

**American Recovery and Reinvestment Act Audit  
December 2010**

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# American Recovery and Reinvestment Act Audit

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# AMERICAN RECOVERY AND REINVESTMENT ACT AUDIT



Office of the City Auditor  
Patrice Randle, CPA  
City Auditor

Report #10-08

December 17, 2010

## ***Executive Summary***

*The City has complied with ARRA quarterly reporting requirements*

*The City has calculated jobs created in accordance with federal guidance*

*The City has established an ARRA website that provides accurate and useful information to the public*

## ***Opportunity for Improvement***

- *Report payments to vendors and subrecipients in accordance with federal reporting guidance*

As part of the Fiscal Year 2010 Annual Audit Plan, the City Auditor's Office conducted an audit of the City's compliance with the reporting requirements of the American Recovery and Reinvestment Act (referred to as "ARRA", the "Recovery Act" or "the Act"). The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. 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. The objectives of the audit were to determine whether the City:

- complied with the quarterly reporting requirements of ARRA;
- calculated jobs created in accordance with federal guidance and retained adequate supporting documentation to support those calculations;
- initiated and made sufficient progress towards program expenditure goals; and,
- has established an ARRA website that provides accurate and useful information to the public.

The City Auditor's Office found that the City is in general compliance with ARRA reporting and accountability provisions. Through the quarter ending September 30, 2010, the City Auditor's Office noted that quarterly financial reports have been submitted timely, agree to the City's accounting records and include accurate calculations of jobs created. Although there are significant ARRA expenditures still to be made, it also appears that the City will expend ARRA funding within requirement timeframes.

The City Auditor's Office did note an opportunity for improvement in accounting for ARRA expenditures. Grant program managers across the City generally did not report payments to vendors and subrecipients in accordance with the federal ARRA reporting model. The model suggests that individual vendor payments greater than \$25,000 should be detailed on quarterly reports and that expenditures less than \$25,000 should be accumulated and reported as a lump sum or separately reported with the list of payments greater than \$25,000. The City submitted quarterly ARRA reports that were inconsistent with this guidance, as explained in the Detailed Audit Finding section of this report.

## *Audit Scope and Methodology*

The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. The following methodology was used in completing the audit.

- Reviewed ARRA legislation, award documents, correspondence and related federal and state guidance
- Interviewed City personnel responsible for ensuring compliance with ARRA requirements
- Examined contracts, agreements, accounting records and other documents related to ARRA award administration and reporting

Testing was conducted to primarily verify that the City is complying with the accountability and transparency requirements of Title XV of the Act. As such, testing to verify compliance with specific ARRA award requirements was not performed during this audit. Such testing is anticipated to be performed by the City's external auditor during the annual single audit and/or by federal program auditors. Additionally, verifying representations made during the award application process regarding citywide compliance with certain federal regulations (e.g., Equal Employment Act, Americans with Disabilities Act, Drug-Free Workplace Act, etc.) was not included in the scope of this audit.

## *Background*

In February 2009, ARRA was enacted with a stated purpose that included stimulating the economy or saving existing jobs. ARRA included provisions for an unprecedented level of accountability and transparency. Entities receiving ARRA awards are required to report detailed award and spending information to the federal government on a quarterly basis. Additionally, entities must maintain websites communicating information relating to their ARRA-funded projects.

The website [www.recovery.gov](http://www.recovery.gov) is the official source of information related to the Recovery Act and was designed to create a site that provides transparency of information related to spending on Recovery Act programs. This one portal is where the public can find and analyze information and also report potential fraud, waste and abuse pertaining to the Recovery Act. In addition, the Recovery Accountability and Transparency Board has deployed a nationwide data collection system at the website [www.federalreporting.gov](http://www.federalreporting.gov) that serves to collect quarterly data required by Section 1512 of the Act.

The Federal Office of Management and Budget (OMB) has the primary responsibility for developing government-wide rules and procedures to ensure funds are awarded and distributed in a prompt and fair manner. The OMB has provided guidance to federal departments to manage activities under the Recovery Act. While the OMB's guidelines are directed toward federal agencies, their rules and requirements indicate what will be asked of the City as either a prime recipient of funds or as a sub-recipient.

The ARRA awards administered by the City as a prime recipient as of September 30, 2010 are presented in the following table.

<b>CITY OF ARLINGTON ARRA AWARDS As of September 30, 2010</b>				
<u>GRANT</u>	<u>AWARD NUMBER</u>	<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>AWARD AMOUNT</u>
Community Development Block Grant Recovery (CDBG-R)	B-09-MY-48-0008	HUD	Neighborhood infrastructure improvements	\$ 853,342
Homelessness Prevention and Rapid Re-Housing Program (HPRP)	S-09-MY-48-0009	HUD	Homelessness prevention activities	1,304,792
COPS Hiring Recovery Program (CHRP)	2009RJWX0081	DOJ	Hire 31 patrol officers	6,107,248
BJA Recovery Act Combating Criminal Narcotics Activity Stemming from the Southern Border	2009-SS-B9-0028	DOJ	Hire 4 sworn officers to engage in commercial truck traffic enforcement	1,138,984
Transit Capital Assistance Grant	TX-96-X030-00	FTA	Supplement contracted subscription trips & new buses	600,000
Energy Efficiency and Conservation Block Grant (EECBG)	DE-EE0000959	DOE	Energy efficiency and conservation projects	3,428,100
Total				\$ 13,432,466

Source: ARRA Award Agreements

In addition to the above awards, the City has received a sub award for the Weatherization Assistance Program from the Texas Department of Housing and Community Affairs and has received sub awards of Department of Justice funds from the Criminal Justice Division of the Texas Governor's Office and the City of Fort Worth for reducing violent and drug related crime and establishing teen courts. These sub awards were not included in this review as the ARRA accountability and transparency provisions are more specifically applicable to the prime recipient.

As of September 30, 2010, the City had reported expenditures under the six programs of \$3.4 million. The following chart indicates grant expenditures to date and a projection of grant expenditures as of the grant completion date. The City Auditor's Office projected total grant expenditures by reviewing current payroll expenditures, extrapolating total expenditures to date and reviewing projections of future expenditures provided by grant managers. As noted by the asterisk, the Police Department anticipates requesting and receiving extensions for the CHRP and Southern Border grants. It is therefore anticipated that the total grant award will be expended. According to Police Department management, academy classes were not large enough to allow the department to fill vacant grant positions as quickly as originally anticipated.

City of Arlington ARRA Awards Projected Expenditures Through Grant Termination Date						
Grant	Begin Date	Termination Date	Grant Award	Expended Through 9/30/2010	Projected Expenditures Through Termination Date	Anticipated That Award Will Be Expended?
BJA Recovery Act Combating Criminal Narcotics Activity Stemming from the Southern Border	7/1/2009	6/30/2011	1,138,984	473,743	854,982	No*
COPS Hiring Recovery Program (CHRP)	7/1/2009	6/30/2012	6,107,248	1,653,813	5,169,227	No*
Homelessness Prevention and Rapid Re-Housing Program (HPRP)	7/27/2009	7/27/2012	1,304,792	444,702	1,304,792	Yes
Community Development Block Grant Recovery (CDBG-R)	6/4/2009	9/30/2012	853,342	130,616	853,342	Yes
Energy Efficiency and Conservation Block Grant (EECBG)	12/7/2009	12/6/2012	3,428,100	473,072	3,428,100	Yes
Transit Capital Assistance Grant	7/1/2009	9/30/2015	600,000	251,423	600,000	Yes
			13,432,466	3,427,369	12,210,443	

Source: ARRA Award Agreements and Auditor Projections

The Recovery Act placed an emphasis on reporting estimates of the number of jobs created and/or retained by projects and activities. The City reported the number of jobs created or retained in accordance with guidance issued by the OMB. That guidance required that the City define jobs created or retained as those funded in a given quarter by the Recovery Act. The guidance required the City to report job estimates by dividing the hours worked in the reporting quarter by the hours in a full-time schedule in that quarter. As a prime recipient, the City is also responsible for reporting the number of jobs created and retained on projects and activities managed by its funding recipients. Recipients are allowed to use reasonable judgment in determining the appropriate sources of information to use in generating estimates. For the quarter ending June 30, 2010, the City reported 47.91 jobs created or retained by the ARRA projects.

As infrastructure and capital expenditures increase under the CDBG-R and EECBG programs, the calculated number of jobs created will likely increase. The City Auditor's Office reviewed the calculation and supporting documentation of jobs created and found no material exceptions.

<b>City of Arlington ARRA Awards Jobs Created for Quarter Ending June 30, 2010</b>				
<b>Grant</b>	<b>Begin Date</b>	<b>Termination Date</b>	<b>Grant Award</b>	<b>Jobs Created</b>
Community Development Block Grant Recovery (CDBG-R)	6/4/2009	9/30/2012	853,342	1.27
Homelessness Prevention and Rapid Re-Housing Program (HPRP)	7/27/2009	7/27/2012	1,304,792	4.44
COPS Hiring Recovery Program (CHRP)	7/1/2009	6/30/2012	6,107,248	30.50
BJA Recovery Act Combating Criminal Narcotics Activity Stemming from the Southern Border	7/1/2009	6/30/2011	1,138,984	4.00
Transit Capital Assistance Grant	7/1/2009	9/30/2015	600,000	4.60
Energy Efficiency and Conservation Block Grant	12/7/2009	12/6/2012	3,428,100	3.10
			13,432,466	47.91

Source: June 30, 2010 Quarterly ARRA Reports

The City has established transition plans for the Department of Justice (DOJ) grants that meet requirements to retain employees hired with ARRA funding for an additional year after the grant period. No specific transition plans are needed for the Housing and Urban Development (HUD) and Federal Transit Authority (FTA) grants as termination of these grants will result in a return to service levels existing prior to ARRA funding with little expected impact on City staffing. No specific transitions plans have been established for the EECBG program funded by the Department of Energy (DOE). Two full-time City employees are currently funded by the grant.

At the City, the Administrative Services Manager within the Financial Management and Resources Department (FMR) assumed a leadership role in coordinating the City's Recovery Act efforts. This includes providing periodic updates to the Mayor and City Council and coordinating citywide training and discussion sessions to help clarify federal regulations and guidance. Grant managers within City departments also submit quarterly ARRA reports to a Sr. Financial Accountant in FMR, who coordinates the transmittal of the reports to the federal reporting website. The department is also responsible for creating and maintaining the City's ARRA website.

## *Detailed Audit Finding*

### **The City did not report payments to vendors in accordance with OMB guidance.**

Section 1512 “Reports on Use of Funds” of ARRA states:

“Not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains

- (1) the total amount of recovery funds received from that agency;
- (2) the amount of recovery funds received that were expended or obligated to projects or activities; and
- (3) a detailed list of all projects or activities for which recovery funds were expended or obligated, including
  - (A) the name of the project or activity;
  - (B) a description of the project or activity;
  - (C) an evaluation of the completion status of the project or activity;
  - (D) an estimate of the number of jobs created and the number of jobs retained by the project or activity; and
  - (E) for infrastructure investments made by State and local governments, the purpose, total cost, and rationale of the agency for funding the infrastructure investment with funds made available under this Act, and name of the person to contact at the agency if there are concerns with the infrastructure investment.
- (4) Detailed information on any subcontracts or subgrants awarded by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006, allowing aggregate reporting on awards below \$25,000 or to individuals, as prescribed by the Director of the Office of Management and Budget (OMB).”

The OMB issued a reporting data model intended to be used by recipients to execute reporting through the web based FederalReporting.gov solution. The City utilizes the Microsoft Excel template for report submission. The template includes separate tabs (worksheets) for reporting prime recipient expenditures, awards and payments to subrecipients and vendor payments. Compliance with the reporting model is necessary so that the OMB can accurately track payments to vendors on a state and national basis.

Clarifying guidance from the OMB indicates that all vendor payments must be reported. Individual payments greater than \$25,000 must be reported separately with specific data elements, including the vendor’s Data Universal Numbering System (DUNS) identification. Recipients may report individual payments less than \$25,000 either separately or aggregated. The aggregated record should not duplicate information reported in separate records.

The City Auditor's Office noted the following exceptions to this guidance in reviewing ARRA reports for the quarter ending September 30, 2010.

- Payments made by the City to the Arlington Housing Authority totaling \$167,793 were not listed on the subrecipient tab of the report model for the HPRP report. Also, total expenditures reported on the prime recipient tab did not equal total expenditures recorded on the general ledger. According to the HPRP grant manager, the amount of draws requested from the funding agency was reported as expenditures on the quarterly report.
- Payments greater than \$25,000 made to vendors of the Southern Border grant were not listed on the vendor worksheet for the reporting period ending September 30, 2010. Previous quarters showed payments greater than \$25,000. Guidance issued by the OMB indicated that the reports are cumulative, and that payments reported in previous quarters would continue to be reported in subsequent quarters. Therefore, the report for the period ending September 30, 2010 should have listed all payments greater than \$25,000 from the start of the grant.
- Handitran reported individual vendor payments of \$215,044 on the vendor worksheet of the report model but only reported \$1 for aggregated vendor payments under \$25,000. However, Handitran reported total grant expenditures of \$251,423. Because no payments were made to employees or individuals, the aggregated and separately listed payments should equal total expenditures. Handitran did not report the correct amount of aggregated payments less than \$25,000.
- The EECBG grant reported individual vendor payments of \$315,068 and aggregated vendor payments less than \$25,000 of \$63,619 for a total of \$378,687. The program reported a total of \$473,072 in expenditures. The total expenditures included \$146,759 in payroll and benefit expenditures, leaving total non-personnel expenditures of \$326,313. Therefore, the total vendor payments reported (\$378,687) exceeds actual non-personnel expenditures (\$326,313). Per the EECBG grant manager, the aggregated vendor payment amount erroneously included payments already included in the individual vendor payment amount. In addition, payments to one vendor were aggregated on the vendor worksheet, but the guidance indicates that each payment should be listed separately. According to the EECBG grant manager, a DOE representative approved the aggregate listing by vendor during a site visit.

The City Auditor's Office reviewed quarterly reporting and, except as noted above, found that reports were submitted timely and agreed to the City's financial accounting system. Reports were submitted to the awarding agencies and accepted as submitted. The City Auditor's Office found no specific consequences for reporting vendor payments incorrectly. However, it is possible that reports not submitted in accordance with the reporting model could result in additional time spent re-submitting, calculating or explaining reports to awarding agencies or auditors.

One way to ensure consistent citywide application of reporting guidelines is to periodically review report submissions to identify potential errors and training opportunities. Currently, the grant program managers submit their quarterly reports to a Sr. Financial Accountant in FMR for uploading to the federal reporting website. The Sr. Financial Accountant has routinely assisted

various grant program managers (for both ARRA and non-ARRA grants) with grant administration and reporting. In addition, the Administrative Services Manager assumed a leadership role when the Recovery Act was implemented to coordinate the management of ARRA grants. Because grant managers throughout the City have varying levels of experience and knowledge, it may be beneficial to conduct a centralized review of ARRA reporting.

***Recommendation:***

The Financial and Management Resources Director should ensure that the Administrative Services Manager and/or the Sr. Financial Accountant review ARRA quarterly submissions for compliance with reporting guidance. Training and/or clarification should be made available to grant managers for any common errors identified.

***Management's Response:*** *Concur. The Financial and Management Resources Department will designate the Senior Financial Accountant to review ARRA quarterly submissions to ensure compliance with reporting guidance. She will clarify with grant managers on any common errors which she identifies.*

*Target Date: 1/1/2011*  
*Responsibility: Senior Financial Accountant*