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Introduction

In accordance with the City Auditor's 2005-06 Audit Workplan, we have completed an audit of Citywide Grant Oversight. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Audit Objectives, Scope, and Methodology section of this report.

The City Auditor's Office thanks the Department of Parks, Recreation and Neighborhood Services (PRNS), Department of Transportation (DOT), Environmental Services Department (ESD), Department of Housing (Housing), Library Department (Library), Redevelopment Agency (RDA), Office of Economic Development (OED), and the Office of Cultural Affairs (OCA), staff for giving their time, information, insight, and cooperation during the audit process.

Background

Based on our survey of all City Departments, Offices, and the RDA (hereafter referred to as City Departments), we found that seven City Departments, Offices, and the RDA award and administer over 33 various grant programs amounting to about $40.5 million. Exhibit 1 summarizes the grants City Departments awarded during 2004-05.

Exhibit 1 **Summary Of Citywide Grant Distribution For 2004-2005**

Department	Number Of Grant Programs	Number Of Grants	Total Grant Awards
PRNS	6	425	$23,377,091
OED	4	23	$6,320,963
HOUSING	4	22	$2,925,414
RDA	2	52	$2,700,338
OCA	8	108	$2,325,932
LIBRARY	3	4	$1,770,361
ESD	4	19	$661,338
DOT	2	2	$397,000
Grand Total	**33**	**655**	**$40,478,437**

Source: Auditor's Office summary of City Departments self-reporting.

Note: OED's grants include Silicon Valley Workforce Investment Network grants that span more than the 2004-05 funding year.

Of the 655 grant awards, 220 grants (34 percent) were under $10,000, 281 grants (43 percent) were between $10,000 to $50,000, 85 grants (13 percent) were between $50,000 to $100,000 and 69 grants (11 percent) were over $100,000[1]

The above list does not include grants the City issues to individuals to reimburse them for specific construction activities. In 2004-05, the DOT awarded 1,261 sidewalk repair grants totaling about $1.3 million. Additionally, Housing awarded 282 home improvement grants as part of the Housing Rehabilitation Program, totaling about $4 million through their Homeowner Grant Program, Mobilehome Grant Program, and Rental Housing Grant Program.

Grant Descriptions

The City of San Jose awards grant monies for a myriad of purposes. Grants are awarded to community groups, non-profit organizations, and qualified individuals. Below is a description of the grants the City Departments administer.

[1] Due to rounding, percentages add to 101%.

The Office Of Cultural Affairs (OCA)

The OCA administers four grant programs and four individual grants, including the Operating Grant Program which it awards to a limited number of San Jose arts organizations with ongoing, regular, and consistent arts activities. These grants support general operating and program needs and therefore there are few restrictions on the use of these grants. The purpose of these grants is to help sustain the organizations financially and ensure their continuing ability to provide the community with a steady stream of arts opportunities throughout the year. Conversely, the OCA administers the Project & Program Grant Program to arts and other public benefit organizations to help finance specific arts activities and programs. The OCA also administers a Festival, Parade and Celebration grant (FPC), the 4th of July Fireworks grant, the Music and Arts Campaign grant, and the Emerging Arts Series grant. The FPC grants provide monetary and other City support for community festivals, parades, and celebrations that are held for economic enhancement, cultural enrichment, and/or promotion of the City of San Jose. The OCA offers FPC grants to local non-profit organizations to help support their events and expand access to all City residents to a wide range of cultural experiences.

The OCA also administers the Contract for Arts Services grant which is a general operating grant to provide arts services. Finally, the OCA administers the Organization Development Grant Program which offers technical assistance grants to help arts organizations pursue consultancies or training opportunities that will provide them with increased expertise and capacity to conduct their business or provide their programs more effectively.

Department Of Parks, Recreation And Neighborhood Services (PRNS)

PRNS administers six grants, the largest being the Community Development Block Grant (CDBG) program. The City receives CDBG funding from the United States Department of Housing and Urban Development (HUD). The CDBG grant is intended to assist with providing decent housing and a suitable living environment and to expand economic opportunities. CDBG funding is targeted principally to low-and moderate-income persons and/or activities that will prevent or eliminate slums and blight.

PRNS also administers the Healthy Neighborhoods Venture Fund (HNVF) which resulted from a $250 million national settlement with tobacco companies. In March 2000, the City Council approved a recommendation to use these funds for

investing in "healthy neighborhoods for future generations." The City Council approved HNVF funding priority for two projects, the Homework Centers project and the Children's Health Initiative project, as well as HNVF program administration. The goals of the HNVF grants are:

- "To decrease the use of tobacco products and related health problems associated with tobacco use for San Jose residents, contributing to improved overall health for the City's population;"
- "To improve the academic success of San José students through programs that address unmet health care needs and provide for healthy developmental age-appropriate activities;" and
- "To improve the quality of life for seniors by increasing subsidized programs and services, providing for basic health and nutritional needs, and promoting independent living through social and recreational activities."

In addition to the CDBG and HNVF grant programs, PRNS administers smaller grant programs including the Community Action and Pride grants which are intended for resident-based neighborhood groups proposing projects, services, and activities that foster or enhance safety, reduce blight and crime, and improve quality of life. The City created the San Jose B.E.S.T. (Bringing Everyone's Strengths Together) Program in 1991 as a funding arm for the Mayor's Gang Prevention Task Force. The Task Force committed 70 percent of B.E.S.T. funding for intervention services and the remaining 30 percent towards Prevention and Early intervention services. The San Jose Beautiful grant program provides matching grant support to non-profit organizations, neighborhood associations, schools, and other community organizations who wish to help foster community pride in San Jose through beautification or landscaping.

The Environmental Services Department (ESD)

The ESD administers four grant programs. Youth Watershed Education grants "are designed to promote understanding and stewardship of the Santa Clara Basin Watershed among South Bay youth (in grades K-12) by supporting innovative projects for youth education, curriculum development, adoption and implementation of published watershed-based curricula, and teacher/youth leader training." The ESD provides funding to the Resource Area for Teachers (RAFT) and requires RAFT to report on how many teachers and schools use their services.

The ESD also provides funding to provide support in conducting interpretative watershed environmental education programs. Finally, the ESD supports reuse and recycling programs by funding four local non-profit agencies. These grants essentially reimburse the non-profit for the City franchise fees and disposal facility taxes that are included in the disposal costs it has paid as part of its normal business.

The Housing Department (Housing)

As part of its core service of providing services to homeless and at-risk populations, Housing administers the following four grant programs with the purpose of coordinating services and providing funds towards ending homelessness[2]:

1. Emergency Shelter Grant;
2. Housing Opportunities for People with HIV/AIDS (HOPWA);
3. Housing Opportunities for People with HIV/AIDS (HOPWA) Special Project of National Significance (SPNS); and
4. Housing Trust Fund.

According to Housing, the primary function of the grant programs is to fund the homeless service delivery agencies and ensure that the service goals and funding regulation compliance are being met. As part of the Housing Rehabilitation Program, Housing provides 282 home improvement grants which allow qualified applicants to make repairs to their homes or rental property.

The Library Department (Library)

The Library administers three grant programs –Smart Start Early Education, Books Aloud Inc., and San Jose Public Library Foundation. The mission of Smart Start Early Education is to expand quality care and education spaces and build the capacity of early childhood development professionals and schools to improve education opportunities for young children. Books Aloud, Inc., is a non-profit organization whose mission is to "improve the quality of life for people unable to benefit directly from the printed page by providing a service to stimulate minds, stir emotions and foster independence through

[2] Housing also administers the Mayor's Homeless Families and Children Grant Program, funded through the General Fund. In 2004-2005 there were no awards made, however, funds were expended from prior years' awards.

[its] 'Reading by Listening' program." Finally, the San Jose Public Library Foundation grant supports its mission of providing "advocacy, financial support and innovative leadership to transform San Jose's public libraries into vibrant learning centers."

The Office Of Economic Development (OED)

The OED grants monies to six area Chambers of Commerce to promote the existence of small businesses as well as to provide support for on-going delivery of business services. The OED commits fifty-one and a half percent of contract funds to jobs and enterprise zone hiring tax credit categories. The OED uses the remaining forty-eight and a half percent of contract funds for workshops, counseling, loan referral, and event sponsorships. The OED also provides funding for the Joint Venture: Silicon Valley and the ZeroOne San Jose International Art and Technology festival. The OED also administers 15 Silicon Valley Workforce Investment Network grants, which the U.S. Department of Labor's Workforce Investment Act funds. The Silicon Valley Workforce Investment Network provides comprehensive workforce development services to increase employment, job retention, and economic development in our local communities.

The Department Of Transportation (DOT)

The DOT oversees two grant programs – street tree planting and downtown area shuttle. The DOT receives funding from the RDA for street tree planting in Strong Neighborhood Initiative (SNI) areas and other economic development projects. The DOT grants the RDA money to Our City Forest to fulfill these purposes. It also provides an operational grant to Our City Forest. Likewise, the DOT grants money to the San Jose Downtown Association to provide operational support for the free Downtown Area Shuttle (DASH).

The Redevelopment Agency (RDA)

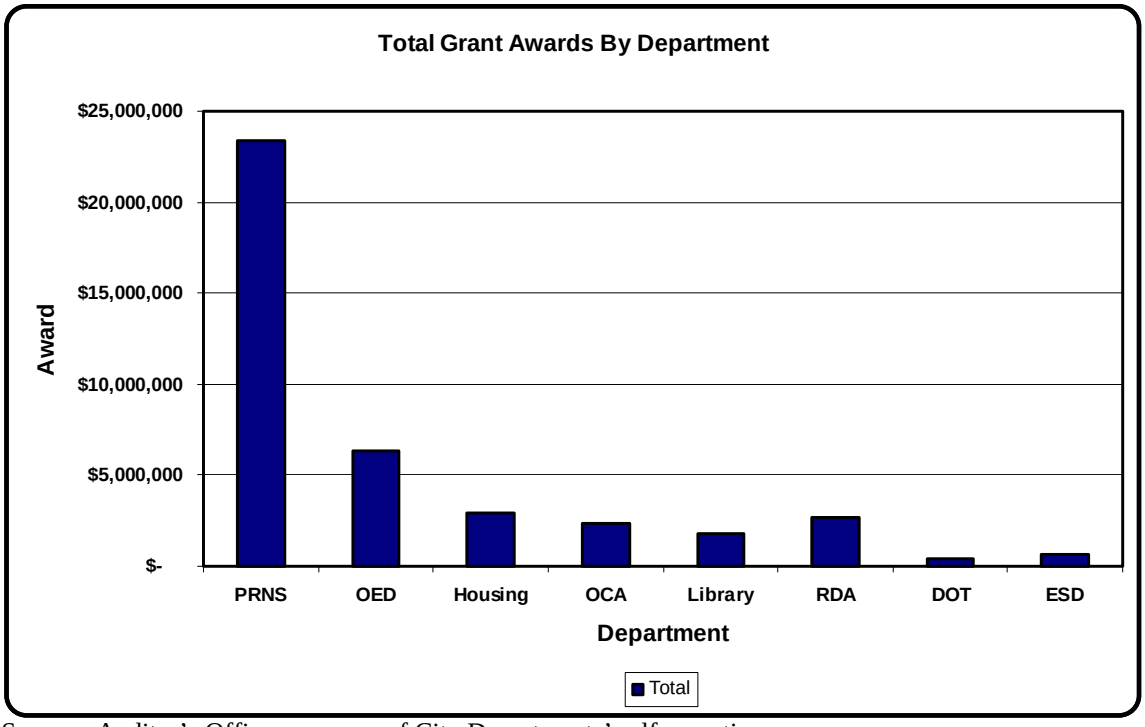
The RDA administers two grant programs, the Façade Improvement Program grants and the Christmas in the Park grant. The Façade Improvement Program grants provide assistance to business and property owners within the Neighborhood Business Districts and Downtown San Jose. In addition, the RDA provides funding to support the downtown Christmas in the Park festivities.

Source Of Funds

Funding for the $40.5 million in grants the City administers, comes from various sources, including the Federal Government, the City's General Fund, Tobacco Settlement Funds, and Transient Occupancy Taxes. HUD constitutes the largest grant funding source through Housing grants and CDBG to the City and provides about $12 million (30 percent) of grant funding. HNVF is the second largest source of grant money for the City, comprising $9.8 million (24 percent), of which $2.3 million is for Homework Center grants. Finally, the City's General Fund provides over $4.3 million (11 percent) of the grants the City administers.

PRNS administers and awards the largest segment of City grants. Specifically, PRNS annually disburses about $23.4 million (58 percent) in grants. This includes $10.3 million in Federal HUD funds, $9.8 million in HNVF money and $3.3 million from the General Fund. Exhibit 2 illustrates the amount of grants each City Department disburses.

Exhibit 2 Grants Disbursed By City Departments For 2004-2005



Source: Auditor's Office summary of City Departments' self-reporting.

Grant Management

Each City Department is responsible for the proper execution, accounting, and reporting of the grants. However, in general, the various City Departments follow similar processes for awarding and administering the grants. In most cases, City Departments award grants after an applicant has filed an application and a selection committee approves the application. The City and the grantees sign a grant agreement and the City requires the grantee to submit periodic reports to the City.

Audit Objectives, Scope, And Methodology

Our audit objectives were to 1) identify grants and responsible City Departments; 2) identify the operational threats facing each City Department in administering grants and the controls these City Departments have in place to prevent, eliminate, or minimize these threats; 3) review selected grants to determine existing conditions; 4) evaluate the grants monitoring and reporting process; and 5) research best practices in grant administration. Specifically, we conducted a Risk Assessment and Vulnerability Assessment of the City entities responsible for administering grants. Based on our Risk and Vulnerability Assessments, we identified the City Departments' lack of adequate and documented internal control procedures. In addition, for the controls that the City Departments reportedly had in place, we judgmentally sampled 20 grants to ensure that City Departments' staff effectively and consistently applied these controls.

In developing our Risk Assessment, we reviewed the potential threats associated with the following: PRNS, Housing, DOT, ESD, Library, OED, OCA, and RDA. The Risk Assessment in Appendix B shows the relationship of the specific threats we identified to the controls the entities reportedly have in place to prevent, eliminate, or mitigate the associated threats. We identified the threats and controls that were common among all City Departments, as "Citywide," and noted the appropriate entity that was specific to an individual threat or control. The controls marked "A" are Actual controls that the entities indicated they had in place, while the controls marked "P" are Potential controls, that we identified based on our audit work.

We also conducted an overall Vulnerability Assessment for the City Departments. A Vulnerability Assessment shows the relationships among 1) a threat's inherent risk; 2) the relative

strength of the City Department's internal controls; and 3) the level of vulnerability for each threat and extent of testing required during our audit.

To accomplish our audit objectives, we used the following methodologies: 1) staff interviews; 2) review of 2004-05 sample grant files; 3) review of City Departments' policies and procedures as related to grant activities; 4) review of CDBG and HNVF policies and guidelines; and 5) review of authoritative sources on best practices in grant administration. The scope of our audit included reviewing grant files and budget information from the 2004-05 award cycles. For our purpose, a grant is defined as a legal instrument through which funds are transferred to support a public purpose. For purposes of our review, the term grant does not include technical assistance which provides services instead of money, or other assistance in the form of revenue sharing, loans, loan guarantees, interest subsidies, insurance, or direct appropriations. Also, the term does not include assistance, such as a fellowship or other lump sum awards, for which the entity is not required to provide an accounting to the City.

We judgmentally selected and reviewed the following 20 grants the City awarded in 2004-05 to determine compliance with grant provisions. We did not audit individual grantee performance.

Exhibit 3 Sample Of Grants Reviewed

	Department	Grant Program	Grantee	Grant Amount
1	DOT	Our City Forest	Our City Forest[3]	$197,000
2	ESD	Reuse and Recycle	Goodwill Industries of Santa Clara County	$369,000
3	ESD	Youth Watershed Education Grants	Union Middle School	$5,000
4	HOUSING	Emergency Shelter Grant	Emergency Housing Consortium	$75,515
5	HOUSING	HOPWA	The Health Trust	$748,000
6	HOUSING	Housing Trust Fund	Housing Services Partnership[4]	$972,165
7	LIBRARY	Smart Start Early Education	San Jose Day Nursery	$856,000
8	OCA	Operating Grants	San Jose Museum of Art	$218,498
9	OCA	Project and Program Grants	Center for Literary Arts	$16,200
10	OCA	Festival, Parade and Celebration Grants	San Jose Jazz Society	$37,880
11	OCA	Festival, Parade and Celebration Grants	Christmas in the Park	$23,396
12	OCA	Contract for Arts Services	San Jose Stage Company	$74,560
13	OED	Chamber of Commerce	Hispanic Chamber of Commerce	$87,300
14	PRNS	B.E.S.T.	California Youth Outreach	$405,000
15	PRNS	CDBG	Economic and Social Opportunities, Inc.	$560,000
16	PRNS	HNVF	Franklin McKinley Education Foundation	$28,000
17	PRNS	HNVF	Santa Clara Family Health Plan	$2,100,000
18	PRNS	CDBG	RDA: Greater Gardner Street	$550,000
19	RDA	Façade Improvement Program	Façade Improvement Grant – McLaughlin	$275,210
20	RDA	Façade Improvement Program	Façade Improvement Grant - Union	$95,000

We used the following criteria to select the 20 grants[5]:

1. We sampled the largest grant for every 10 grants the City Department awarded;

2. If there was more than one grant with the same grant award amount, we selected every other grant; and

3. If there was only one grant for the program, we reviewed only grants of over $100,000.

[3] The DOT manages two grant agreements 1) a $152,000 operating grant agreement and 2) a $45,000 tree planting grant the RDA gives to OCF.

[4] Housing Services Partnership is comprised of three operating grants with 1) Sacred Heart Community Service; 2) InnVision-The Way Home; and 3) Emergency Housing Consortium.

[5] These 20 grants were comprised of 23 grant agreements.

We excluded certain grant programs from our sample of eligible grants for review. We did not include the sidewalk repair totals because they are essentially reimbursements from the City that did not meet our definition of grants. We did not review the DASH shuttle contract because the City has partnered with the Santa Clara Valley Transportation Authority and the San Jose Downtown Association to fund this service. We also did not include the Housing Rehabilitation Program which provided 282 home improvement grants to individuals to fund $4 million in home improvements. An audit of the latter program is on the City Auditor's 2005-06 workplan. Generally, the 2004-05 grants identified in this report were self-reported by City Departments and may not reflect all grants issued in 2004-05.

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Finding I

Citywide Grant Administration Needs To Be More Centralized, Coordinated, And Consistently Applied

We found that on a Citywide basis grant administration was decentralized with limited coordination and no Citywide policies and procedures for grant oversight. Each City Department, Office, and the Redevelopment Agency (RDA) - hereafter referred to as City Departments is responsible for monitoring the grants it issues, developing its own monitoring procedures, and evaluating grantee performance. We found that six City Departments rely on grant agreements to monitor grants and have no formal documented policies and procedures. We also found that both Housing and PRNS have documented procedures regarding grant oversight.

In addition, as a result of our review of 20 judgmentally-selected grants, we found that: 1) grant agreements contain inconsistent financial reporting requirements; 2) grant agreements contain inconsistent performance reporting requirements; 3) City staff did not always ensure grantees submitted documentation as required, such as monitoring or progress reports, audited financial statements, or proposed service plans; 4) City staff did not always review performance measures or goals, grantee reports, or conduct site visits; 5) when City staff found flaws with grantee performance, it did not always follow-up with grantees; and 6) grant agreements contain performance provisions which were not well defined. This lack of Citywide coordination hinders City Departments from sharing best practices and discussing successful monitoring strategies. This is exacerbated by the fact that there is no Citywide grant database which tracks the total number of grants the City awards and the recipients of them. In some cases, when grantees receive funding from different City grant programs, there is no City Department coordination or information sharing regarding grantee reporting and performance. In our opinion, in order to improve grant oversight, the City Administration needs to develop consistency in grant management by implementing grant management best practices. Specifically, the City should develop a grant database to improve information sharing among City Departments and establish a City Manager's Office Grant Oversight Working Group to: 1) establish Citywide appropriate policies and procedures; 2) establish specific training requirements for staff involved in grants management and

monitoring; 3) establish criteria when audited financial statements are obtained and reviewed; 4) establish risk-based criteria for determining when more detailed audits, reviews, or monitoring are required; and 5) adopt appropriate and reasonable grant agreement requirements related to grantee reporting.

The City Lacks Adequate And Documented Citywide Policies And Procedures For Grant Administration, Oversight, Or Grantee Reporting Requirements

During the course of our Risk Assessment we identified six threats or exposures associated with City Department oversight of grants. Of these six threats or exposures, we found that six of the responsible City entities had no written procedures in place, other than the grant agreements, to address the threats.

We identified the City Departments' lack of adequate and documented internal control procedures through our Risk Assessment process. The complete Risk Assessment we conducted to identify the entities' threats and controls can be found at Appendix B. The rationale for conducting a Risk Assessment is that auditors can limit testing and focus on those areas most vulnerable to noncompliance and abuse. We assigned an "A" to those entities' controls that we perceived to be actual and existing. We assigned a "P" to those controls that we perceived to be either not formalized or potential controls. Those specific threats without an "A" or "P" indicate a complete absence or lack of any procedure to prevent, eliminate, or mitigate the associated threat.

As illustrated by our Risk Assessment at Appendix B, we identified six threats or exposures associated with the City Departments responsible for administering grants. We found that of the six threats or exposures we identified, only Housing and PRNS had some written policies and procedures in place to mitigate potential threats. In contrast, the remaining City Departments had no written policies and procedures and simply relied on grant agreements to mitigate any potential threats.

In addition to the Risk Assessment, we also conducted a Vulnerability Assessment (Appendix C). A Vulnerability Assessment shows the relationship among: 1) a threat's inherent risk; 2) the relative strength of the City Department internal controls; and 3) the City Department's level of vulnerability for each threat and the extent of audit testing required. As the Vulnerability Assessment illustrates, we found

that the City Departments had 12 weak controls in place, 14 adequate controls in place, and only nine strong controls in place. Of the nine strong controls, Housing had five of them.

We recommend that the City Departments:

Recommendation #1

Develop a procedures manual to formally document the City's policies and procedures regarding grant oversight. (Priority 3)

For the 20 grants we judgmentally selected for testing, we also found that:

- Grant agreements contain inconsistent financial reporting requirements;
- Grant agreements contain inconsistent performance reporting requirements;
- City staff did not always ensure grantees submitted required documentation, such as monitoring or progress reports, audited financial statements, or proposed service plans;
- City staff did not always review performance measures or goals, grantee reports, or conduct site visits;
- City Departments found flaws with grantee performance, but did not always follow-up with grantees; and
- Some grant agreements' performance provisions were not well defined.

As a result of a decentralized grant monitoring approach, we found that the City Departments have limited assurance that the grantees are: 1) achieving program objectives and properly expending grant funds; and 2) complying with grant agreement requirements.

Grant Agreements Contain Inconsistent Financial Reporting Requirements

We found that only seven of the 23 grant agreements that we reviewed required grantees to submit annual audited statements. However, we found that there is no Citywide policy on financial audit requirements for grantees. PRNS and Housing have department-specific policies that establish grantee audited financial statement requirements. However, the remaining City Departments do not. As part of grant agreements, both PRNS

and Housing require grantees to submit annual audited financial statements. However, we found that Housing's grant agreements' financial audit provisions referenced compliance with a revised audit provision that no longer applied—Office of Management and Budget (OMB) Circular A-102. Conversely, Housing's internal procedures require the grantees' audits to perform an analysis as required by OMB Circular A-133. Circular A-133 contains specific audit requirements if the entity expends $500,000 or more in federal funds. These include:

- The auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs;
- The audit shall be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS);
- The auditor shall determine whether the financial statements of the auditee are presented fairly in all material respects in conformity with generally accepted accounting principles; and
- In addition to the GAGAS requirements, the auditor shall perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low-assessed level of control risk for major programs.

Within PRNS, the three major grant programs, Healthy Neighborhoods Venture Fund (HNVF), Community Development Block Grant (CDBG), and Bringing Everyone's Strengths Together (B.E.S.T.), have different audit policies due to different funding source requirements. Both the CDBG and HNVF require grantees to submit an OMB Circular A-133 compliant audit only when they receive federal funds that are $500,000 or more. Otherwise, CDBG and HNVF grantees are required to submit financial audits with required schedules and reports. However, while B.E.S.T. requires audited financial statements, it does not elaborate on specific schedules or reports which should be submitted.

The OCA requires audited financial statements from operating grant applicants with budgets over $500,000. They also require grantees applying for an operating grant to submit a copy of their most recently-audited financial statements as part of the application process; they do not require grant applicants for Project And Program grants, and Festival, Parade And Celebration grants to submit audited financial statements. Similarly, the Library, the ESD, the DOT, the RDA, and the OED do not have specific audit policy requirements for grantees.

Grant Agreements Contain Varied Performance Reporting Requirements

For the 23 grant agreements we reviewed, the City had four different monitoring report requirements - monthly, quarterly, mid-year, and/or year-end. A performance reporting requirement is a periodic report submitted to the City outlining the grantee's goals achieved during the period. A critical step to ensure grantees meet grant objectives is confirming that stated services were performed. The following highlights the grant agreements' monitoring report requirements:

Exhibit 4 Summary Of Grant Agreements' Monitoring Report Requirements

	Department	Grantee	Mid-Year Progress/ Monitoring Report Required?	Final Progress/ Monitoring Report Required?
1	DOT	Our City Forest (2 grant agreements)	Yes	Yes
			No	No
2	ESD	Goodwill Industries of Santa Clara County	Yes[6]	No
3	ESD	Union Middle School	No	Yes
4	HOUSING	Emergency Housing Consortium	No[7]	No
5	HOUSING	The Health Trust	No	No
6	HOUSING	Housing Services Partnership (3 grant agreements)	Yes	Yes
			Yes	Yes
			Yes	Yes
7	LIBRARY	San Jose Day Nursery[8]	No	No
8	OCA	San Jose Museum of Art	Yes	Yes
9	OCA	Center for Literary Arts	Yes	Yes
10	OCA	San Jose Jazz Society	No	Yes
11	OCA	Christmas in the Park	No	Yes
12	OCA	San Jose Stage Company	No	Yes
13	OED	Hispanic Chamber of Commerce	Yes	No
14	PRNS	California Youth Outreach	Yes	Yes
15	PRNS	Economic and Social Opportunities, Inc.	Yes	Yes
16	PRNS	Franklin McKinley Education Foundation	No	Yes
17	PRNS	Santa Clara Family Health Plan	Yes	Yes
18	PRNS	RDA: Greater Gardner Street	Yes	Yes
19	RDA	Façade Improvement Grant - McLaughlin	No	No
20	RDA	Façade Improvement Grant - Union	No	No

Source: Auditor analysis of grant files.

[6] Grantee is required to submit monthly reimbursement reports.

[7] The HUD contract includes reporting requirements that are not referenced in the grant agreements. According to Housing, monitoring reports were submitted.

[8] The RDA provides funding for construction and renovation of the San José Day Nursery in order to operate the Nursery as a Smart Start Center for 15 years. RDA provides payment based on invoices submitted for construction and renovation work completed. The Library is responsible for ensuring the San José Day Nursery operates as a Smart Start Center. Construction and renovation is not completed at the time of our fieldwork.

As shown above, the range of City reporting requirements varied from 12 grants that required both quarterly/mid-year and year-end reports to six grants that did not require any monitoring reports.

City Staff Did Not Always Ensure Grantees Submitted Required Documentation, Such As Monitoring Or Progress Reports, Audited Financial Statements, Or Proposed Service Plans

We also found that City staff did not always ensure that grantees submitted required documentation, such as monitoring and progress reports, audited financial statements, or proposed service plans. For example, a PRNS grant agreement required the grantee to document that proper background checks (including fingerprints) and negative TB skin tests were conducted for program employees and volunteers. When we reviewed the case file, we did not find any evidence that the grantee submitted the required verification letter. Consequently, PRNS did not have assurance that the grantee conducted the required background checks and TB tests. The grant agreement also required the grantee to submit two financial reports and one performance report to PRNS based on a specific timeframe. At the time of our review and follow-up, we found no evidence that the grantee provided any of the reports.

The OED provided two reimbursement grants of $87,300 to a grantee in 2004-05. The purpose of the grants was to provide economic development services to small business through workshops, counseling, job opportunities, and tax credits. The OED reimbursed the costs of certain activities and provided incentive payments for other eligible activities. According to OED, every invoice for payment was submitted to the Finance Department with complete and original documents. During our review of invoices and supporting documentation in the Finance Department, we did not find all of the required documents, such as evaluations that are needed to support the grantees' claims for payment per the grant agreements.

Another example included an OCA grant agreement that required that the grantee submit to the City, no later than June 1 each year during the term of the agreement, a written, detailed plan of proposed services for the coming year. Additionally, within 30 days of the end of each fiscal year of the grant agreement, the grantee is supposed to submit an annual written report that includes the following: 1) performance measure analysis of grantee's performance of the services required; 2) grantee's year-end organizational financial report that includes an accounting of the expenditure of the funding provided by the City; and 3) the grantee must annually provide to the City a

copy of their complete audited financial report. When we reviewed the case file on August 2005, the OCA's grant file did not include any documented evidence that the grantee submitted the required reports, including a proposed performance plan, written report, and audited financial report. The grantee submitted some of the required documents in September 2005.

City Staff Did Not Always Review Performance Measures Or Goals, Grantee Reports, Or Conduct Site Visits

We also found that City staff did not appropriately review grantee performance. Grant agreements typically contain provisions that establish specific grantee performance requirements. A critical step to ensure grantees meet grant objectives is confirming that stated services were provided by conducting site visits or reviewing performance reports. For the 23 grant agreements we reviewed, we found that only 17 grants required the grantees to submit regular performance reports. For four of the 17 grants, the grantees did not submit the required reports by the due date. In one case, a grantee submitted the required report 222 days late. We also found that in at least one instance City staff did not adequately document that they reviewed the submitted grantee report.

We found that the City could improve upon its monitoring of grantee performance, including submitted performance reports. For example, one DOT grantee submitted performance information regarding work output and funding obtained. However, during our file review, we found that the grant file contained no evidence that the DOT had reviewed or verified the validity of the work output or funding information. DOT staff indicated that they are willing to comply with Citywide policies and procedures regarding monitoring grantee performance.

We also found that PRNS staff did not conduct the required site visit to its grantee to verify performance information. The HNVF program policy requires staff to make periodic site visits to validate the information in the performance reports. According to the grant agreement, the grantee is supposed to provide health insurance coverage to a minimum of 1,744 unduplicated persons. We did not see any evidence that PRNS staff actually verified that the participants the grantee reported were not double-counted. Participant information is generally verified during the monitoring visit that PRNS staff persons are required to make. According to staff, time constraints have

delayed the site visits and staff intended to make a visit in October 2005 — three months after the City had paid $2.1 million to the grantee.[9]

When City Staff Found Flaws With Grantee Performance, It Did Not Always Follow-Up With Grantees

We also found that PRNS staff identified performance problems with the 2004-05 $560,000 CDBG grant awarded to a grantee. However, PRNS staff did not follow-up with the grantee in a timely manner to resolve the performance problems staff identified during a monitoring visit. Specifically, the PRNS Grants Unit staff conducted a site monitoring visit in May 2005 and identified several performance issues that could affect the grantee's ability to provide the agreed-upon housing inspection and rehabilitation services. As a result of the site visit, PRNS staff drafted but did not send a Corrective Action Plan outlining specific steps for the grantee to implement to remedy the performance problems. We alerted PRNS management on October 24, 2005 that the Corrective Action Plan had not been issued to the grantee. Consequently, PRNS management sent the grantee the Corrective Action Plan on November 9, 2005 which the grantee signed and returned on November 16, 2005. According to PRNS staff, the grantee did not comply with the November 28th due date for two audit-related issues in the Corrective Action Plan. PRNS staff has not yet determined if the grantee complied with a November 28th due date in the Plan regarding missing in-take information. Since November 2005, PRNS staff has made two follow-up requests for response.

During the site visit, PRNS staff obtained the June 30, 2004 financial audit of the grantee, which identified three reportable conditions:

1. The agency had a deficit fund balance of $479,266;
2. Significant expenses in excess of revenues were noted on many contracts and grants; and
3. The agency had a negative cash balance of $130,000.

The audit report also revealed that the grantee's deficit could affect their ability to continue operations, and expressed a qualified opinion on compliance for the major federal awards.

[9] According to PRNS staff, "the reports required from this agency were completely redone, causing a very lengthy contract negotiation period. The contract was not executed until March of 2005. The first reports from the agency were not received until the end of March, during which time staff was working on funding recommendations for the following year, which did not allow time for a site visit."

PRNS also found that some in-take forms were missing client signatures and verification of client income information, the grantee had requested reimbursement for work not paid, and the financial audit was not submitted within 150 days of the end of the grantee's fiscal year.

Some Grant Agreements' Performance Provisions Were Not Well Defined

We found that some of the grant agreements' performance provisions could be better defined. One grant agreement had an ambiguous definition regarding certain performance activities. For example, the contract provided for a $75 per person reimbursement for business-related workshops, yet the contract listed no minimum requirements for the length of training. The contract further required the grantee to require participants to complete evaluations, but the contract did not define criteria for how evaluations were to be used to gauge customer satisfaction.

Another grant agreement had poorly defined performance components. We found the agreement did not clearly require the grantee to meet any specific performance goals and simply stated broad performance goals. The grant's program performance component establishes that one of the most important goals for the grantee was to secure funding from sources other than the City of San Jose and provide education materials in several languages, community workshops, and outreach events. The grant agreement did not specify the amount of funding required nor did it specify the number of events to hold. The grant agreement had, as an attachment, a grantee workplan that did specify these details, however, the grant agreement did not specifically reference this workplan in its performance requirements. In our opinion, the lack of specificity hampers the Department's ability to effectively communicate its expectations to the grantee and to subsequently assess grantee performance.

The City Administration Needs To Develop Consistency In Grant Management

We found that on a Citywide basis there is limited to no coordination on $40.5 million in grants awarded in 2004-05. Each City Department is responsible for establishing performance requirements, monitoring the grants they issue, developing their own monitoring procedures, and evaluating grantee performance. As a result of the decentralized manner in which grant oversight is conducted, we found that grant agreements' reporting and compliance requirements were often inconsistent with the grant award amounts and were different among City Departments.

For example, a $28,000 HNVF Homework Center grant required the grantee to submit: 1) bi-annual financial reports, 2) one performance report, and 3) provide evidence listing each employee and volunteer providing services which certifies that the school has conducted a proper background check (including fingerprints) on such person or persons and each of the named persons is legally permitted to perform the services of the agreement. In addition, a PRNS consultant reviewed the grantee services.

In comparison, a $218,498 OCA operating grant does not require the grantee to submit audited financial statements. The grantee is required to submit regular progress and final program reports and to separately account for and keep a separate record of City grant expenditures. OCA staff reviewed the final report, but did not conduct site visits, or review how the grantee spent the City grant funds.

Citywide There Is No Central Database To Track Total Number Of Grants The City Awards

In 2004-05, the City administered 655 grants valued at about $40.5 million[10]. Each City Department maintains separate information of all grants awarded. The City does not maintain a Citywide database of all grants awarded on an annual basis.

City administration of grants is decentralized and information on grant awards and grantee performance is desegregated among City Departments. Individual City Departments are generally responsible for establishing grant award criteria and monitoring grantees for compliance with grant agreements and requirements. Further, some grantees receive multiple grants from one or more City Departments. According to PRNS staff, in 2004 the "grants unit assembled a listing of the Citywide grant recipients as a one-time special project request." However, based on our review of this listing, it was not complete.

[10] See Appendix D for a complete listing of these grants.

Some Grantees Receive Multiple City Grants

City Departments sometimes award multiple grants to the same grantee. We found that 59 grantees[11] received two or more City grants during 2004-05. These 59 grantees received 168 of the 655 grants the City awarded in 2004-05 (26 percent) and about $11 million of the $40.5 million the City awarded (27 percent). Further, of the 59 grantees receiving multiple grants from the City, 20 grantees received three or more grants. For example:

- The San José Jazz Society received five grants for almost $300,000. Of these five grants, four came from the Office of Cultural Affairs' (OCA) grant programs – Festival, Parade and Celebration grant, Operating grant, and Organizational Development, and one came from PRNS' HNVF.
- The San José Downtown Association received about $250,000 from seven grants from the OCA and one grant from the DOT.

In addition, 29 grantees received grants from two City Departments. Additionally, some of these grantees received multiple grants from the same City Department or from the same grant program. For example:

- The Bill Wilson Center received about $162,000 from three grants from PRNS and Housing. The two PRNS grants were from the HNVF and San José B.E.S.T., while the Housing grant was an Emergency Shelter grant.
- The Mexican American Community Services Agency received about $630,000 from eight grants from PRNS – four from the HNVF, three from the CDBG, and one from San José B.E.S.T.

According to City officials, City Departments do not typically coordinate grants with the other City entities who are issuing grants to the same grantees. As a result, the City cannot identify the number and amount of grants awarded to the same grantee to systematically coordinate monitoring efforts. Implementing a Citywide grants database will allow the Administration to identify total grants awarded, grant recipients with multiple grants, and coordinate grant oversight.

[11] It is possible that there are additional multiple grantees that were not properly labeled in the database.

According to the grant best practices the United States Comptroller General's Domestic Working Group Grant Accountability Project promulgated, "consolidating information systems can enable agencies to better manage grants by providing information on all grants." Consolidated information systems offer the City the ability to track program trends in use of funds, performance monitoring, tracking grants with similar goals, and keeping track of problems and compliance with contract requirements.

In our opinion, the establishment and maintenance of a comprehensive centralized grant database would give the City additional information and facilitate better grant awarding decisions and grantee monitoring to help ensure compliance with grant requirements.

We recommend that the Administration:

Recommendation #2

Develop a Citywide grant database to provide comprehensive grant information, facilitate better grant awarding decisions and grantee monitoring, and help ensure grantee compliance with grant requirements. (Priority 3)

A Grant Management Working Group Can Help Provide Oversight Consistency

As reported earlier, the Administration does not coordinate monitoring goals, encourage the sharing of best practices, or establish uniform guidelines regarding grant oversight. As a result, grant oversight is performed inconsistently among City Departments. In our opinion, an approach to strengthen and improve grant oversight is for the Administration to establish a Grant Management Working Group. Under the direction of the City Manager's Office, the Grant Management Working Group (Working Group) would consist of representatives from City Departments with grant management responsibilities and would be responsible for developing Citywide guidance on grant oversight. In our opinion, the Working Group would be responsible for: 1) identifying and adopting grant oversight best practices; 2) adopting appropriate grant agreement requirements; and 3) establishing oversight guidelines to ensure consistent monitoring. In our opinion, the Working Group should meet on a quarterly or other periodic basis.

A key role of the Working Group should be to identify and adopt grant oversight best practices. We identified two authoritative sources for best practices in grant management. The United States Comptroller General's Domestic Working Group Grant Accountability Project and the Council on Foundations have both issued guidance regarding grant management and oversight.

The United States Comptroller General's Domestic Working Group Grant Accountability Project issued a report that identified the challenges to grant accountability and promising practices that can help improve grant accountability. The report identifies the lessons learned that agencies should consider throughout the grant process to ensure that funds are properly used and achieve desired results. The report focuses on five key areas[12] as shown in Exhibit 5 below.

Exhibit 5 Promising Practices To Improve Grant Accountability

Area Of Opportunity	Promising Practices
1. Internal Control Systems	• Preparing policies and procedures before issuing grants; • Consolidating information systems to assist in managing grants; • Providing grant management training to staff and grantees; and • Coordinating programs with similar goals and purposes.
2. Performance Measures	• Linking activities with program goals; and • Working with grantees to develop performance measures.
3. The Pre-Award Process	• Assessing applicant capability to account for funds; • Competing grants to facilitate accountability; • Preparing work plans to provide framework for grant accountability; and • Including clear terms and conditions in grant award documents.
4. Managing Performance	• Monitoring the financial status of grants; • Ensuring results through performance monitoring; • Using audits to provide valuable information about grantees; and • Monitoring subrecipients as a critical element of grant success.
5. Assessing and Using Results	• Providing evidence of program success and • Identifying ways to improve program performance.

Source: United States Comptroller General's Domestic Working Group Grant Accountability Project.

[12] The Grant Accountability Project's List of Specific Promising Practices is found in Appendix E.

Grants Monitoring Best Practices

Besides reviewing and adopting the above best practices, the Working Group should also incorporate the Council on Foundations Best Practices in Grants Management.[13] These practices include implementing appropriate policies and procedures for: 1) processing grant payments; 2) grantee reporting requirements; 3) monitoring grant requirements; 4) grant evaluation requirements; and 5) documenting grant modifications, grant closing, and grant project files.

Establish Oversight Guidelines To Ensure Consistent And Appropriate Monitoring

Finally, the Working Group needs to work with the City Departments to establish oversight guidelines. Specifically, the Working Group should establish oversight guidelines that include:

- Establishing Citywide appropriate policies and procedures. As reported, documentation requirements vary across City Departments. Some grant programs require expense receipts, whereas other City Departments do not require grantees to submit evidence of expenditures. For example, a $5,000 ESD Youth Watershed Education grant required grantees to submit receipts with invoices, whereas, OCA Festival, Parade and Celebration grantees are not required to submit any receipts;
- Establishing specific training requirements for staff involved in grants management and monitoring. We found that Housing and PRNS have formal grant management training requirements for staff, but the other City Departments do not. The Working Group can establish a framework for ensuring employees have the skills to manage grants, such as understanding financial statements;
- Establishing criteria when audited financial statements are obtained and reviewed. The Working Group should establish an appropriate grant amount for requiring audited financial statements;
- Establishing risk-based criteria for determining when more detailed audits, reviews, or monitoring are required. This should include identifying financial and performance results that would trigger more detailed reviews. For example, the B.E.S.T. Program interim evaluation report identified performance problems with

[13] See Appendix F for a summary of the Best Practices.

specific grantees. As a result, PRNS B.E.S.T. staff issued corrective action plans, which ultimately resulted in canceling a grant for non-performance. Other City Departments could adopt a similar practice; and

- Adopting consistent and reasonable grant agreement requirements related to grantee reporting. The City should develop and adopt policies which outline the performance report requirements for audits as well as supporting documentation which grantees should submit with such reports. Furthermore, the City should develop a policy regarding the frequency with which City staff should conduct monitoring visits. Such policies should be reasonable given the size of the grant and other regulations governing the grant. The Working Group should work with City Departments and the City Attorney's Office to develop appropriate and reasonable grant agreement requirements.

We recommend that the Administration and City Attorney's Office:

Recommendation #3

Establish a City Manager's Office Grant Oversight Working Group to: 1) establish Citywide consistent policies and procedures; 2) establish specific training requirements for staff involved in grant management and monitoring; 3) establish criteria when audited financial statements are obtained and reviewed; 4) establish risk-based criteria for determining when more detailed audits, reviews, or monitoring are required; and 5) adopt consistent and reasonable grant agreement requirements related to grantee reporting. (Priority 3)

CONCLUSION

We found that on a Citywide basis grant administration was decentralized with limited coordination and no Citywide policies and procedures for grant oversight. Each City Department is responsible for monitoring the grants it issues, developing its own monitoring procedures, and evaluating grantee performance. We found that the City Departments rely on grant agreements to monitor grants and have no formal,

documented policies and procedures. We also found that both Housing and PRNS have some documented procedures regarding grant oversight.

In addition, as a result of our review of the grant agreements, we found that: (1) grant agreements contain inconsistent financial reporting requirements; 2) grant agreements contain inconsistent performance reporting requirements; 3) City staff did not always ensure grantees submitted documentation as required, such as monitoring or progress reports, audited financial statements, or proposed service plans; 4) City staff did not always review performance measures or goals, grantee reports, or conduct site visits; 5) when City staff found flaws with grantee performance, it did not always follow-up with grantees; and 6) grant agreements contain performance provisions which were not well defined. We also found that each City Department is responsible for monitoring the grants it issues, developing its own monitoring procedures, and evaluating grantee performance. This lack of Citywide coordination hinders City Departments from sharing best practices and discussing successful monitoring strategies. This is exacerbated by the fact that there is no Citywide grant database which tracks the total number of grants the City awards and the recipients of them. In some cases, when grantees receive funding from different City grant programs, there is no City Departmental coordination or information sharing regarding grantee reporting and performance. In our opinion, in order to improve grant oversight, the City Administration needs to develop consistency in grant management by implementing grant management best practices. Specifically, the City should develop a grant database to improve information sharing among City Departments and establish a City Manager's Office Grant Oversight Working Group to: 1) establish Citywide appropriate policies and procedures; 2) establish specific training requirements for staff involved in grant management and monitoring; 3) establish criteria when audited financial statements are obtained and reviewed; 4) establish risk-based criteria for determining when more detailed audits, reviews, or monitoring are required; and 5) adopting appropriate and reasonable grant agreement requirements related to grantee reporting.

RECOMMENDATIONS

We recommend that the City Departments:

Recommendation #1 **Develop a procedures manual to formally document the City's policies and procedures regarding grant oversight. (Priority 3)**

We recommend that the Administration:

Recommendation #2 **Develop a Citywide grant database to provide comprehensive grant information, facilitate better grant awarding decisions and grantee monitoring, and help ensure grantee compliance with grant requirements. (Priority 3)**

We recommend that the Administration and City Attorney's Office:

Recommendation #3 **Establish a City Manager's Office Grant Oversight Working Group to: 1) establish Citywide consistent policies and procedures; 2) establish specific training requirements for staff involved in grant management and monitoring; 3) establish criteria when audited financial statements are obtained and reviewed; 4) establish risk-based criteria for determining when more detailed audits, reviews, or monitoring are required; and 5) adopt consistent and reasonable grant agreement requirements related to grantee reporting. (Priority 3)**

Click On The Appropriate Box To View Item

Administrator's Response

Appendix A | Appendix B | Appendix C

Appendix D | Appendix E | Appendix F