

**ARRA Stimulus Audit**  
**Energy Efficiency and Conservation Block Grant**  
**February 27, 2014**

**City of Charlotte**  
**City Auditor's Office**  
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**Purpose and Scope**

The purpose of the audit was to evaluate internal controls, compliance with ARRA requirements, and the accuracy of ARRA reporting. The audit focused on the Energy Efficiency and Conservation Block Grant (EECBG) funded by the American Recovery and Reinvestment Act of 2009 (ARRA). The audit period covered the grant from August 2009 through March 2013.

Auditors reviewed ARRA requirements issued by the Federal Office of Management and Budget (OMB). We also relied on guidance developed by the OMB for the Single Audit Act. The purpose of the Single Act is to promote sound financial management of federal awards, including effective internal controls and compliance with laws and regulations.

Auditors examined documents in the EECBG project database, on the City's SharePoint, and in project notebooks maintained by the project managers. This information included vendor and sub-recipient contracts, invoices and payroll support. Projects were sampled, based upon factors such as risk, complexity, compliance and dollar amounts. Auditors reviewed jobs reported to Federal agencies and compliance with sub-recipient monitoring policies. Project costs as recorded in the City's GEAC accounting system were tested, and grant documentation was examined.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion. Based on our audit objectives, we believe that the evidence obtained provided a reasonable basis for our findings and conclusion based on our audit objectives.

**Summary Results**

The majority of project costs were found to be allowable and properly approved. However, costs totaling \$30,712 were paid in error and the majority were subsequently corrected. NBS has initiated appropriate actions to improve controls over such payments in the future. (See Finding #1, page four.)

Payroll monitoring has not been sufficient to comply with Davis-Bacon regulations. Adjustments are required to report full-time equivalents (FTEs) accurately. Errors were noted in previous §1512<sup>1</sup> reports. Finding #2 contains additional detail about these adjustments. Also,

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<sup>1</sup> The required quarterly report, known as the "1512," is named from the referenced section of the ARRA federal bill. The §1512 report includes financial information, jobs as full-time equivalents (FTEs), and other required data for projects in progress at quarter-end.

monitoring of other ARRA grant requirements and Department policies needs improvement (Finding #3). NBS has updated its policies and procedures to address these findings.

### **Conclusion**

NBS staff did not give adequate attention to certain requirements of the ARRA grant. NBS processes were not sufficient to ensure compliance with grant requirements. Near the conclusion of the audit, NBS management initiated several substantive corrective measures which satisfactorily address our recommendations.

### **Background**

The City of Charlotte was awarded a \$6.78 million stimulus grant by the Department of Energy (DOE) on August 4, 2009, to implement an Energy Efficiency and Conservation Strategy. Specifically, the grant was to be used to reduce fossil fuel emissions, reduce total energy use of eligible entities, and improve energy efficiency in the building sector, the transportation sector and other appropriate sectors, while also creating jobs. Eighteen projects funded under the grant are listed in the table on the next page.

All ARRA grants were required to comply with new regulations that were more complex than normal grants. In addition, other factors were unique to the EECBG. This grant was particularly complex due to the wide range of projects and the coordination of project managers from eight different departments.

Staff turnover impacted a key position because of the high level of administration and the time necessary to train new employees. Also, The City Energy Coordinator had management authority without commensurate performance review. In some cases, this limitation affected the prioritization of projects.

<b>Project Title</b>	<b>Budget Amounts</b>	<b>City Department</b>
Commercial Building Retrofit Program	1,125,732	Neighborhood & Business Services
Neighborhood Energy Challenge	794,268	Neighborhood & Business Services
Residential Energy Efficiency Improvements	600,000	Neighborhood & Business Services
Charlotte Housing Authority – Parktowne Terrace Retrofit	250,000	Neighborhood & Business Services
Utilities Building (Brookshire) – Energy Improvements	900,000	Engineering & Property Management
Old City Hall Energy Improvements	504,000	Engineering & Property Management
Electric Vehicle Charging Stations and Vehicles	315,000	Engineering & Property Management
1-485 Park & Ride Energy Efficient Lightning Pilot	300,000	Engineering & Property Management & CATS
Energy Efficient Lighting – CMGC Parking Deck	195,000	Engineering & Property Management
Photovoltaic System – Discovery Place	126,000	Engineering & Property Management
Bike Project – Wendover Street and Beal Street Intersection	90,000	Engineering & Property Management
Solar Thermal Hot Water @ Public Facilities	4,905	Engineering & Property Management
Energy Efficient Computing	360,000	Office of the Chief Information Officer
Establish Energy & Sustainability Manager	336,066	City Manager’s Office
Vehicular Wayfinding and Parking / Messaging Signage	324,000	Charlotte Department of Transportation
Energy Efficiency & Conservation Strategy	245,129	City Manager’s Office
Outreach and Education	200,000	Corporate Communications
Center City On-Street Recycling	110,000	Solid Waste Services
<b>Total</b>	<b>\$6,780,100</b>	

### **Findings and Recommendations**

#### **1. Costs totaling \$30,712 were paid in error; the majority were subsequently corrected.**

Fifty-two of 245 project expenses over \$10,000 were tested for allowed costs, proper approval, and completion prior to reimbursement. Documentation for one drawdown request of about \$15,000 was not provided to auditors and therefore could not be tested.

During our review of project expenses, Internal Audit noted that a project manager identified disallowed costs of \$30,712 on several invoices paid from March to June 2011. Subsequent invoices were credited (during the period August 2011 to April 2012) to resolve \$28,479 of the disallowed costs. Documentation to verify the difference of \$2,233 could not be located. Without documentation, the City may be required to return this amount to the grantor.

Although the disallowed costs were identified and returned, Neighborhood & Business Services (NBS) did not have an adequate process in place to prevent or timely detect the errors.

#### **Recommendation**

NBS should improve its invoice review process.

#### **EECBG Project Manager Response**

NBS agrees. Our updated “Invoice Review/Approval Business Process” addresses federal requirements including eligibility, Davis Bacon Certified Payrolls, and Contractor/Sub-contractor agreements. (See appendix A on page seven.)

#### **2. Payroll monitoring has not been sufficient to comply with Davis-Bacon regulations.**

Davis-Bacon<sup>2</sup> requires contractors to submit weekly-certified payrolls. Internal Audit tested a sample of payroll documents from the March 2010 to March 2013 period, and found that 52 were not certified. While this is a frequent finding of similar grants, a Project Manager (PM) is responsible to obtain the records timely, and to document any efforts that fall short of compliance.

ARRA guidelines require jobs to be reported as full time equivalents (FTEs). Accurate FTE reporting is the responsibility of the grantee. Hours on certified payrolls regularly do not

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<sup>2</sup> The Davis-Bacon Act of 1931 is a federal law that establishes the requirement for paying local prevailing wages for laborers and mechanics on public works projects. The regulation applies to contractors and subcontractors performing on federally funded or assisted contracts in excess of \$2,000 for the construction, alteration, or repair (including painting and decorating) of public buildings or public works.

agree with FTEs reported on the quarterly §1512, requiring adjustments. In some cases, the FTEs reported could not be verified.

In January 2014, the ARRA reporting requirements were repealed by Congress. Shortly thereafter, corrections to FTE (reporting) were no longer allowed. However, Davis-Bacon will continue to apply to future grants.

Internal Audit also noted several deficiencies on the certified payrolls, including:

- Errors on the date range
- The date range was blank
- The rate of pay did not match the employees' pay stubs
- Payroll deductions were not reported
- Overtime pay and fringe benefits were not clarified

### **Recommendation**

The EECBG Project Manager should work with the appropriate departments to develop a procedure and checklist for complying with all Davis Bacon requirements.

### **EECBG Project Manager Response**

NBS agrees. Our updated "Invoice Review/Approval Business Process" addresses federal requirements including eligibility, Davis Bacon Certified Payrolls, and Contractor/Sub-contractor agreements. (See appendix A on page seven.)

### **3. Monitoring of other ARRA grant requirements and Department policies needs improvement.**

Several instances of non-compliance with the Neighborhood and Business Services (NBS) Sub-Grantee/Partner monitoring procedures were noted. Either site visits were not completed or documentation is not available for three sub-recipients. In some cases, NBS decided to conduct desktop reviews instead. (NBS policy indicates that sites visits are optional.) However, site visits are required according to Federal regulations.

Initially, documentation was not provided to support the reimbursement requested from one sub-recipient prior to the draft report. After multiple requests by audit staff, the information was received and reviewed.

The EECBG coordinator was required to submit a quarterly Federal Financial Report (Form SF-425) within thirty days after the end of the reporting period. Auditors reviewed the quarterly reports from the quarters ended September 2011 through March 2013. Six of the seven reports were filed late; one was 47 days late.

The American Recovery and Reinvestment Act requires a certification on the City website that “the infrastructure has received the full review and vetting required by law and that the chief executive accepts responsibility that the infrastructure investment is an appropriate use of taxpayer dollars” before the City can receive federal recovery funds. The Bike Project at Wendover Street and Beal Street Intersection, with costs totaling \$80,505, was reported as an infrastructure project. However, the Project Manager did not post a §1511 certification on the City’s website. According to ARRA regulations, the §1511 certification is required prior to reimbursement. The EECBG coordinator is working with the federal agency to resolve this issue.

**Recommendation**

Neighborhood and Business Services should review and, as necessary, rewrite policy to clarify the requirements for site visits to sub-recipients, including verification of services and or goods received at locations managed by the sub-recipient.

In addition, NBS should complete a memo for each sub-recipient, documenting:

- a. The NBS staff and sub-recipient staff participating in site visits and desktop reviews
- b. All steps taken by NBS staff to verify the extent of monitoring that was actually completed, including any findings
- c. Subsequent solutions to the findings
- d. Agreement with the solutions verified by signatures of the PM and NBS manager

**EECBG Project Manager Response**

NBS agrees. We have revised our NBS Sub-Grantee/Sub-Recipient/Partner Monitoring Procedures to address this recommendation. (See Appendix B on page nine.)

## **Appendix A**

### **Invoice Review/Approval Business Process**

Invoices submitted on projects, which are subject to Davis-Bacon and/or Section 3 requirements, must be reviewed to ensure compliance with regulations prior to approval of payment.

*(Note: To ensure that Developers/Contractors are informed of Davis-Bacon & Section 3 requirements, the Davis-Bacon (DB) Coordinator must attend pre-construction meeting.)*

The following outlines the process in which invoices, along with supporting documentation, will be handled.

1. The Contractor/Developer will submit invoice, supported with required documentation, i.e.: certified payrolls, etc., to the Project Manager, DB Coordinator and City's Finance Division. (Note: Submittal of invoice & supporting documentation to Project Manager & DB Coordinator will allow for expediting of review & approval.)
2. The City's Finance Division will forward invoices to NBS- Financial Services through Image Now.
3. NBS- Financial Services will forward to the appropriate Project Manager.
4. Project Manager will verify that work was conducted as noted on invoice, stamp received on the invoice and forward to the DB Coordinator for review.
5. DB Coordinator will review documentation submitted with invoice and project file documentation:
  - Contractor/Sub-Contractor Agreement(s)
  - Wage Decision(s)
  - Pre-Construction Conference documents
  - Bid documents
  - Verification of Eligibility
  - Contractor/Sub-Contractor(s) Certified Payrolls. The Certified Payrolls must include and match the time-period that work was performed and payment requested. (Note: Review of the certified payrolls will be compared with the Employee Interviews to ensure employee wage matches payroll(s) submitted.)
6. If all information is complete and accurate, DB Coordinator will stamp received on payment request and forward to NBS Financial Services for approval.
7. If additional information is required, the following will occur:
  - a) DB Coordinator will route the payment request back to the Project Manager in (Image Now) and follow up with an email citing concerns/issues.

- b) Project Manager will notify Contractor/Developer to request submittal of additional information or provide corrective action to concerns/issues identified.
- c) Project Manager will forward information addressing concerns/issues and payment request to DB Coordinator for review.
- d) Upon review and approval of information submitted, DB-Coordinator will stamp received on the payment invoice and forward to NBS Financial Services for approval.

**Appendix B**  
**Neighborhood & Business Services**  
**Sub-Grantee/Sub-Recipient/Partner Monitoring**  
**Procedures**  
**February 6, 2014**

**Purpose:** This instruction establishes procedures for monitoring the financial and administrative aspects of the funds received by sub-grantees from the Federal or State Government through Neighborhood & Business Services (NBS).

**Scope:** This instruction shall apply to all sub-grantees for grant awards from the Federal or State Government, by way of NBS serving as the pass-through entity.

**Reference:** All grant awards to sub-grantees through NBS shall have in place a formalized contract or other written agreement between the parties, which shall include, at a minimum:

- Activities to be performed;
  - Time schedule;
  - Dollar limitation of the agreement, and
  - Preapproved budget-spending plan.
- A. Monitoring involves the process of observing the financial and administrative operations of the sub-grantee either through a periodic desktop review or site visit. The desktop review or site visit shall include all aspects of the financial management systems, procurement policies, property management, and budget procedures, in accordance with HUD's sub-recipient monitoring handbook for each funding source. Also, limited aspects of the personnel system should be reviewed if grant funds are being used to support positions. The Program Manager is the decision maker in regards to whether a desktop review or a site review is required for each sub-grantee.
- B. Most importantly, monitoring would include ensuring that the sub-grantee expends the federal funds on allowable expenses and that funds are used to supplement existing funds for program activities and not replace those funds that have been budgeted for the same purpose.
- C. The Program Manager or their designee shall be knowledgeable of all financial and administrative aspects of the sub-grantee's operations.

D. Site Visits —If the Program Manager determines a Site Visit is necessary to adequately monitor a sub-grantee, the Program Manager shall notify the sub-grantee in writing of the proposed visit at least three (3) weeks prior to the initial visit,. (See Exhibit A for sample of letter to schedule visit). On subsequent visits, the notification can be either by letter or by telephone to the sub-grantee.

- Opening (Entry) Conference: Upon arrival at the sub-grantee's location, the Program Manager or their designee shall meet with all participants on the grant to discuss the monitoring visit. This discussion shall take the form of a briefing. The grantee shall be advised of the purpose of the visit, the monitor's activities during the visit, and the exit conference that will occur at the conclusion of the visit.
- Exit Conference: At the conclusion of the site visit, an exit conference shall be held with the same principal officials present at the entry conference. During this conference, the officials shall be informed of the results of the visit. The sub-grantee shall be advised that a written report will be sent to them. Those items in the written report requiring corrective action should be addressed by the sub-grantee within 30 days of the date of the report.
- Report of Site Visit. Upon completion of a visit, the monitor shall prepare and submit a "Report of Visit" form (See Exhibit B), which shall set forth the concerns or findings in the financial and administrative areas and, where appropriate, recommend corrective actions.
  1. A report requiring corrective actions should include a list of specific deficiencies found during the visit and recommendations for correction. In response to this report, the sub-grantee shall submit a schedule for completion of the corrective actions. During the subsequent visit, progress on the completion of the corrective actions should be reviewed.
  2. The site visit report shall be transmitted by the Program Manager to the sub-grantee within 30 calendar days after the visit. In order to be effective, reports which recommend immediate corrective actions shall be transmitted to the sub-grantee as soon as possible after the visit. A copy of the report and the response shall be retained in the official grant file for future reference.

E. Desktop Reviews — If the Program Manager determines that a Desktop Review is necessary to adequately monitor a sub-grantee, the desktop review may consist of a phone call and reviewing the invoices along with backup documentation such as payroll records, requisitions, purchase orders, packing slips, paid invoices.

1. Report of Desktop Review. Upon completion of a desktop review, the Program

- Manager or their designee shall prepare and submit a "Report of Desktop" form (See Exhibit C), which shall set for the findings in the financial and administrative areas and, where appropriate, recommend corrective actions.
2. A report requiring corrective actions should include a list of specific deficiencies found during the desktop review and recommendations for correction. In response to this report, the sub-grantee shall submit a schedule for completion of the corrective actions. During the subsequent visit, progress on the completion of the corrective actions should be reviewed.
  3. The site visit report shall be transmitted by the Program Manager to the sub-grantee within 30 calendar days after the visit. In order to be effective, reports which recommend immediate corrective actions shall be transmitted to the sub-grantee as soon as possible after the visit. A copy of the report and the response shall be retained in the official grant file for future reference.

### **Reimbursement Requests**

#### **A. General Guidelines**

1. Payment for services under a grant award is available on a reimbursement basis only. No funds can be reimbursed for expenses incurred before the grant start date or after the grant ending date.
2. Requests for payment will generally be made on a monthly basis with original receipts for approved budgeted expenses only. The Agreement between NBS and the sub-grantee outlines the specific agreement for invoicing frequency and payment arrangements.
3. All requests for payment must be accompanied by proper documentation. Failure to provide documentation will result in delay or denial of payment. All requests are monitored closely to ensure they are allowable costs.
4. Failure to submit required progress reports *will* result in the withholding of payment until all outstanding reports are submitted.
5. Invoices received that are not properly completed, and reflect amounts not clearly matching attached documentation, or are otherwise confusing or incorrect will be returned with a request to correct the form or documentation and will cause delay in reimbursement.
6. There will be no carryover past the contract date or grant award period. Funds remaining unused after the ending date of the grant award will be returned to the grantee agency.

Note: For projects which Davis-Bacon is triggered, see Appendix A, **Invoice Review/Approval Business Process**. If applicable, the monitoring will include evaluation of the Davis Bacon payment request process.

## Exhibit A

### Notification of Pending Site Visit

Date

(Sub-grantee Name and Address)

Dear (\_\_\_\_\_):

On (date) \_\_\_\_\_, (name of the Program Manager or their designee/s) \_\_\_\_\_ will be visiting (name of agency) \_\_\_\_\_ for the purpose of reviewing the financial and administrative areas for the funds awarded to the agency through the Neighborhood & Business Services (NBS) as funded by the United States Department of Housing and Urban Development (HUD).

This visit is part of the monitoring policy that NBS has incorporated into their grant program as recommended by HUD which provides for at least one monitoring per grant per year. During the visit, NBS will be reviewing all financial and administrative aspects of grant funds for internal controls and grant compliance. The visit should be helpful to grant program performance and will provide an opportunity to ask any questions or address problems that may exist at the time of the visit.

Please be sure that the appropriate personnel and all grant-funded financial and administrative documents are available for the review. NBS is looking forward to a successful site visit.

Sincerely,

Program Manager

CC:

**Exhibit B**

**Site Visit Report**

Grant Award #: \_\_\_\_\_

Report Date: \_\_\_\_\_

Date of Visit: \_\_\_\_\_

Report Prepared by: \_\_\_\_\_

Sub-grantee Agency:

Attendees:

Site Visit Findings:

Corrective Action Suggestions:

## **Exhibit C**

### **Desktop Review Report**

Grant Award #: \_\_\_\_\_

Report Date: \_\_\_\_\_

Date of Visit: \_\_\_\_\_

Report Prepared by: \_\_\_\_\_

Sub-grantee Agency:

Attendees:

Site Visit Findings:

Corrective Action Suggestions: