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Date: January 13, 2011  
To: Audit & Finance Committee  
From: Jennifer Ruttman, City Auditor   
Subject: Audit of ARRA Federal Stimulus Grants

Pursuant to the Council-approved audit plan, the City Auditor's office has completed an audit of ARRA Federal Stimulus Grants citywide<sup>1</sup>. The final report and the City Manager's response are attached.

We would like to thank the many staff members from the various departments involved in this effort for their cooperation and professionalism throughout this process. In addition, we are very pleased with the City Manager's response and willingness to commit appropriate resources centrally, in order to ensure successful grants management citywide.

Please feel free to contact me at x3767 if you have any questions or comments about this report.

<sup>1</sup> Exception: Stimulus grants awarded to the Neighborhood Services Department were not included in this audit. As explained in the attached report, the reason for this was to avoid duplication of efforts, as these grants will be included in a separate audit later this year.



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**AUDIT REPORT**

**CITY AUDITOR**

**Report Date: December 9, 2010**  
**Department: Citywide**  
**Subject: Audit of ARRA Federal Stimulus Grants**

**OBJECTIVE**

The objective of this audit was to determine whether the City’s grant management processes are adequate to ensure that all stimulus monies awarded to Mesa are received and expended in accordance with the requirements of grantors, including all tracking and reporting requirements.

**SCOPE & METHODOLOGY**

To accomplish our objectives, we:

- Reviewed statutory and administrative requirements for management of stimulus funds.
- Interviewed City staff members.
- Reviewed departmental procedures for satisfying grantor requirements, tracking expenditures, requesting reimbursements, recording revenues, and reporting stimulus fund activities.
- Reviewed City financial records and other data related to stimulus funds.

***Intentional scope limitation:*** Please note that Neighborhood Services stimulus grants were excluded from testwork during this audit to avoid duplication of efforts, as a separate audit of that department is planned for later this fiscal year.

**BACKGROUND**

The American Recovery and Reinvestment Act of 2009 (ARRA) is an economic stimulus package intended to create jobs and promote investment and consumer spending. It includes measures to modernize infrastructure, enhance energy independence, expand educational opportunities, preserve/improve affordable health care, provide tax relief, etc. The City of Mesa was awarded approximately \$68.5 million in ARRA benefits, which includes stimulus funding of \$54.7 million for City of Mesa projects, plus an estimated \$13.8 million in other benefits, such as interest savings on loans and bonds. The following City departments were awarded stimulus funds for various projects and/or programs:

Police	\$7.0 M
Fire	\$4.0 M
Environmental & Sustainability	\$4.2 M
Transit	\$11.5 M
Streets	\$12.2 M
Water Resources	\$3.8 M
Neighborhood Services	12.0 M
<b>Total</b>	<b>\$54.7 M</b>

Stimulus grants come from several different federal agencies and many are awarded through other agencies, such as ADOT, WIFA, City of Phoenix, etc. Most of the grants require the City

to first expend the funds and then apply for reimbursement from the grantor. Reimbursement is contingent upon the City having met numerous complex requirements, which differ from grant to grant. Therefore, it is critical that the City administer these grants and manage the related projects in a well-coordinated and deliberate manner. Failure to do so increases the risk that the City will be denied reimbursement after expending the funds.

### **OBSERVATIONS**

As noted in the objective above, this audit focused not just on dollars, but on processes. The majority of ARRA grant monies have yet to be received, and whether or not they are ultimately received depends directly on the effectiveness of the processes in place to manage the grants.

We found that the processes in place to manage stimulus funds (and grants in general) vary widely across City departments. Very few departments have well-developed processes and procedures in place to ensure that the various requirements for contracting, expenditure tracking, reimbursements, recording, and reporting are met. These departments have designated individuals with the appropriate training and experience to ensure effective grants management is maintained. The Police Department, for example, has dedicated the time, training, and other resources necessary to maintain one of the most comprehensive and effective grants management processes in the City.

In contrast, many other departments have few if any formal procedures in place to ensure that they properly manage their stimulus grants; and most have no designated individual ultimately responsible for managing or monitoring those grants. Rather, in most departments, responsibilities related to grants management have become "additional" duties for employees whose training and expertise align closely with their primary jobs, but not with grants management.

There is also a need for improved coordination and communication when multiple departments are involved in the same project. As with other aspects of grants management, we found that the quantity and quality of inter-departmental coordination and communication varied widely depending on the project and the responsible department.

### **CONCLUSION**

In our opinion, the City's grant management processes are not adequate to ensure that all stimulus monies awarded to Mesa are received and expended in accordance with the requirements of grantors, including all tracking and reporting requirements. Failure to meet grantor requirements may result in loss of funding. Key areas of concern include:

- Lack of consistent, formal processes and procedures for grants management.
- Poor inter-departmental cooperation and communication.
- Lack of necessary expertise among employees managing grants.

### **RECOMMENDATION**

1. The City Manager should implement a more comprehensive grants management function than that which currently exists in the centralized Grants Coordinator position. The operational objective of this centralized function should be to provide departmental staff with the tools, structure, and oversight needed to ensure successful management of all

grants. The following should be included in the responsibilities of the centralized grants coordinator(s):

- a. Implementing appropriate City policies, processes, procedures, and tools to establish and clearly communicate roles, responsibilities, and expectations.
- b. Providing ongoing training and technical assistance to departmental staff members responsible for grants management.
- c. Facilitating interdepartmental communication and coordination when necessary to properly administer grants that involve multiple departments.
- d. Actively participating and coordinating with ITD, Accounting, Budget and other key staff involved with the implementation of the Grants Lifecycle application within the CityEdge project.



## CITY MANAGER'S OFFICE

**TO:** Jennifer Ruttman, City Auditor  
**FROM:** Trisha Sorensen, Acting Deputy City Manager  
**THROUGH:** Christopher Brady, City Manager  
**DATE:** January 10, 2011  
**SUBJECT:** Response to Stimulus Funds Audit Dated 12/9/10

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The City Manager's Office concurs with the findings outlined in the City Auditor's Office December 9, 2010 report on stimulus funds.

In early October, I assigned Tom Lavell, Contract Administrator, to review the grants processes at the request of the City Manager in response to an issue that surfaced in the Engineering Department regarding a stimulus funded project. Based on this review and in-depth analysis, as well as your audit report, the City is working to strengthen grants administration across the city. Our efforts include:

- **Grant Administration:** We are redefining the currently vacant Grant Coordinator position in the City Manager's Office to strengthen this positions' oversight of grants processes across the city. The position will focus on pre-award activities including grant seeking and application with an emphasis on ensuring departments understand their oversight and monitoring responsibilities for grants they obtain.
- **Grant Compliance:** The Contract Administrator, Tom Lavell, take on additional duties as they relate to grant oversight and compliance to include:
  - Training coordination
  - Development and implementation of control procedures
  - Program audit and monitoring oversight
  - Centralized tracking of grant agreements
  - Facilitating interdepartmental coordination
- **Grant Accounting:** In close coordination with the Contract Administrator, the Assistant Controller will take the lead on:
  - Policy development
  - Implementation of the Grant Life Cycle module in CityEdge
  - Development and implementation of control procedures
  - Assisting in training development and delivery

Together, these actions will strengthen grant oversight and monitoring across the city for the complete life cycle of a grant.