



CITY OF WILMINGTON

Performance Audit of City Council Grants (Greater than \$5K)

Internal Audit Review

February 13, 2019

City Auditor's Office

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Highlights

Why We Did This Audit

The Internal Audit Department (IA) received a request from City Council (CC) President, Hanifa Shabazz to conduct a review of grants over \$5K for July 2014 – May 2018.

Methodology

The objectives were met by reviewing prior year audits, grant applications and supporting documents, testing of 21 grants issued and discussions with CC and Finance.

Audit Review Committee:

Robert C. Johnson, Chair

Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Ronald Pinkett
Tanya Washington

Objective and Scope

At the request of the CC President, we conducted a Performance Audit of historical CC Grant Disbursements over \$5K. The objectives of the audit were to determine if the grantee is complying with the applicable requirements of the City of Wilmington, Delaware Code sections 2-368 – *Allocation of grants* and 2-340 – *Prohibitions relating to conflicts of interest and political activities*; to determine if controls over grant funds are in place and functioning appropriately; to determine if grant funds were used for the purpose in which the grant was intended; and to determine if the use of grant funds were accurately recorded and documented by the City. The scope of the audit includes CC grants over \$5K from July 01, 2014 to May 31, 2018.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.

Background

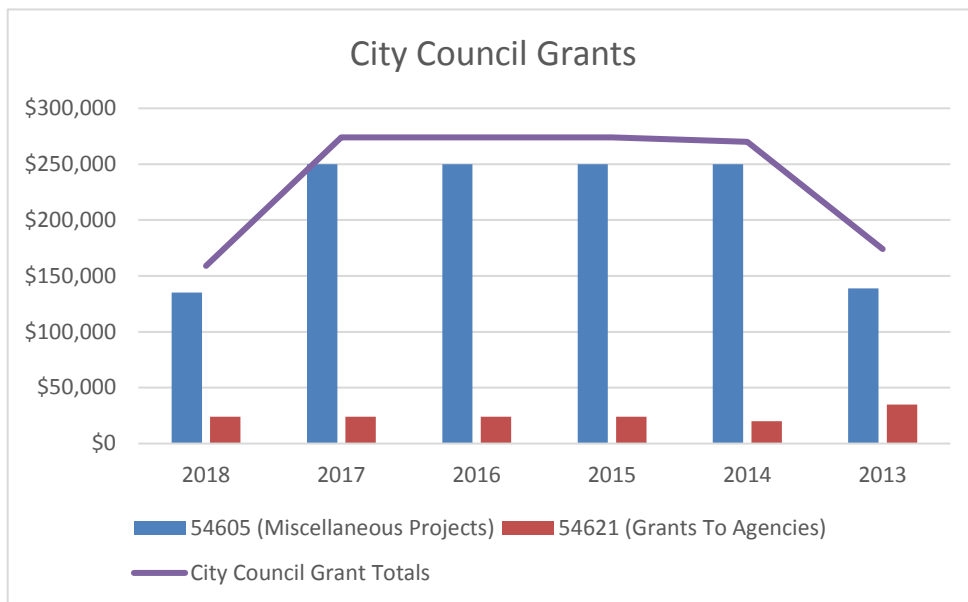
In fiscal year 2018, the Wilmington CC President elect submitted a letter to the State Office of the Auditor of Accounts requesting an audit of CC Council grants over \$5K issued during her term in office. The period audited was six months, January 1, 2017 to June 30, 2017. The result of this investigation determined that one grant to the Police Athletic League of Wilmington (PALW), subsequently disbursed to the Student Disabilities Advocate, Inc. (SDA) of \$40K, was not in accordance with Wilmington's City Code related to conflicts of interest, post-employment restrictions and other grant requirements. Following the issuance of the State Auditor's report, CC President submitted a request to the City Auditor to conduct a historic audit of disbursements over \$5K dating back to July 1, 2014.

According to council staff, the purpose of Council's Community Support Funds (also known as discretionary funding) has been to support festivals, grant scholarships to youth and adults pursuing higher education, fund operations in community centers, and support organizations that provide service and vital support to our youth. CC increased this funding by \$250K in fiscal year 2014, and these additional funds were largely controlled by the Council President. A similar finding was documented in this audit report as well. However, CC has recently improved the vetting of organizations receiving funding and provided additional disclosures, providing more transparency.

All grants over \$5K are mandated pursuant Wilmington City Code requirements, these requirements are noted in the objectives of this audit. All CC grants distributed over \$5K were reviewed for required documentation by the grant application and City Code. Findings were identified relating to internal controls and compliance with sections of the City Code. Recommendations have been provided to address these findings.

We would like to acknowledge the assistance and cooperation provided by CC during this audit. Information requested was provided and employees were instrumental in helping us obtain a clear understanding of the various processes involved in the audit. Many steps have been taken to improve this process and ensure proper measures and safeguards are in place to avoid future issues. There was an open, two-way dialogue during the entire course of the audit.

Key Statistics:



What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
Compliance	Marchelle Basnight			✓	
Reporting	Marchelle Basnight			✓	

Compliance

1. Controls need strengthening surrounding grantees consistently submitting reports to CC on a quarterly basis as required in their funding agreement. Two of 19 (10.5%) reports were not available for review at the time of the engagement. This is not in compliance with CC's Strategic Grant Fund Checklist which states that grantees must submit quarterly financial reports.

Subsequently, after fieldwork was complete, 1 of the 2 reports that were not available for review was later provided.

2. Inconsistent controls exist with regards to obtaining a signed statement of acknowledgement from grantees, therefore we cannot verify compliance with City Code Section 2-368. For instance, CC issued a payment in violation of City Code Section 2-368 (9) for one of 22 (4.5%) grantees, due to a signed statement of acknowledgement not being available for review, which states their understanding and intent to comply with the provisions of City Code prior to receiving funding.
3. Controls need strengthening to eliminate the appearance of conflict of interest. Approximately \$595K in grant monies were distributed to Education Voices Inc. (EVI) over the course of a four-year term by the previous CC President. This nonprofit was founded in 2013 by the former CC President, one year prior to his appointment as CC President. At that time, grant funding from CC was EVI's primary funding source.

EVI's grants were processed without any objections from Council members and a disclosure statement was signed by the previous Council President, stating that he was not affiliated with the grant recipient.

4. Weak controls exist surrounding monitoring the issuance of CC funds to recipients with delinquent accounts with the City of Wilmington. Based on an interview with the Tax Manager, reviews of outstanding bills are only performed after receiving an email request from City Council's Chief of Staff. The Tax Manager and staff setup payment agreements for grantees however, do not perform additional reviews of outstanding bills before future payment installments are issued.

For instance, the following exceptions were identified where no documentation exists for three of 21 (14%) grantees with outstanding accounts. A payment agreement was established for one delinquent account however, the terms and conditions of the agreement were not adhered to. Delinquent fees were removed from one account without clear justification as to why fees were not being collected. In addition, another grantee did not have a payment agreement, although a review determined their account was delinquent.

Reporting

5. Controls need strengthening surrounding reporting grant related expenditures in MUNIS. Expenditures need to be classified appropriately to improve record keeping and quality of information for each expenditure. Multiple consulting or service contracts and large grants have been commingled under accounting object "54605" (miscellaneous projects) for multiple fiscal years, however as a control measure, using account object "54621" (grants to agencies) for all grants and/or creating an additional account object for grants larger than \$5K will be useful for reporting and public transparency.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: City Council should contact the grantee concerning the reporting requirements of Section 2-368 (7) and remind the grantee of Section 2-368 (10) as it relates to the revocation of grants for non-compliance. Additionally, create a report template for grantees to layout a clear expectation of quality reporting requirements.

City Council Management response & action plan: Recommendation was implemented prior to this report for 2-368 (7) and 2-368 (10). Reporting criteria was expanded. Reporting criteria is outlined as part of grant application.

Completion Date: Completed

Recommendation #2: Management should verify all required documents are signed before issuing funds.

City Council Management response & action plan: Recommendation was implemented prior to this report. There is a checklist implemented to verify all processes and protocols have been followed.

Completion Date: Completed

Recommendation #3: Actively update strategic plan as a living document. Use the strategic plan as a road map for where you are headed. Implement objective measures in the plan to pin point geographic areas with the identified needs that the strategic plan targets. Align this plan with distribution of grants to agencies to safeguard from future conflicts of interest. Document and disclose potential appearance of conflict of interest. Require that council members disclose relationships and/or potential conflict of interest with potential grantees in writing.

City Council Management response & action plan: City Council Staff verbally disclosed to the prior City Council President at the time of the appearance of conflict of interest; however, no documented evidence was provided to audit. The recommendation stated was implemented in FY2018. All grant funds are allocated based upon Strategic Plan. All grantees provide a conflict of interest statement, as well as it is stipulated in the Council's grant process regarding conflict of interest.

Completion Date: Completed

Recommendation #4: Revisit policy about issuing funds to grantees with any delinquency due to the City. Create a formal process to document outstanding bill review. Implement a process to track payment agreements to verify compliance through the life of the grant. Procurement should place a hold on grantees with delinquent accounts to assure payments are not issued.

City Council Management response & action plan: City Council has a formal process with the Finance Department for any delinquent entities. City Council gets approval from the Finance Department in writing regarding delinquencies. Prior to this audit being done, the reporting structure has been changed so that there is one payment generated from City Council, which circumvents the need to request to verify debts with Finance Department every time a multiple grant installment is made to a vendor within a fiscal year. In instances in which an entity has a payment arrangement with the City and that entity is current with the City on the payment arrangements, per Finance then that entity is current with its obligations.

Completion Date: Completed

Recommendation #5: Formally allocate “Grant Funds” to a specific account line or lines designated for grants only. This will increase transparency of grant funds available for each fiscal year to council and grant applicants.

City Council Management response & action plan: As part of the FY2018 budget, and subsequent budgets all grant funds are allocated within two accounting grant code account lines for community support grant funds of \$5,000 or more, and community support grants funds of \$5,000 or less, which aligned with City Council’s grant funding policy.

Completion Date: Completed

Audit Team

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