



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



DARLENE GREEN  
Comptroller

*Internal Audit Section*

1520 Market St., Suite 3005  
St. Louis, Missouri 63103-2630  
(314) 657-3490  
Fax: (314) 552-7670

DR. KENNETH M. STONE, CPA, CGMA  
Internal Audit Executive

FILE COPY

January 21, 2014

Mr. John Zakibe, Deputy Comptroller  
Comptroller's Office  
1200 Market Street, Room 311  
St. Louis, MO 63103-2875

RE: Federal Grants Section (Project #2013-P14)

Dear Mr. Zakibe:

Enclosed is the Internal Audit Section's report on the process review of the Federal Grants Section for the period July 1, 2011 through June 30, 2012. A description of the scope of the work is included in the report.

Fieldwork was completed on September 6, 2013. Management's responses to the observations and recommendations noted in this report were received on January 9, 2014 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised; and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Respectfully,

*Kenneth M. Stone*

Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

Enclosure

Cc: Ronald Hicks, Accounting Manager I



# CITY OF ST. LOUIS

**COMPTROLLER'S OFFICE**

**FEDERAL GRANTS SECTION (FGS)**

**PROCESS REVIEW**

**JULY 1, 2011 THROUGH JUNE 30, 2012**

**PROJECT #2013-P14**

**DATE ISSUED: JANUARY 21, 2014**

**Prepared by:  
The Internal Audit Section**



# OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

## EXECUTIVE SUMMARY

### Background

The Federal Grants Section (FGS) is primarily responsible for administering the disbursement of approximately \$32 million a year in federal and state grant funds to a variety of agencies and City departments. These grants provide substantial financial assistance to the City and help fund various social services and community development programs.

Some of the *Miscellaneous Grants* administered by FGS include:

- Department of Health grants including HIV/AIDS and lead abatement.
- Grants to fund City Drug Court, which helps defendants overcome alcohol and drug addiction.
- Department of Human Services' Emergency Shelter Grant Program, which funds services for the homeless.

FGS' staff reviews all contracts involving the grants prior to forwarding the contracts to the Comptroller's Office for approval. FGS also reviews accounts for receipts from federal agencies and prepares requests for reimbursement from the funding agencies. During the fiscal year ended June 30, 2012, FGS processed approximately 418 drawdown requests totaling \$22,488,000 for the City's *Miscellaneous Grants*.

### Purpose

FGS was selected for review based on IAS' annual risk assessment. The purpose was to determine if FGS' internal controls effectively and efficiently manage risks in achieving goals and objectives relating to:

- Compliance with laws, regulations, grants, and policies and procedures applicable to goals and objectives.
- Safeguarding of assets.
- Reliability and integrity of financial and operational information.
- Economic and efficient use of resources.

### Scope and Methodology

The scope of the review included the disbursement, drawdown, quarterly reporting, and reconciliation processes from the period July 1, 2011 through June 30, 2012. The review was confined to evaluating internal controls over the financial and operational activities relating to the objectives noted above.

The review procedures included:

- Inquiries of management and staff.
- Observations of relevant processes.
- Reviews for compliance with the grants, policies and procedures, as well as applicable laws and regulations applicable to goals and objectives.
- Limited tests of controls.
- Follow-ups on prior observations.
- Other procedures considered necessary.

## Exit Conference

An exit conference was conducted at FGS on November 4, 2013. The Deputy Comptroller, Accounting Manager, and the Accounting Coordinators represented the Federal Grants Section. The Audit Supervisor and Auditor-in-Charge represented the Internal Audit Section.

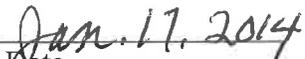
## Conclusion

Several control strengths were noted within FGS' financial and operational activities. However, the opportunity exists for management to improve internal controls over the financial and operational activities of FGS. The following observations resulted from the review:

1. Opportunity to prepare drawdown requests in a timely manner. **(Repeated)**
2. Opportunity to improve controls for reconciling receipts and expenditures.
3. Opportunity to improve assurances for allowable expenditures. **(Questioned Costs-\$148,135.88)**
4. Opportunity to improve the reliability and integrity of systems information. **(Repeated-Partially Resolved)**
5. Opportunity to update written policies and procedures. **(Repeated)**

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

  
Dr. Kenneth M. Stone, CPA, CGMA  
Internal Audit Executive

  
Date

**CITY OF ST. LOUIS  
COMPTROLLER'S OFFICE  
FEDERAL GRANTS SECTION  
PROCESS REVIEW  
JULY 1, 2011 THROUGH JUNE 30, 2012**

**TABLE OF CONTENTS**

<b>Description</b>	<b>Page(s)</b>
<b>OBSERVATIONS</b>	
Status of Prior Observations	1
Summary of Current Observations	1-2
<b>DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES</b>	<b>3-9</b>

## OBSERVATIONS

### Status of Prior Observations

The Internal Audit Section (IAS) followed up on observations included in IAS' report issued October 27, 2006 and the State Auditor's report, issued December 2008. The status of each observation is as follows:

- Opportunity to eliminate repeated suspension of Department of Human Services' (DHS) drawdowns by processing timely *Annual Progress Reports*. **(Resolved)**
- Opportunity to utilize Nu-Paradigm. **(Resolved)**
- Opportunity to better utilize technology to assist with the accurate and timely completion of the section's work. **(Repeated - Partially Resolved)**
- The Comptroller's Office sometimes did not enter into contracts as required by Section 432.070 of RSMo. **(Resolved)**
- Revenue Maximization - The Comptroller has not established City procedures to ensure reimbursement requests for federal grants are submitted timely. **(Repeated)**
- Travel Advances - The Comptroller's Office does not have adequate procedures to ensure reimbursement forms for federal travel advances are submitted timely. **(Repeated)**

### Summary of Current Observations

Several control strengths were noted within FGS' financial and operational activities. These included, but were not limited to, the following:

- Established goals, objectives, and performance measures / standards.
- A database system tracks vouchers using continuous batch numbers and sequential control ID numbers for draws processed and paid.
- Review of fund balances for availability prior to processing disbursement vouchers.
- Approval of disbursement vouchers by an appropriate departmental official and designated FGS personnel.
- Review of vendor numbers, invoices and payments on the City's general ledger system to avoid duplicate and unauthorized payments.
- Electronic submission of drawdown requests using various systems (IDIS, PMS, LOCCS and PAPRS) of the funding agencies in which tracking numbers or voucher numbers are assigned.
- The various systems provide authorized individuals with a unique usernames and passwords to access the system. Various rights are assigned to each user ID for entering and approving transactions.
- Review and approval of drawdown request forms by management or independent party and documented.
- Payments are received via wire transfers and notification from the Treasurer's Office.
- Procedures require verification of receipts to be documented in the general ledger system, *Karpel*, and the draw down files.

- Duties were adequately segregated.

However, the opportunity exists for management to improve internal controls over the financial and operational activities of FGS. The following observations resulted from the review:

1. Opportunity to perform drawdowns in a timely manner (**Repeated**)
2. Opportunity to improve controls for reconciling receipts and expenditures
3. Opportunity to improve assurances for allowable expenditures (**Questioned Costs - \$148,135.88**)
4. Opportunity to improve the reliability and integrity of systems information (**Repeated - Partially Resolved**)
5. Opportunity to update written policies and procedures (**Repeated**)

These observations are discussed in more detail in the *Detailed Observations, Recommendations, and Management's Responses* section of this report.

**DETAILED OBSERVATIONS, RECOMMENDATIONS  
AND MANAGEMENT'S RESPONSES**

**1. Opportunity To Perform Drawdowns In A Timely Manner (Repeated)**

The Federal Grants Section (FGS) is responsible for processing drawdown requests of federal and state funds for grants awarded on a reimbursable basis. It was FGS' policy to drawdown funds in a timely, accurate and efficient manner. However, the preliminary review (walk-through of the process) revealed that requests were not timely processed in accordance with the procedures. It was noted that:

- The Supportive Housing Program (SHP) draw #100 of \$34,121 for June - July 2011 expenditures were not performed until October 3, 2011.
- The Justice Assistance Grant (ARRA-JAG) draw #274 of \$148,025 and \$184,198 for September - December 2011 expenditures for centers cost centers #6223000 and #6223400 were not performed until January 18, 2012.

Subsequent reviews of 19 draw requests revealed that 13 totaling \$747,081 were not timely performed. The untimely draws represented 69% of draws tested and 75% of total dollars tested.

FGS's policies and procedures require drawdown requests of grant awards to be performed on a weekly or monthly schedule. The requests should be completed and submitted for approval no later than ten working days from receipt of the City's general ledger report. These primarily pertain to the Department of Human Service, Department of Public Safety, and the Department of Health grants.

As a result, a negative cash balance of \$18,528 existed in the SHP center, and the two ARRA-JAG centers had negative cash balances of \$148,025 and \$184,198 respectively. In the event federal funds become unavailable, reimbursements of funds to the City may be delayed or unrecoverable (also, see *Observation #2*).

In 9 of the 13 instances, it was noted that either the information was not timely received by FGS or the disbursement vouchers were not timely processed. Also, controls were not implemented to ensure monthly requests were prepared.

**Recommendation**

It is recommended that FGS implement controls to ensure drawdown requests are processed monthly. In addition, drawdown requests should be monitored. FGS should also consider communicating with various departments/agencies the importance of timely processing of disbursement vouchers to expedite the drawdown process.

## 1. Continued...

### *Management's Response*

*FGS makes every effort to draw down funds on a timely manner. However, sometimes circumstances beyond our control negate the timely drawing of funds. The drawing down process will be reviewed, to ensure that funds can be drawn more effectively.*

## 2. Opportunity To Improve Controls For Reconciling Receipts and Expenditures

Key control procedures were not operating effectively to ensure reimbursements were received for all allowable expenditures. Written policies and procedures require reconciliations be prepared each month to verify reimbursements have been requested and received for all allowable expenditures.

The review of the DHS and ARRA-JAG reconciliation sheets revealed that grant receipts and expenditures were not properly reconciled.

- Four of the nine DHS' Supported Housing Program (SHP) reconciliation sheets were not prepared timely, ranging from four to six months after the required standard.
- As of the date the SHP reconciliation sheets were prepared, all transactions on general ledger were not recorded on the reconciliation sheets.
- FGS does not reconcile receipts and expenditures of the Department of Health although FGS processes the drawdowns.
- FGS does not reconcile receipts and expenditures processed for the JAG Drug Court (center 1168-3210500) although FGS processes the drawdowns.
- Explanations for differences (negative cash balances) between general ledger expenditures and receipts were not documented on the reconciliation sheets.
- Supervisory reviews were not performed of the reconciliation sheets.

The procedures require that monthly reconciliations should be completed and submitted for approval no later than 10 working days from the receipt of the general ledger report. The procedures also require:

- Differences for amounts expended and revenues recorded on general ledger are resolved as necessary, and an explanation for remaining differences should be included on the reconciliation sheet.
- The Accounting Manager should verify that the reconciliations are performed, adequately supported, and completed in a timely manner.
- The Accounting Manager should initial/sign and date the reconciliation sheet as documentation of the review.

## 2. Continued...

Timely reconciliations help to ensure that all drawdowns are requested and received for eligible expenditures, and the efficient use of federal and City funds. As of June 30, 2012, a total negative cash balance of \$306,000 existed for 16 centers under one ARRA-JAG contract.

The cash balances of *Miscellaneous Grants* reported on *Exhibit 5 of Schedule of Expenditures of Federal Awards (SEFA)* were approximately:

Center	Beginning Balance @ 7/1/2011	Receipts	Additions	Deductions	Warrants	Ending Balance @ 6/30/12
1159	\$ 524,308					\$ 524,308
1166	(154,011)	\$ 10,559,391			\$ 11,782,567	(1,377,187)
1167	(1,919,756)	13,473,716	\$203,250	\$212,739	12,595,272	(1,050,801)
1168	(7,370,713)	19,248,446			15,920,765	(4,043,032)
1169	(1,402,715)	4,465,058			4,983,854	(1,921,511)
<b>Total</b>	<b>\$ (10,322,887)</b>	<b>\$ 47,746,611</b>	<b>\$203,250</b>	<b>\$212,739</b>	<b>\$ 45,282,458</b>	<b>\$ (7,868,223)</b>

Deviations from written procedures resulted in the following:

- Lack of management or supervisory reviews.
- Miscommunication about the process. Some personnel were not aware of the reconciliation procedures. Some personnel stated that the drawdown process was the reconciliation.
- It was unknown who reconciles the DOH or JAG Drug Court receipts and expenditures.
- FGS does not reconcile the expenditures and receipts for County Offices.

### Recommendation

It is recommended that FGS improve controls to ensure that all draws are reconciled to the City's general ledger. It is recommended that supervisory reviews are performed to verify that the reconciliations are performed, adequately supported and completed in a timely manner. It is also recommended that FGS review its current policies and procedures, make revisions as considered necessary, and communicate the objectives to all employees.

### Management's Response

*The process of reviewing receipts and expenditures will be looked at and improvements will be made as deemed necessary.*

### 3. Opportunity To Improve Assurances For Allowable Expenditures (Questioned Costs - \$148,135.88)

Supporting documentation of allowable cost was not consistently submitted to FGS for review. There were nine instances in which the DHS' disbursement vouchers were not supported by invoices or documentation of client's payments. It was also noted that:

- One grant award (Doorways -Jump Start) allowed for a total cost of \$147,060 for leasing/rents paid for clients. No support was provided upon submittal of vouchers to FGS to verify actual or incurred costs.
- Draw #149 included \$1,075.88 for fringes, which were not allowable under the grant award.

Based on sound accounting principles, a second or independent review should be performed to ensure all sub-recipient expenditures paid by the City are properly supported and are eligible for drawdown under the grant.

FGS' procedures do not specifically indicate that invoices or other supporting documents such as lease agreements, or verification of payment should be submitted and reviewed. FGS relied upon departmental approvals and certifications that expenses reported were proper. The written procedures indicated that *"During the voucher review and approval process, expenses are reviewed to determine if allowable per applicable regulations before being paid and posted to the G/L. As such, a general assumption is made that all of the grant expenditures posted to the G/L are eligible for drawdown"*.

Although only one unallowable expense was noted, the risk exists that departmental reviews of allowable costs may not be performed or may not be sufficient to ensure all costs vouchered were eligible under the grant. In the event an external review is requested by the funding agencies, and detailed support for reimbursed expenditures is not available, departments / agencies may risk suspension or sanctions under the terms of the grant.

#### **Recommendation**

It is recommended that FGS consider adopting a policy which would require the departments/ agencies to submit proper documentation of expenditures to be reimbursed.

#### **Management's Response**

*FGS feels that the current process is adequate; however, the policy will be reviewed and changed if necessary.*

#### 4. Opportunity To Improve The Reliability and Integrity of Systems Information (Repeated - Partially Resolved)

FGS maintains a *Karpel* database system which contains voucher, drawdown, receipt logs and other grant documentation. The review of 20 draws on the drawdown log, applicable files, request forms, and receipt coding forms revealed that data on the log was incomplete and was not always accurately reported. The following discrepancies were noted:

- Four draw ID numbers, of the 20 draws reviewed, were missing from the system and files. Explanations for the missing draws were not documented.
- The file for draw ID 87 could not be located.
- Twelve or 63% of the draw dates on the log did not agree with the dates on the drawdown request forms.
- There were three instances in which the draw period did not agree with the log and one in which the award number was incorrect.
- Nine receipt deposit dates were missing from the log and two dates did not agree.

Prudent management controls require that data processed to be complete and accurately reported. The data should also be consistent and in accordance established performance standards.

The lack of review increases the risks that:

- Draw entry may be changed or manipulated without management's knowledge.
- Data may not be consistently reported.
- Database may be inaccurate and transactions processed do not meet managements' criteria.
- Management may make decisions based on incorrect information.

FGS does not generate internal reports for monitoring the effectiveness of the system in determining the number of draws, vouchers, receipts processed or if discrepancies and changes are appropriated.

#### **Recommendation**

It is recommended that FGS implement procedures that would require periodically reviews of the data entry. It is also recommended that management develop a policy that would allow for edit reports to be generated and reviewed as system changes or discrepancies occur. These reports and other system reports would be useful in evaluating performance standards.

#### ***Management's Response***

*Recommendation so noted. The Comptroller's Office is currently going to a new accounting system. Upper management will determine whether the Karpel system meets the needs of the Office, or modified to meet those needs.*

## 5. Opportunity To Update Written Policies And Procedures (Repeated)

FGS has a policies and procedures manual that includes management's objectives, control procedures, and performance standards. However, due to operational, regulations, and staff changes, the manual has not been updated.

It was noted that FGS' manual did not include procedures which were in the Comptroller's manual. These included policies on grant awards and applications. Others included:

- Timely processing of travel reports. It was noted in the previous State audit report that procedures were to be updated to require travel reports to be submitted within 30 days of travel. FGS' procedures did not address this requirement.
- Processing grant agreements for execution, distribution and account set-up.
- Processing requisitions/purchase orders.

In addition:

- FGS' procedures indicated that quarterly Federal Cash Transaction Reports (form SF-272) should be prepared 15 days after the quarter ended. The new regulation, 24 CFR 85.41, requires quarterly Federal Financial Report form SF-425 be submitted 30 days after the quarter ended.
- Review and clarification is needed to address who is responsible for the reconciliations of the departments' grant receipts and expenditures when drawdown requests are performed by FGS, yet not reconciled by FGS (see *Observation #2*).

The Government Finance Officers Association (GFOA) recommends that governments develop formal grant policy and procedures.

- Well-designed and properly maintained system of documenting accounting policy and procedures enhances both accountability and consistency.
- The resulting documentation can also serve as a useful training tool for staff.
- The documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than every three years.
- Periodic changes that occur with the period reviews should be updated promptly as they occur.
- The policies and procedures should indicate which employees are to perform which procedures. Procedures should be described as they are actually intended to be performed rather than some idealized form.
- Also, they should explain the design and purpose of control-related procedures to increase employees' understanding of and support of controls.

The lack of properly updated policies procedures increases the risks that:

- Management's objectives are not clearly communicated.
- Performance standards and measures may be ineffective.
- Control procedures are not consistently performed.
- Control procedures will not be effective or may be over-ridden.

## 5. Continued...

- Employees will not be properly trained.

FGS has a written policies and procedures manual, dated January 2010. It was noted that some procedures were on a shared drive, but have not been incorporated in the manual due to staffing changes and over priorities.

### **Recommendation**

It is recommended the policy and procedures manual be reviewed and updated to include the items noted above as considered appropriate. It is also recommended that the manual be:

- Approved by management and dated.
- Periodically reviewed and updated.
- Formally communicated to the staff.

### ***Management's Response***

*The Federal Grants' policy and procedures manual is currently being revised and updated.*