be a meeting with Finance to establish invoicing and reporting requirements.

Finance accountants determine the coding and set up the project number, set up the appropriation in the City’s financial system, and meet with the department to establish invoicing and reporting requirements.

4. ***Post-award Phase - Grant Management and Monitoring***

The department project manager is responsible for managing the overall administration and program activities of the awarded grant. The City meets with subrecipients and contractors prior to project commencement to convey City and grantor regulations well in advance. The Finance grants staff are responsible for grant risk assessment and monitoring activities.

5. ***Post-award Phase – Closing Project***

Project close-out occurs when all expenses are incurred, and the recipient can provide evidence of expense and goods or services delivered. Upon completion, departments notify grant accountants of the completed work and submit final invoices and documentation. The project is closed once final payments are made and reports are submitted.

Observations and Management's Action Plans

ISSUE #1

There is no single source grant administration to efficiently manage the City's grant-related activity throughout the grants lifecycle (MOD)

Observation

The City's decentralized grant administration model relies heavily on manual processes as there is no centralized single source grant administration. Intergovernmental Relations and Finance teams perform some centralized grant management processes. From grant application through award and management of grant and close-out, additional resources are required to manually track, manage and report grant-related activity.

- Grant application data is manually gathered from the Grant Review Form and monitoring of City Council actions. Grant application data is manually tracked by Intergovernmental Relations Grant staff and is shared with other departments as needed.
- Grant financial monitoring is performed by Finance staff and requires days on a monthly basis to manually compile grant-related subrecipient data.
- The City's financial system enables tracking of grant revenue and expense activity by fund and project number, but management is unable to report complete information on subrecipient data required for federal grant reporting. A governmental entity may pass federal grant funds to another entity. The second entity, known as the "subrecipient" of the grant funds, may be another governmental entity or other organization. A subrecipient flag in the procurement system can be checked to track subrecipient activity, however, the subrecipient flag is not a required field and is not consistently applied. Furthermore, retroactively applying the flag to existing contracts or agreements is a manual effort.

A lack of a centralized grant administration function, and system capability to track all grant-related activity centrally and electronically, increases the risk of incomplete reporting, reduced transparency, inconsistent processes, and inefficient allocation of resources. Management acquired the PeopleSoft grant management module but has not implemented the module due to expected performance problems.

A single grant administration team to support decentralized management of individual grants, and a management system to administer the entire grant lifecycle, from application to close-out of grants, can transform grant administration. Information that was once held in silos can be easily shared, analyzed, or updated throughout the City with minimal coordination. A grant management system can track emails, applications, evaluations, awards, financial transactions, etc., and is critical to modernize grant management and administration. The Minnesota Department of Administration provides guidance on standards and data elements that are important to include in an electronic grants management system.

Recommendation

Internal audit recommends management establish a centralized grant administration team to coordinate and centralize existing effort between Finance and Intergovernmental Relations grant management teams, and to establish full grant life cycle oversight roles and responsibilities.

In addition, Internal Audit recommends management perform a current cost-benefit analysis to consider implementing a centralized electronic grant management system which would help automate and standardize grant administration processes, drive transparency, produce more timely and accurate reporting, and allocate resources more efficiently.

Management Action Plan

Management agrees that a centralized grant administration approach has advantages. The Finance and Property Services Department will lead an effort to consolidate the grant website to provide grant recipients with one source for all grant related information. Second, Finance will schedule quarterly meetings to discuss further consolidation and, if consolidation is recommended and feasible, will develop a consolidation plan in coordination with the divisions and departments involved in the consolidation. At this time management does not plan to perform a cost-benefit analysis to determine if benefits outweigh costs of implementing an electronic grant management system but will consider doing so in the future.

Target remediation date: July 1, 2020

Responsible party: Lori Johnson, Deputy CFO

ISSUE #2

Grant risk assessment and monitoring prioritization processes do not comprehensively cover all grants and subrecipients (MOD)

Observation

The City's grant risk assessment and monitoring processes do not comprehensively cover all grants and subrecipients of grants. The annual grant risk assessment and monitoring prioritization processes are performed by Finance grant subject matter experts. System queries of grant payments are run to identify subrecipients receiving funds. Payments are filtered using various criteria to determine a population that will be, 1) required to be monitored, 2) flagged for monitoring by Finance grants subject matter experts using informal risk factors, and 3) risk-assessed and monitored as time permits.

The grant risk assessment process begins with identifying all the subrecipients for grants that the City is required to monitor annually (e.g. Employment and Training grants), as well as subrecipients identified in prior years for follow-up monitoring. Excluded from the remaining risk-assessment subrecipient population are entities receiving fixed-amount awards, awards under \$25,000, locally funded grants, and subrecipients receiving over \$750,000 as they meet the threshold for required audits under the Single Audit Act (2 CFR part 200, subpart F). The remaining risk assessment subrecipient population is completed using pre-determined, weighted criteria, and informal criteria, to identify higher risk subrecipients for prioritization. Informal criteria are used to prioritize subrecipients with staff changes, financial system changes, new subrecipients, and past monitoring findings. The additional subrecipients prioritized in this risk assessment process are monitored as resources permit.

The following topics were noted:

- The central grant risk assessment and monitoring prioritization processes do not cover all grants and subrecipients. Limited resources are allocated to required subrecipient monitoring as highest priority. The remaining subrecipients are prioritized based on formal and informal criteria, however, some subrecipients are excluded from consideration from the risk assessment and monitoring prioritization process. Remaining prioritized subrecipients are monitored as resources permit.
- The risk assessment processes and subsequent monitoring of subrecipients require significant manual work from the Finance grants management staff. Up to 3 days per month may be required to retrieve and aggregate financial data to be included in the grant risk assessment process. Historic data is maintained and new data is added each period so prior period errors due to system or manual processes would not be detected. Manual processes are documented in the risk assessment workbook but have undergone significant customization over the years and are therefore difficult for new staff to perform without adequate training.
- Due to recent turnover in the department, there are no dedicated staff to perform risk assessment and monitoring processes. The Finance grants manager will perform highest priority monitoring until additional resources are hired. In the past, monitoring of grants was completed by Finance grants management staff of one FTE, with manager support. In 2018 more extensive coverage of monitoring was completed with the temporary addition of another grants FTE for half the year.

A lack of monitoring of grants and subrecipients not included in the risk-assessed and prioritized monitoring processes increases the risk of errors, fraud or noncompliance going undetected. Potential mishandling of grant funds can result in reputational damage to the City, and jeopardize current and future funding. All funds assigned to subrecipients should receive the same diligence as sponsored funds that remain at the City. The City has implemented a risk assessment and monitoring program that can be stronger with enhanced risk assessment selection, prioritization, and increased monitoring activities.

Recommendation

Internal Audit recommends that management perform the following:

- Include lower risk federal grant funds and local grant funds in the grant risk assessment selection process to ensure broader monitoring coverage of all grants and subrecipients.
- Strive to automate risk assessment and reporting processes. Heavily manual processes are prone to error and require additional resources to complete.
- Review key procedures and checklists related to the risk assessment and monitoring processes to ensure they have been updated to reflect institutional knowledge, experience, and lessons learned over prior years.
- Given the large amount of funds that flow through grants, ensure grants staff have sufficient resources to perform the monitoring that has been prioritized in the risk assessment process.

Management Action Plan

Management will continue to look for opportunities to automate heavily manual processes during ongoing process improvement initiatives. This topic will be considered in the grant management system cost-benefit analysis as discussed in Issue #2.

Management Action Plan:

- Payments/subrecipients currently excluded during the risk assessment process will instead be moved to a lower priority bucket in the risk assessment where one or two will be selected and added to the annual monitoring list.
- Management will review risk assessment and monitoring processes checklists and make updates where necessary to ensure institutional knowledge and lessons learned have been incorporated.
- Management will fill a current FTE vacancy and plans to request funding in the 2020 budget to add one FTE to the Finance grants team.

Target remediation date:	June 1, 2020
Responsible party:	Dawn Koenig, Assistant Controller
Accountable party:	Lyle Hodges, Controller

ISSUE #3

Grants Administration policies and procedures should be centralized, comprehensive, and communicated in a central location (LOW)

Observation

Grant management policies and procedures are decentralized.

Policy: The Grants Administration section of the Financial Policies is very high level and is communicated in the City's annual budget. The policy does not communicate all key roles and responsibilities to govern City-wide grants administration.

Procedures: Intergovernmental Relations maintains a "Grants and Special Projects" intranet page, linked on the City Coordinator's intranet homepage, for purposes of sharing enterprise grant guidance, information and resources to all department staff. The Grants Administration Finance Policy is not linked on the site, and key Finance grants administration staff, roles and responsibilities are not found. While the existing grants intranet site provides useful information for departments to manage their grants, some of the hyperlinks to grant resources and information are broken or outdated.

Department Procedures: Various departments that handle grants maintain their own sets of procedures.

A lack of a centralized and updated grant management policy and procedures increases the risk that City staff may not be aware of, or may not follow, the City's goals and objectives for handling grants. Decentralized or

inconsistent grant management policy, procedures and processes increase the risk of error, fraud, and inaccurate reporting.

Recommendation

Finance and Property Services should collaborate with the Intergovernment Relations Grants and Special Projects team to centralize, review and update grant management policies and procedures and locate them all in a central location, such as a centralized grant administration intranet page. Specifically:

1. Identify which grant management policies and procedures will be centralized and updated.
2. Post (or link) the updated policy and procedures on the centralized Grants intranet landing page to ensure guidance is provided for the entire grants administration lifecycle.
3. Include steps to help identify and prevent grant scams and fraud.
4. Ensure updated policies and procedures are communicated to grant project managers and other impacted staff.

A centralized grant management policy should include the following elements:

- Policy statement (purpose)
- Scope (to whom is the policy applicable)
- Roles, responsibilities, and definitions

Note: Low risk-rated audit issues do not require a management action plan.