

**Report of Internal Audit  
Stimulus (ARRA) Reporting  
Six Months Ended December 31, 2013  
May 30, 2014**

**City of Charlotte  
City Auditor's Office  
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**Report of Internal Audit  
Stimulus (ARRA) Reporting  
Six Months Ended December 31, 2013  
May 30, 2014**

**Purpose**

Internal Audit performed agreed-upon procedures for the six months ended December 31, 2013, related to the reporting and auditing of City projects funded by the American Recovery and Reinvestment Act of 2009 (ARRA), also referred to as “Stimulus.”

**Conclusion and Summary Results**

Effective controls continue to help ensure accurate reporting of total expenses. While the risk of penalties due to non-compliance have been low so far, City staff needs to improve attention to detail and completeness related to grant requirements.

During the six months ended December 31, 2013, the City finalized two grant projects totaling \$11.2 million with Federal (Direct) award amounts. Seven grants still in process total \$82.9 million-Direct, and \$3.4 million-Indirect. Minor adjustments in total expenses and amounts paid to specific vendors or subrecipients were required, as addressed in Finding #1. Auditors found errors in grants that PMs subsequently corrected. (Detailed Findings and Recommendation follow, beginning on page six.)

Finding #2 notes compliance issues not finalized by December 31, 2013. Student Energy Internship and Fellowship Program (Interns), Wilora Lake Rehabilitation (Wilora) and Muddy Creek Watershed Restoration (Muddy) grants have corrections that are in process. While CATS made progress in resolving outstanding compliance issues, staff continues to work with two vendors to obtain certified payrolls. In addition, three payrolls for the Community Development Block Grant (CDBG) have not been certified.

During the six months ended December 31, 2013, the EST coordinator confirmed that four of the five PMs had completed quarterly responsibilities. These tasks include: reconcile GEAC<sup>1</sup> to the §1512<sup>2</sup> and other federal reports, verify receipt of certified Davis Bacon and other payroll documents, ensure Buy American compliance was regularly checked by project inspectors, and that prior quarter corrections had been made.

Our FY13 report noted the Department of Commerce had suspended one grant. With federal approval, the City restructured this public safety communications grant and City Council approved on January 13, 2014.

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<sup>1</sup> GEAC is the common name of the City’s current financial system.

<sup>2</sup> §1512 refers to a required quarterly report of grant receipts and expenditures. The name (“1512”) references the section in the Stimulus (ARRA) bill.

## **Scope and Approach**

Project Managers (PMs) within several Departments, along with the City Manager's EST Coordinator are responsible for completing the §1512 reports thoroughly and accurately. Throughout the six months, Internal Audit has provided support to PMs and performed quarterly reviews of reported information to evaluate data accuracy, completeness, and overall reasonableness. While auditors performed other tasks noted in the procedures on page three, this report focuses primarily on the review of information reported on FederalReporting.gov.

On February 1, 2014, Congress repealed the recipient reporting for Recovery Act awards, effective for the quarter-ended December 31, 2013. Therefore, this is the final report of the City's Stimulus program.

### *Direct grants – the City is the recipient*

For grants directly received from federal agencies (direct grants), the City is referred to as the recipient. Recipients are required to submit quarterly ARRA reports (known as “§1512” reports, referencing the section of the ARRA bill) to the federal government. The §1512 report includes financial information, jobs as full-time equivalents (FTEs), and other required data for projects in progress at quarter-end.

### *Indirect grants – the City is the subrecipient*

Indirect grants denote that federal funds flow through another entity prior to receipt of funds by the City. For grants received through non-federal agencies, the City is known as a subrecipient. The City is a subrecipient to the State of North Carolina, Mecklenburg County, Triangle J Council of Governments<sup>3</sup>, and the Southeast Energy Efficiency Alliance partners, an energy alliance group<sup>4</sup>. For indirect grants, the City is responsible to report information to the recipient, who then submits the §1512 report.

Auditors reviewed data from the City's Stimulus database (MS360) and FederalReporting.gov. Auditor's also recalculated jobs reported using payroll documentation, analyzed general ledger entries from the City's GEAC accounting system and reviewed other supporting information to evaluate the accuracy and overall reasonableness of reported information. Our review was designed to determine whether:

- PMs for federal projects (direct grants) accurately report ARRA awards, funds received, project expenses and FTEs;
- PMs for non-federal ARRA projects (indirect grants) accurately report financial information to the recipient; and

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<sup>3</sup> The Triangle J Council of Governments is a voluntary organization of municipal and county governments in North Carolina's Region J. It is one of 17 regional councils established in 1972 by the General Assembly to aid, assist, and improve the capabilities of local governments in administration, planning, fiscal management, and development.

<sup>4</sup> The Southeast Energy Efficiency Alliance partners with policymakers, utilities, governments, industry, and non-governmental organizations to create more energy efficient futures for communities across 11 states and one territory.

- The grant monitoring process administered by Departments is sufficient to ensure reporting accuracy.

We have performed the procedures listed below, which were agreed to by the City Manager's office, to assist with evaluating the performance of Stimulus grants. This agreed-upon procedures engagement was conducted in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion or limited assurance. Accordingly, we did not express such an opinion. If we had performed additional procedures, other matters might have come to our attention that should be reported. This report is intended for the information and use of the City Manager and City Council and is not intended to be used by any other party.

- Examine guidance issued by various federal and state agencies that relates to reporting and auditing of ARRA funds. This information is the standard used in all our work related to ARRA.
- Provide updates of the guidance we have reviewed to the City's Economic Stimulus Team (EST). Issue memorandums to the EST on pertinent issues related to ARRA reporting and auditing.
- Meet with City personnel to consult on compliance with reporting and auditing of ARRA funds.
- Meet with federal, state, and other auditors to facilitate meetings or coordinate information.
- Review project information reported on [FederalReporting.gov](http://FederalReporting.gov) for accuracy, completeness, and overall reasonableness.

### **Overview of Six Months Ended December 31, 2013 Grants and Reporting Processes**

#### *Direct Grants*

During the six months ended December 31, 2013, the City completed two federal grants, whose original award amounts totaled \$11.3 million but after de-obligation<sup>5</sup> (see footnote explanation), were adjusted to \$11.2 million when the final §1512 report was filed. The table on the next page summarizes expenses and receipts cumulative as of December 31, 2013.

The grants remaining at December 31, 2013, were the \$16.7 million Department of Commerce, \$45.4 million Department of Homeland Security and \$20.8 million Federal Transit Administration grants. The Department of Commerce and Department of Homeland Security grants have been extended by the federal agencies. The Federal Transit Administration grant is

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<sup>5</sup> De-obligation of a grant award is the downward adjustment of the obligation recorded in a contract document. One grant did not require all the funds awarded, therefore the grant was de-obligated 0.1M. The grant was completed during the six month ended December 31, 2013.

completed but a final §1512 report was not filed, since an additional reimbursement request will be made on the grant.

<b>Dollars Reported for Federal Grants</b>			
<b>Federal Agency</b>	<b>Amounts Awarded by Federal Agencies</b>	<b>Expenses Reported by the City</b>	<b>Funds Received by the City</b>
Department of Homeland Security	45.4M	10.5M	1.3M
Department of Commerce	16.7M	4.1M	4.2M
Federal Transit Administration	20.8M	20.7M	20.7M
Department of Justice	4.5M	4.5M	4.5M
Department of Energy	6.8M	6.7M	6.7M
<b>Total Amount</b>	<b>\$94.2M</b>	<b>\$46.5M</b>	<b>\$37.4M</b>
Less De-obligated Award Amount <sup>6</sup>	(0.1M)		
Less Completed Grants	(11.2M)	(11.2M)	(11.2M)
<b>Grants Remaining</b>	<b>\$82.9M</b>	<b>\$35.3M</b>	<b>\$26.2M</b>

M = Million

*Indirect Grants*

The City is the subrecipient for grants that originate from four state agencies, a regional authority, and an energy alliance group. The chart on the next page shows the amounts awarded, expenses reported, and funds received as of December 31, 2013.

<sup>6</sup> See footnote on page three for explanation of “de-obligated”.

<b>Dollars Reported for Indirect Grants (City is the Subrecipient)</b>			
<b>Recipient</b>	<b>Amounts Awarded by Agencies</b>	<b>Expenses Reported by the City to the Agencies</b>	<b>Funds Received by the City</b>
NC Department of Environment and Natural Resources	2.3M	2.1M	2.3M
NC Department of Commerce Energy Division	0.5M	0.4M	0.4M
Southeast Energy Efficiency Alliance	0.6M	0.6M	0.5M
<b>Grants Remaining</b>	<b>\$3.4M</b>	<b>\$3.1M</b>	<b>\$3.2M</b>

*Controls Related to §1512 Reporting*

There are several levels of controls to ensure that §1512 data is accurate. The following activities take place before the City downloads information to FederalReporting.gov.

- City policies and procedures must be followed for the procurement and payment of grant activities.
- Financial data for §1512 reporting must be reconciled to GEAC.
- Job data is collected from vendors and subrecipients, and then reviewed by the PM.

When the §1512 data is downloaded quarterly, automated controls on FederalReporting.gov validate the information. If errors are found, they must be corrected before the download can be completed.

OMB (Office of Management and Budget) guidelines allow financial data to be corrected for approximately two months<sup>7</sup> following the reporting deadline. After the download is finished, the following activities occur.

- Federal agencies review the information and notify the City of data that appears to be missing, incomplete, or inaccurate.
- The EST Coordinator reviews the information for reasonableness and completeness. After resolving any concerns, the Coordinator downloads the revised information to Federal Reporting.gov.

<sup>7</sup> This time segment is known as the “Continuous Corrections” period and was initiated by the Recovery Accountability and Transparency Board (RATB) in January 2010.

- Auditors review the GEAC reconciliation and job calculations prepared by the PM. This data is then compared to FederalReporting.gov. If information appears inaccurate or incomplete, the PM is notified. The PM then determines if a correction<sup>8</sup> is necessary, and if so, makes the change.
- If the error is not corrected within the two-month period, the final alternative is to make the correction in the following quarter's data. While not preferred, this option is occasionally necessary.

### **Findings and Recommendation**

#### **1. Although adjustments were required, most §1512 errors were identified and corrected.**

Using GEAC and invoices received from vendors, PMs total grant-related expenditures and receipts and then prepare a GEAC reconciliation to identify any errors. After any needed adjustment, these amounts are entered into MS360 or another reporting database and then downloaded to FederalReporting.gov. Most errors are identified and corrected during this process.

In the past, any errors overlooked during the process noted above, could be corrected in the next quarter. Because the reporting is no longer required, outstanding corrections to the §1512 can no longer be made.

#### **2. Outstanding compliance issues have not been finalized.**

In the FY13 audit report, it was noted that the CATS ARRA Facility grant had related expenses totaling \$766,788 for which FTEs have not been reported. CATS staff determined that Davis Bacon requirements did not apply to \$642,976 of this total. Internal Audit concurs with this assessment. Three vendors, who are responsible for the remaining \$123,812 in expenses, provided payroll reports totaling \$56,081. However, the information provided by two vendors does not comply with Davis Bacon requirements. Lack of submissions of certified payrolls is non-compliant with regulations. The FTEs from these vendors will not be reported on the §1512 since recipient reporting has ended.

In addition, Internal Audit previously reported that the PM for the Community Development Block Grant (CDBG), provided certification on five payrolls. However, certification remains outstanding for three other payroll documents.

The Energy Interns grant made a duplicate payment in FY12 for \$516 that has not been reimbursed to the City. In addition, GEAC accounts do not agree with the information the City submitted to the North Carolina State Energy Office. The EST coordinator has met with Finance and a solution has been suggested but not implemented as of this report.

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<sup>8</sup> Effective February 2, 2010, Section 5.2 of Memorandum M-10-08 from the Office of Management and Budget required FederalReporting.gov to be open for continuous correction for the prior reporting quarter.

Muddy and Wilora also need departmental transfers in order to comply with ARRA regulations. The PM has been notified repeatedly. Although some progress was made, the resolution is not complete.

### **Recommendation**

The EST coordinator should work with the PMs and Finance to:

- Follow-up on the certified payrolls with CATS and CDBG.
- Correct the three indirect grants, Energy Interns, Muddy and Wilora.

### **EST Coordinator Response**

The EST accepts the findings and recommendations in the report.

#### *Certified Payrolls: CATS*

- For the two remaining vendors, staff will resolve this issue within 30 days.

#### *Certified Payrolls: CDBG*

- The PM is uncertain if the remaining uncertified payrolls can be obtained. Staff will resolve this issue within 30 days. EST recommends that the substantive corrective measures made by Neighborhood and Business Services (NBS) after the Energy Efficiency and Conservation Block Grant (EECBG) audit<sup>9</sup> be applied to CDBG projects as well.

#### *Indirect grants: Energy Interns*

- Staff is seeking reimbursement of the duplicate payment. The EST coordinator is in process of working with Finance and expects the GEAC account to be reconciled within 30 days.

#### *Indirect Grants: Muddy and Wilora*

- Grant revenues exceeded the grant amount approved by Council. Staff will request Council approval in the FY14 windup ordinance.

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<sup>9</sup> Internal Audit issued the Energy Efficiency and Conservation Block Grant report on February 27, 2014. In the report response, NBS addressed process changes to strengthen controls in collecting certified payrolls.

**Appendix: Overview of the 2009 American Recovery and Reinvestment Act**

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 was signed into law. The stated goals of the Recovery Act are:

1. To preserve and create jobs and promote economic recovery.
2. To assist those most impacted by the recession.
3. To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
4. To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
5. To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Reporting and auditing requirements of the Stimulus Act must be met throughout the life of the awarded projects. The federal and state funding agencies may establish additional requirements. Some grants will be completely expended during the current fiscal year while others will extend one or more years into the future. All required information must be entered into FederalReporting.gov by the 10<sup>th</sup> day after the end of each quarter. The next eleven days will be used by recipients to review and correct data at the state and local levels. The remaining days of the month are used by the appropriate federal agencies to review and correct data. After 30 days a Continuous Quality Assurance period begins. During this time, reports will be unlocked so recipients can make changes and update reports.

As a prime recipient (recipient) of federal awards, the City plans and manages the stimulus programs and is responsible for maintaining compliance with governmental requirements. For these grants, the federal government is providing stimulus funds directly to the City, and the City may further distribute the funds to a subrecipient or vendor. For other projects, a state or county department is the prime recipient and allocates a portion of the stimulus funds to the City. In these instances, the City is the subrecipient. As a subrecipient, the City can further distribute to a second-tier subrecipient or contract with vendors to complete the objective of the grant. Vendors, as defined by the OMB, provide goods and services as part of their normal business operations and do not make stimulus program decisions.

Accountability and transparency are clearly defined goals for ARRA projects. The OMB developed five crucial objectives for the use of stimulus funds, as listed on Recovery.gov. These objectives ensure that:

- Recovery funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipient's use of all recovery funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Recovery funds are used for authorized purposes, and every precaution is taken to prevent instances of fraud, waste, error, and abuse;
- Projects funded under the recovery legislation avoid unnecessary delays and cost overruns; and,
- Programs meet specific goals and targets, and contribute to improved performance on broad economic indicators.