



Austin City Council

Mayor

Lee Leffingwell

Mayor Pro Tem

Mike Martinez

Council Members

Chris Riley

Randi Shade

Laura Morrison

Bill Spelman

Sheryl Cole

City Auditor

Kenneth J. Mory
CPA, CIA, CISA

Deputy City Auditor

Corrie E. Stokes
CIA, CGAP

Audit Report

**City of Austin's Preparedness for
Recovery Act Funds Oversight**

August 24, 2010

Office of the City Auditor
Austin, Texas

Audit Team

Robert Elizondo, Auditor-In-Charge, CIA, CGAP, CICA
Olga Ovcharenko, CGAP, CICA
Charles Holder, CPA

Assistant City Auditor

Corrie Stokes, CIA, CGAP
(now Deputy City Auditor)

A full copy of this report is available for download at our website:
<http://www.ci.austin.tx.us/auditor/reports>. You may also contact our office by email at
oca_auditor@ci.austin.tx.us.

Please request Audit No. AU10104.

OCA maintains an inventory of past audit report copies and we encourage you to return any unwanted hardcopy reports to our office to help us save on printing costs. Please mail to: P. O. Box 1088, Austin, Texas 78767-8808.

Alternative formats are available upon request.
Please call (512) 974-2805 or Relay Texas #711.



Printed on recycled paper



City of Austin



Office of the City Auditor

301 W. 2nd Street, Suite 2130

Austin, Texas 78767-8808

(512) 974-2805, Fax: (512) 974-2078

email: oca_auditor@ci.austin.tx.us

website: <http://www.ci.austin.tx.us/auditor>

Date: August 24, 2010

To: Mayor and Council

From: Kenneth J. Mory, City Auditor

Subject: Preparedness for Recovery Act Oversight

I am pleased to present this audit report on the City's Preparedness for Recovery Act Funds Oversight. The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided funding opportunities for cities to use Recovery Act funds to invest in transportation, environmental protection, and other infrastructure projects that will provide long-term economic benefit and to preserve and create jobs to promote economic recovery.

We found that the City of Austin has met the initial Recovery Act oversight funding requirement and joined with intergovernmental and community groups to share specific stimulus updates and discuss specific collaborative projects and new areas for collaboration. The City also created a centralized Recovery Office and established a central repository for Recovery Act project documents using Sharepoint. However some improvements, mainly regarding documentation, are required in order to fully comply with federal grants management standards. Based on our work, we recommend that the City's Recovery Officer should work to ensure that departmental personnel properly document procedures and populate the Recovery Office's Stimulus Sharepoint site with all Recovery Act-funded project documentation, including: project plans and timelines; subrecipient and contractor monitoring plans; and, internal controls documentation, in order to provide reasonable assurance that the City is meeting federal grants management standards. We also recommend that the Recovery Office continue its oversight of the City's Recovery Act-funded projects and establish procedures to ensure that the City's webpages dedicated to reporting on the current status of those projects contain up-to-date information.

We appreciate the cooperation and assistance we received from staff in the Recovery Office and departments with Recovery Act-funded projects during this audit.

cc: Marc Ott, City Manager
Leslie Browder, Chief Financial Officer

[This page intentionally left blank]

COUNCIL SUMMARY

This report presents the results of our audit of the City's preparedness for Recovery Act oversight.

Along with preserving and creating jobs to promote economic recovery, the American Recovery and Reinvestment Act of 2009 (Recovery Act) was intended to provide funding "as quickly as possible consistent with prudent management." Reporting deadlines are "tighter" than typical federal grant reporting deadlines, and in instances where the City is a subrecipient to a state agency those deadlines are even shorter. The Act also includes provisions for de-obligation of funds if expectations and deadlines are not met, and increased levels of transparency and accountability.

Although oversight is decentralized, with the departments performing most of the primary oversight over subrecipients and contractors, the City of Austin established a senior management oversight group and a process to identify and select projects that met the requirements for Recovery Act funding, and appointed a Recovery Officer to: take the staff lead on Austin's Federal Stimulus Program, oversee the process for securing funding, and ensure a speedy implementation of any funding received. The City also joined with intergovernmental and community groups to share specific stimulus updates and discuss specific collaborative projects and new areas for collaboration.

As of March 2010, the City received a total of ten (10) grants and one zero-interest loan totaling \$62.8 million.

We found that the City met initial Recovery Act oversight requirements by establishing a centralized Recovery Office, creating an external website and detailed project tracking list, establishing a central repository for project documents using Sharepoint, providing training to department personnel, and using existing internal control processes. For example, separate accounting codes were established to track receipts and expenditures; the Purchasing Office oversaw the competitive bidding and RFP processes used to select contractors; a Sharepoint site was created to gather and store related documents; the planned use of existing monitoring processes; and also, the use of experienced personnel to monitor grants and subrecipients. However, improvements are required in order to provide reasonable assurance of compliance with federal grants' standards.

To provide reasonable assurance that the City is meeting federal grant standards related to grants management, we recommend that the City's Recovery Office:

- ensure that departments properly document procedures, including the identification, assessment and testing of internal controls, and populate the Stimulus Sharepoint site with project documentation.
- provide reasonable assurance that Recovery Act funded projects are in compliance with the Federal Manager's Financial Integrity Act of 1982 (FMFIA), and OMB circulars A-133 and A123.
- assess departmental internal controls documentation training requirements for Recovery Act coordinators to comply with FMFIA and OMB circulars A133 and A123.

[This page intentionally left blank]



ACTION SUMMARY STIMULUS FUNDING OVERSIGHT



Recommendation Text	Management Concurrence	Proposed Implementation Date
01. The Recovery Office should work with the City's Controller to review internal controls within citywide and departmental processes for Recovery Act funded projects in order to ensure compliance with the Federal Manager's Financial Integrity Act of 1982 (FMFIA), and OMB circulars A-133 and A123.	Concur	September 30, 2010
02. In order to provide reasonable assurance that the City is meeting federal grants management standards, the Recovery Office should work to ensure that departmental personnel: document procedures, including the identification and process-based assessment of internal controls in accordance with OMB circulars A133 and A123; and populate the Stimulus Sharepoint site with up-to-date Recovery Act-funded project documentation, including project plans and timelines, subrecipient and contractor monitoring plans, and internal controls documentation.	Concur	September 30, 2010
03. The Recovery Office should assess the need to provide additional training to departmental Recovery Act coordinators on how to evaluate process controls, document that evaluation and related controls, and follow up on actionable items to ensure compliance with OMB circulars A133 and A123.	Concur	Projected date is 2012.

[This page intentionally left blank]

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	3
AUDIT RESULTS	5
Appendix A: Management Response	13
Appendix B: Results of Departmental Readiness Assessment	19
Appendix C: Excerpts from GAO Standards for Internal Controls	23
Appendix D: Excerpts from OMB Circulars A123, A133, & the A133 Compliance Circular	33
Exhibits:	
1	Summary of Recovery Act Funds Granted to City as of 03/31/10.....2
2	Major Oversight Requirements of the Recovery Act5
3	Assessment of Departmental Project Documentation.....10

[This page intentionally left blank]

BACKGROUND

To address the economic challenges caused by the national recession, the United States Congress passed the American Recovery and Reinvestment Act of 2009 (Recovery Act).

To achieve its purposes there are expectations and deadlines within the Act to ensure that recipients of Recovery Act funds spend or obligate funds received in a timely manner. In addition, reporting deadlines are “tighter” than typical federal grant reporting deadlines, and in instances where the City is a subrecipient to a state agency those deadlines are even shorter. The Recovery Act also includes provisions for de-obligation of funds if the expectations and deadlines are not met.

Additionally, the Recovery Act contains unprecedented levels of transparency and accountability in the form of funding for the US Government Accountability Office (GAO) and federal agency Inspectors General to perform audits of recipients and subrecipients throughout the nation.

The City joined with Travis County, Austin Independent School District, Austin Community College, Travis County Healthcare District and Capital Metro to form an Intergovernmental Stimulus Steering Committee with the goal of ensuring collaboration and coordination on stimulus funding flowing to the Austin area. The City also included the Community Action Network - a coalition of local non-profits, Workforce Solutions, and the Greater Austin Chamber of Commerce in the Steering Committee and formed eight Staff Working Groups - Education, Energy, Family Sustainability, Healthcare, Public Safety & Law Enforcement, Technology, Transportation, and Workforce Development. These working groups served as a forum for sharing entity specific stimulus updates and discussing specific collaborative projects and new areas for collaboration.

The City applied for a total of \$634.8 million in Recovery Act funding. As of March 2010 a total of ten grants and one zero-interest loan totaling \$62.8 million have been received. Nine grant applications totaling \$485.2 million were not approved, and another six grant applications totaling \$86.8 million are still pending. The City has received those funds as both a prime and sub-recipient. Exhibit 1 below provides more detail on the grants/loan received.

Grants management and reporting is decentralized at the City of Austin, with departments performing primary oversight duties specific to the grants received and the City’s Recovery Office performing secondary oversight. The Recovery Office also coordinates information using a Sharepoint site for collection of project documents, provides training to departmental personnel, and manages a Stimulus website for dissemination of information.

In all, seven City departments have received Recovery Act funds, all of which have previous grants management experience.

While the Recovery Act was passed in 2009, federal agencies had to first implement program rules and procedures, including those for the Act’s additional reporting requirements, before funds were actually awarded and available. As such, departments receiving Recovery Act funds have been working to establish the necessary procedures and documentation in order to meet grant requirements and deadlines. The City’s Recovery Office has established a timeline for departments to meet documentation requirements in time for the City’s external auditors to perform their annual risk assessment and audit work.

Exhibit 1
Summary of Recovery Act Funds Granted to City of Austin as of March 31, 2010

City of Austin Department	Program	Amount / Type	Federal Agency	Description
Austin Energy	Weatherization Assistance Program Grant	\$5,845,969 Formula	Dept. of Energy	City will provide home weatherization assistance to citizens
	Energy Efficiency Conservation Block Grant	\$7,492,700 Formula	Dept. of Energy	City will use these funds for energy retrofits, lighting controls, and thermostats at City facilities
	Solar Energy Technology Program Grant	\$450,000 Competitive	Dept. of Energy	City will develop a solar curriculum for schools along with UT, ACC, and AISD
Austin Water	Clean Water State Revolving Fund Loan	\$31,800,000* Competitive	Environmental Protection Agency	Funds will be used for Hornsby Bend Biosolids Plant upgrade and expansion project
Health & Human Services	Community Services Block Grant (CSBG)	\$1,430,692 Formula	Dept. of Health & Human Services	City will provide funding for youth employment, case management, workforce development, and childcare assistance programs through non-profit subrecipients***
	Homeless Prevention & Rapid Re-housing Program Grant (HPRP) **	\$3,062,820 Formula	Dept. of Housing & Urban Development	City will provide funding for outreach, location services, rent, and other financial assistance programs through non-profit subrecipients
Neighborhood Housing & Community Development	Community Development Block Grant (CDBG)	\$2,003,003 Formula	Dept. of Housing & Urban Development	City will provide building assistance for two non-profits (Lifeworks, and People Funds) and the African American Cultural and Historical Facility, and sidewalk improvements in East Austin.
	Neighborhood Stabilization Program Grant	\$2,542,618 Competitive	Dept. of Housing & Urban Development	City will purchase 15-20 foreclosed homes to repair and sell to eligible buyers. Also will provide down payment and closing cost assistance
Police	Byrne Justice Assistance Grant	\$1,937,577 Formula	Dept. of Justice	Funds will be used to fund technology improvements for APD, Travis County Sheriff's Dept, and Pflugerville Police Dept.
	Byrne Justice Assistance Grant	\$1,398,506 Competitive	Dept. of Justice	Funds will be used to hire additional 911 dispatchers and call takers
Public Works	Federal Aid Highways Grant	\$1,500,000 Competitive	Dept. of Transportation	City will use funds for street overlays on major arterials and collector streets
Transportation	Federal Aid Highways Grant	\$3,400,000 Competitive	Dept. of Transportation	City will use funds for traffic signal upgrades and dynamic message signs
Total ARRA funding obtained =		\$62,863,885	An additional \$18,802,978 has been granted to the City of Austin after the end of our fieldwork.	

SOURCE: OCA Compilation of Recovery Office spreadsheet dated 03/19/10

NOTES: * Clean Water Act funds were used to facilitate a zero-interest loan through the Texas Water Development Board for the Hornsby Bend Biosolids Plant Expansion
 ** Homeless Prevention & Rapid Re-housing Program funds administered by HHS for NHCD
 *** Although a childcare assistance program contractor for HHS went out of business because of fraud, no ARRA funds had been paid to that contractor. HHS is in the process of identifying a different provider for those services.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Stimulus Funding Oversight audit was conducted as part of the Office of the City Auditor's FY 2010 Service Plan, as accepted by the City Council's Audit and Finance Committee.

Audit Objective

The objective of this audit was to assess the City of Austin's preparedness for managing Recovery Act funds.

Scope

This audit was performed concurrent with the City efforts to establish monitoring and oversight mechanisms for Recovery Act projects.

The scope of this audit includes the period from late 2008, when identification of projects began, through June 2010. At the project level, we reviewed documentation through June 2010 for all projects awarded to the City as of March 31, 2010.

Methodology

To address the audit objective, we performed the following steps:

- interviews of Recovery Office staff and department project personnel,
- review of project documents including grants/loans, budgets and timelines,
- review of information from Recovery Office's Stimulus web-site and Sharepoint site,
- research of Recovery Act-related websites, and
- discussion with U.S. Government Accountability Office (GAO) auditors.

In addition, separate from our audit objectives, we provided advisory services to the Recovery Office to assist with their training objectives. In order to ensure our independence, we provided this guidance to the Recovery Office in the form of research regarding Recovery Act requirements and information related to the Committee of Sponsoring Organizations (COSO) internal controls model, and the GAO Standards for Internal Control.

This audit was conducted in compliance with the Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[This page intentionally left blank]

AUDIT RESULTS

The City of Austin has met initial American Recovery and Reinvestment Act of 2009 (Recovery Act) funding oversight requirements. However some improvements, mainly regarding documentation, are necessary in order to fully comply with federal grants management standards.

FINDING 1: The City of Austin met initial oversight requirements and established a senior management oversight group and the Recovery Office. However, the Recovery Office staff have not performed an assessment of internal controls.

The U.S. Office of Management and Budget (OMB) was tasked with developing rules and procedures related to the Recovery Act. As such, the OMB issued several memorandums establishing requirements for various aspects of Recovery Act planning and implementation intended to meet what it called “crucial accountability objectives.”

This guidance is directed toward federal agencies, who use the rules to develop accountability requirements which are applied to grant recipients. The City, as a prime recipient of Recovery Act funds, is subject to scrutiny by federal agency Inspectors General as well as the U.S. Government Accountability Office (GAO) to ensure that the City is meeting all of the requirements.

The major oversight requirements of the Recovery Act are summarized in Exhibit 2 below, along with a summary of the status or observations made by our office.

**Exhibit 2
Major Oversight Requirements of the Recovery Act**

Recovery Act Provisions	Status or Observations by Auditors
<ul style="list-style-type: none"> • Certification by the Mayor or other chief executive that infrastructure investments made with Recovery Act funds are an appropriate use of taxpayer dollars 	The City Manager has signed all of the grant applications and contracts, and all grants have been accepted by the City Council. Additionally, the required certification for infrastructure investments has been provided to the responsible federal agencies.
<ul style="list-style-type: none"> • Submission of reports on the use of funds is required within ten days after the end of each quarter 	Reports are being submitted as required, though there were some delays at the start of several projects.
<ul style="list-style-type: none"> • Wherever possible, contracts funded through the Recovery Act should be fixed-price contracts awarded through competitive procedures 	Departments used existing purchasing procedures to award contracts using competitive procedures. However, some departments extended existing provider contracts using Recovery funds in order to meet Recovery Act timelines.
<ul style="list-style-type: none"> • Preference should be given to “quick start” activities, those that are “shovel ready” for infrastructure investments as there is a provision that all projects should be started by the one-year anniversary of when the Act was signed 	The City’s Recovery Officer coordinated activities by the departments to select infrastructure projects that were “shovel ready” and could be initiated prior to the one-year anniversary of the Act. However, City management does have concerns that some departments may have trouble meeting spending deadlines, at least in part because of delays caused by a state agency establishing rules for recipients to follow.
<ul style="list-style-type: none"> • Prohibition on the use of funds for casinos, aquariums, zoos, golf courses or swimming pools 	The City’s Recovery Officer ensured that no prohibited projects were included in the City’s list of projects identified for Recovery Act funding.
<ul style="list-style-type: none"> • There are specific “Buy American” provisions 	Austin’s project managers are attempting to use American products wherever possible, and contracts have been amended to address Recovery Act requirements such as this.
<ul style="list-style-type: none"> • Prevailing wage requirements for Recovery Act funded projects 	The City’s minimum/prevailing wage requirements and Davis-Bacon requirements are required for all contracts within the City’s purchasing processes.
<ul style="list-style-type: none"> • Whistleblower protections for an employee of any non-federal employer receiving funds 	The City’s purchasing process as well as normal City procedures allow for whistleblower protections.

SOURCE: Compiled by OCA, March 2010

The City has met the initial requirements for providing oversight and monitoring of funding provided by the Recovery Act. OMB's guidance also calls for agencies to designate a Senior Accountable Official for Recovery Act activities who should designate a person or office for maintaining their agency's Recovery Act content on their website. In February 2009, the City Manager established the City's Stimulus Strategic Management Team, whose main responsibility was to set the City's process for moving forward and securing federal funding for appropriate projects. The team's first tasks were to establish criteria for project selection and to identify which of the Recovery Act's programs could be accessed by the City. In March 2009, the City Manager appointed a Recovery Officer and established the City's Recovery Office. The Recovery Officer was tasked with overseeing the process for securing Recovery Act funding and for ensuring the "speedy implementation" of any funding received. Additionally, as shown on their website, the Recovery Office's roles and responsibilities include the following:

- fulfill reporting requirements established by the U.S. OMB;
- track overall Recovery Act related activities such as: funding status, new funding opportunities, and relevant guidance/regulations;
- provide technical assistance to help departments comply with Federal regulations/guidance;
- maintain, improve and update the City's Recovery website;
- provide public updates on Recovery project/funding status; and
- respond to all inquiries related to the Recovery Act from outside organizations and individuals.

By establishing the Recovery Office, the City utilized a centralized approach which should provide for more consistency between departments and additional oversight, especially given the tight timeframes associated with Recovery Act funding. Through our review of documents and interviews of Recovery Office and departmental personnel, we found that the Recovery Officer has worked with departments to ensure that only those departments with projects that could meet Recovery Act guidelines pursued Recovery Act funding, and has facilitated communications across departments and kept the City Council and other stakeholders updated.

In terms of providing technical assistance to the departments, although the Recovery Office provided training sessions focused on reporting requirements in late 2009, there were instances early on in their projects where departmental personnel appeared to be uninformed regarding reporting requirements and internal controls documentation. An additional training session was offered in April 2010, and during the course of our audit work, we saw that the Recovery Office has made efforts to have better communication with each of the departmental project managers through regularly scheduled meetings.

However, the Recovery Officer has not performed an assessment of internal controls as required by federal guidelines. The Federal Manager's Financial Integrity Act of 1982 (FMFIA) requires agencies to "establish and maintain internal control." Additionally, "the agency head must annually evaluate and report on the control and financial systems that protect the integrity of federal programs." Through our review of documents and interviews with departmental personnel, we found that while the Recovery Officer has provided initial training on internal controls, a review and assessment of each department's internal controls over grants management and monitoring has not been performed

Additionally, Recovery Office staff had not kept current information on the City's Recovery Act website. OMB guidance requires entities receiving Recovery Act funds to set up a website to provide detailed information on how those funds are spent, and to link that website to the federal government's Recovery Act website. As evidenced from our review of the Recovery Office's responsibilities, the City's Recovery Office has set up such a site, which includes detailed project status information and public updates, as well as responding to all inquiries. However, our review of the City's Stimulus website found that detailed project information was not up to date. During the course of this audit, the Recovery Office instituted a process to periodically update the website.

FINDING 2: While departments have experience providing oversight and monitoring of grant funding, internal control and monitoring processes need to be adequately documented in order to comply with federal grant management standards.

The City used existing internal control processes such as financial accounting, purchasing, and contract monitoring. As previously stated, the U.S. Office of Management & Budget (OMB), was tasked with developing rules and procedures related to the Recovery Act. While OMB's guidance centers on grant award timelines, public transparency, and reporting guidelines, that guidance also calls for commonly used procedures such as separate accounting for grant funds and competitive bidding by contractors, as well as proper grant monitoring and contractor/subrecipient monitoring processes.

Through our review of documents and interviews with departmental personnel, we found that the City of Austin has established separate accounting codes to track Recovery Act funds from receipt through expenditure; the Purchasing Office oversaw the competitive bidding and RFP processes used to select contractors for the City's Recovery Act projects that were contracted out; and the Recovery Officer made a concerted effort to focus on those departments that are experienced in overseeing federal funds, and have them apply for Recovery Act funding.

Departmental personnel over projects using Recovery Act funding appeared to be knowledgeable about specific Recovery Act requirements related to their grants, and experienced in monitoring contractors and subrecipients using established processes. The proper use of grant management and oversight processes and internal control systems ensure that grant funds are managed efficiently and effectively. Internal controls help reduce risk and are an integral part of an organization's management system. They also serve as a key defense against fraud, waste, and abuse. Recipients commonly use subrecipients and contractors to meet grant requirements. Recovery Act grants are similar to other federal grants, but do have additional transparency requirements.

Although we did not test departmental processes to ensure that the controls are working as intended, we reviewed grant documents and compared them to interviews of departmental project personnel conducted during our audit to determine if they are aware of the specific grant requirements and timelines. Most departments have personnel that are experienced in dealing with federal and state grants on a regular basis. They appeared knowledgeable regarding specific Recovery Act grant requirements and deadlines, and are using existing grant management and subrecipient/contractor monitoring processes. Some departmental personnel are less experienced in managing contracts; however, the addition of experienced project management assistance from other departments such as Public Works and inspection personnel provided by the prime recipients (state agencies) should help mitigate this lack of experience. Appendix B of this report shows the results of our departmental readiness assessment.

However, department project personnel have not adequately documented their internal controls including monitoring processes as required by federal grants management standards. Recipients of federal grant funds must comply with grants management guidance from the federal government. The OMB publishes circulars, which outline the cost principles, administrative requirements, and audit requirements that states and local governments must follow if they receive federal grant funds. OMB Circular A-123, *Management's Responsibility for Internal Controls*, revised December 21, 2004, provides the specific requirements for

assessing and reporting on controls. The U.S. General Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (see excerpt in Appendix C) provides guidance on applying internal controls. Circular A-123 requires agencies to specifically document the process and methodology for applying the standards when assessing internal control over financial reporting. Documentation of processes ensures continuity in the event of personnel turnover, and also ensures that auditors can properly assess processes and internal control systems.

In our review of documents, along with standard project documents such as contracts, budgets and timelines, we assessed the level of documentation in each department using the following three levels of internal control documentation related to their grants management and subrecipient/contractor monitoring processes:

1. flowcharts of process identifying internal controls throughout those processes.
2. policies and procedures or narratives of their process, and
3. tables identifying internal controls and an assessment of those controls for each of their processes.

We also assessed whether the Recovery Office's Sharepoint site has been populated with the standard project documents, copies of Recovery Acts reports submitted, and internal controls documentation. Although the site is not required by federal or City guidelines, according to the Recovery Officer it was established as a means of leveraging existing technology to help provide an additional level of oversight. Therefore, we believe that it important to keep that site up-to-date with project documentation.

Three of the seven departments receiving Recovery Act funding for projects did not produce complete project documentation when requested, but subsequently posted their project documentation on the Recovery Office's Sharepoint site. Through our review of documents, we found that two of the seven departments have contract monitoring manuals that include policies and procedures, and two of the seven departments have completed the required internal controls documentation templates prepared by the Recovery Office. Additionally, only one department has completely populated the Sharepoint site with up-to-date documentation. The results of our assessment are shown in Exhibit 3 below.

We also found that the Recovery Office did not require that departments complete internal controls documentation when it was disseminated at the April quarterly training session, and did not set deadlines for the complete population of the Stimulus Sharepoint site until OCA auditors pointed this out.

The Recovery Act funding is subject to audit by the GAO and federal agency Inspectors General. Along with the loss of institutional knowledge in the event that experienced project monitoring personnel leave the City, the lack of properly documented procedures and internal controls may result in Inspector General auditors recommending the de-obligation of funding from the City of Austin.

**Exhibit 3
Assessment of Departmental Project Documentation**

	Availability of Standard Project Documentation	Population of Recovery Office's Sharepoint Site with Project Documents, Reports, and Internal Control documents.	Preparation of Internal Controls Documentation
Austin Energy (AE)	All three AE project managers produced project documentation.	Only one AE project manager has completely populated the Sharepoint site with up-to-date information. One other project manager has posted reports only.	Only one AE project manager has completed the internal controls table. The other two project managers have flowcharts of processes only. Also, they have obtained assistance from their compliance group to help document their internal controls processes.
Austin Water Utility (AWU)	The AWU project manager produced project documentation when requested, however the documents are not adequately organized.	The AWU project manager has not populated the Sharepoint site with any project documents.	AWU is receiving a zero-interest loan from the prime recipient, the Texas Water Development Board (TWDB) however no documentation of their process was submitted when requested by OCA auditors.
Health & Human Services (HHS)	Both HHS project managers produced project documentation by posting on the Sharepoint site.	Both HHS project managers have completely populated the Sharepoint site with up-to-date information.	HHS has a Social Services manual that includes policies and procedures. Additionally, they are working on modifying documentation of their processes to include new grants received through the Recovery Act.
Neighborhood Housing & Community Development (NHCD)	Both NHCD project managers produced project documentation when requested.	Only one NHCD project manager has completely populated the Sharepoint site with up-to-date information. The other project is in the early stages, but reports have been posted on the Sharepoint site.	NHCD has policies in place along with monitoring checklists and payment request review checklists created to follow A-133 requirements.
Police (APD)	Both APD managers produced project documentation when requested.	One APD manager has completely populated the Sharepoint site with up-to-date information. The other project only has reports in their file.	APD has a contract monitoring manual that includes policies and procedures. Additionally, they have completed the first draft of their internal controls table.
Public Works (PWD) Street & Bridge	The PWD project manager produced project documentation when requested.	The PWD project manager has not populated the Sharepoint site with any documents.	PWD is functioning as a contractor for the prime recipient, the Texas Department of Transportation (TxDOT) and is completing street overlays using sub-contractors. TxDOT has only required payment request documentation from PWD.
Transportation (ATD) Signals & Markings	ATD Signs & Markings Division project manager produced copies of project documents when requested.	ATD Signals and Markings Division has only posted copies of reports in their file.	ATD is functioning as a contractor for TxDOT. However, they monitor contractors and have not submitted I/C documents.

SOURCE: OCA compilation of fieldwork performed, June 2010

Recommendations

01. The Recovery Office should work with the City's Controller to review internal controls within citywide and departmental processes for Recovery Act funded projects in order to ensure compliance with the Federal Manager's Financial Integrity Act of 1982 (FMFIA), and OMB circulars A-133 and A123.

MANAGEMENT RESPONSE: CONCUR

Internal Control documentation forms for all grant awards will be complete by September 30, 2010.

02. In order to provide reasonable assurance that the City is meeting federal grants management standards, the Recovery Office should work to ensure that departmental personnel: document procedures, including the identification and process-based assessment of internal controls in accordance with OMB circulars A-133 and A123; and populate the Stimulus Sharepoint site with all up-to-date Recovery Act-funded project documentation, including project plans and timelines, subrecipient and contractor monitoring plans, and internal controls documentation.

MANAGEMENT RESPONSE: CONCUR

Departments have been given until September 30, 2010 to populate the SharePoint site with a set of core documents, including department responsibility forms, internal control checklists, grant awards, third party agreements. Beyond these core set of documents, because each grant award is unique, departments have also been encourage to include other relevant grant information to assist in grant implementation.

03. The Recovery Office should assess the need to provide additional training to departmental Recovery Act coordinators on how to evaluate process controls, document that evaluation and related controls, and follow up on actionable items to ensure compliance with OMB circulars A133 and A123.

MANAGEMENT RESPONSE: CONCUR

Three training sessions have already occurred; training will continue to be conducted as needed until all Stimulus funding has been expended.

[This page intentionally left blank]

Appendix A
Management Response

[This page intentionally left blank]



TO: Kenneth J. Mory, City Auditor

FROM: Greg Canally, Deputy Chief Financial Officer *gdc*

DATE: August 23rd, 2010

SUBJECT: Management Response to Office of the City Auditor's Audit Report on Preparedness for Recovery Act Funds

We appreciate the effort of Office of the City Auditor staff to meet with us throughout this audit process and to incorporate management feedback and comments on previous drafts of the Preparedness for Recovery Act Funds Oversight report into the final report.

Management concurs with the three recommendations outlined in the final report and, in fact, the strategies to address these recommendations are already underway. Please find management's "Action Plan" attached.

The City continues working on implementation of the \$81.7 million in ARRA funds we have received to date, including monitoring 115 agreements, contracts and interlocals to ensure proper compliance, as well as preparing nearly 160 status reports during each quarter for federal/state/local agencies.

xc: Marc A. Ott, City Manager
Leslie Browder, Chief Financial Officer
Diane Siler, Corporate Budget Manager
Corrie Stokes, Deputy City Auditor
Robert Elizando, Assistant City Auditor

[This page intentionally left blank]

ACTION PLAN
Recovery Act Oversight Funds Oversight Audit – AU10104

Rec. #	Recommendation Text	Proposed Strategies for Implementation	Status of Strategies	Responsible Person/Phone Number	Proposed Implementation Date
01	The Recovery Office should work with the City's Controller to review internal controls within citywide and departmental processes for Recovery Act funded projects in order to ensure compliance with the Federal Manager's Financial Integrity Act of 1982 (FMFIA), and OMB circulars A-133 and A123.	Internal Control documentation forms for all grant awards will be complete by September 30, 2010	Underway	Greg Canally, 974-2609	September 30, 2010
02	In order to provide reasonable assurance that the City is meeting federal grants management standards, the Recovery Office should work to ensure that departmental personnel: document procedures, including the identification and process based assessment of internal controls in accordance with OMB circulars A133 and A123; and, populate the Stimulus Sharepoint site with up-to-date ARRA-funded project documentation, including: project plans and timelines; subrecipient and contractor monitoring plans; and, internal controls documentation.	Departments have been given until September 30, 2010 to populate the SharePoint site with a set of core documents, including department responsibility forms, internal control checklists, grant awards, third party agreements. Beyond these core set of documents, because each grant award is unique, departments have also been encourage to include other relevant grant information to assist in grant implementation.	Underway	Greg Canally, 974-2609	September 30, 2010
03	The Recovery Office should assess the need to provide additional training to departmental Recovery Act coordinators on how to evaluate process controls, document that evaluation and related controls, and follow up on actionable items to ensure compliance with OMB circulars A133 and A123.	Three training sessions have already occurred; training will continue to be conducted as needed until all Stimulus funding has been expended	Underway	Diane Siler, 974-2704	Projected date is 2012.

[This page intentionally left blank]

Appendix B

Results of Departmental Readiness Assessment

[This page intentionally left blank]

Results of Departmental Preparedness Assessment

	Risk of not complying with grant requirements and timelines	Risk of not properly monitoring Contractors and/or Subrecipients	Risk of not complying with Recovery Act reporting requirements
Austin Energy (AE)	Austin Energy regularly receives grant funds and has a Grants Manager position. One project appears to be behind schedule and they are going through the bid process on other projects.	AE has experience monitoring contractors and, with the help of their compliance group, is preparing to monitor their contractors.	Reports to go the prime recipient, Texas Dept of Housing and Community Affairs (TDHCA). Initial reports delayed, but process changed to meet deadlines.
Austin Water Utility (AWU)	AWU facilities engineering group has experience with large construction projects. Project is on schedule.	AWU has experience managing contractors. The prime recipient, TWDB, has inspectors and monitors assisting AWU.	Reports go to the prime recipient, Texas Water Development Board (TWDB). No problems found on reports sampled.
Health & Human Services (HHS) See Note A below.	HHS has extensive experience with federal grants. All grant funds obligated, but expenditures appear to be low compared to time spent.	HHS has experience using contractors to provide services, although they are still working on creating tools for monitoring requirements of new type of grant.	Reports go to the prime recipient (TDHCA) for one grant. The City is prime recipient for the other. Those reports go to US Dept. of Housing & Urban Development (HUD). No problems found on reports sampled.
Neighborhood Housing & Community Development (NHCD)	NHCD teamed with local non-profits to secure partial funding for buildings and to renovate a historical building as a museum. Additionally, they will work with the Public Works Dept. to provide new sidewalks in East Austin. The sidewalks project is 71% complete. However, the Neighborhood Stabilization contract appears to be behind schedule.	NHCD has experience using contractors and monitoring their work. They have processes in place to review contractor payment requests.	Reports go to the prime recipient (TDHCA) for one grant. The City is prime recipient for the other. Those reports go to US HUD. No problems found on reports sampled.
Police (APD)	APD hired staff for the 911 Call Center and teamed with other jurisdictions to provide funding for several purchases. They will also purchase in-car video systems using existing City of Austin purchasing processes. Projects appear to be on schedule.	APD has experience monitoring grant expenses and had the City of Pflugerville and the Travis County Sheriff's Office purchase their equipment before providing reimbursement using ARRA funds.	Reports go to US Dept of Justice as the City is the prime recipient. After experiencing problems with initial reports, no problems found on reports sampled.
Public Works (PWD) Street & Bridge	PWD will be doing overlays on several major arterials and collector streets. Projects appear to be on schedule.	PWD will be doing their own work on street overlays. The prime recipient, the Texas Dept. of Transportation (TxDOT) will be performing inspections.	Reports go to the prime recipient, TxDOT. No problems found on reports sampled, although there were questions regarding what to report at project onset.
Transportation (ATD) Signals & Markings	ATD Signals & Markings Division has experience completing this type of work. Project on schedule.	ATD Signals and Markings Division has experience monitoring contractors for these type of projects.	Reports go to the prime recipient, TxDOT. No problems found on reports sampled.

SOURCE: OCA compilation of fieldwork performed, March 2010

NOTES: A One of the contractors selected by the HHS Dept. to provide services went out of business due to fraud. No ARRA funding had been expended on that contract. HHS is working to secure other contractors to provide the services.

[This page intentionally left blank]

Appendix C

Excerpts from GAO Standards for Internal Control

[This page intentionally left blank]

November 1999

Standards for Internal Control in the Federal Government



GAO

Accountability * Integrity * Reliability

Foreword

Federal policymakers and program managers are continually seeking ways to better achieve agencies' missions and program results, in other words, they are seeking ways to improve accountability. A key factor in helping achieve such outcomes and minimize operational problems is to implement appropriate internal control. Effective internal control also helps in managing change to cope with shifting environments and evolving demands and priorities. As programs change and as agencies strive to improve operational processes and implement new technological developments, management must continually assess and evaluate its internal control to assure that the control activities being used are effective and updated when necessary.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the General Accounting Office (GAO) to issue standards for internal control in government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement. Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control, revised June 21, 1995, provides the specific requirements for assessing and reporting on controls. The term internal control in this document is synonymous with the term management control (as used in OMB Circular A-123) that covers all aspects of an agency's operations (programmatic, financial, and compliance).

Recently, other laws have prompted renewed focus on internal control. The Government Performance and Results Act of 1993 requires agencies to clarify their missions, set strategic and annual performance goals, and measure and report on performance

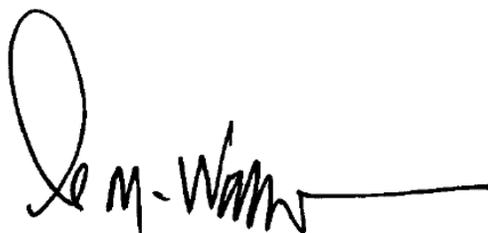
toward those goals. Internal control plays a significant role in helping managers achieve those goals. Also, the Chief Financial Officers Act of 1990 calls for financial management systems to comply with internal control standards, and the Federal Financial Management Improvement Act of 1996 identifies internal control as an integral part of improving financial management systems.

Rapid advances in information technology have highlighted the need for updated internal control guidance related to modern computer systems. The management of human capital has gained recognition as a significant part of internal control. Furthermore, the private sector has updated its internal control guidance with the issuance of Internal Control — Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Consequently, we have developed this standards update which supersedes our previously issued “Standards for Internal Controls in the Federal Government.”

This update gives greater recognition to the increasing use of information technology to carry out critical government operations, recognizes the importance of human capital, and incorporates, as appropriate, the relevant updated internal control guidance developed in the private sector. The standards are effective beginning with fiscal year 2000 and the Federal Managers Financial Integrity Act reports covering that year.

Foreword

We appreciate the efforts of government officials, public accounting professionals, and other members of the financial community and academia who provided valuable assistance in developing these standards.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

Introduction

The following definition, objectives, and fundamental concepts provide the foundation for the internal control standards.

Definition and Objectives

Internal Control

An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- compliance with applicable laws and regulations.

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources.

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- Effectiveness and efficiency of operations including the use of the entity's resources.
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use.
- Compliance with applicable laws and regulations.

A subset of these objectives is the safeguarding of assets. Internal control should be designed to provide reasonable assurance regarding prevention of or prompt detection of unauthorized acquisition, use, or disposition of an agency's assets.

Fundamental Concepts

Internal Control

- A continuous built-in component of operations.
- Effected by people.
- Provides reasonable assurance, not absolute assurance.

The fundamental concepts provide the underlying framework for designing and applying the standards.

Internal Control Is a Continuous Built-in Component of Operations

Internal control is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. Internal control should be recognized as an integral part of each system that management uses to regulate and guide its operations rather than as a separate system within an agency. In this sense, internal control is management control that is built into the entity as a part of its infrastructure to help managers run the entity and achieve their aims on an ongoing basis.

Internal Control Is Effected by People

People are what make internal control work. The responsibility for good internal control rests with all managers. Management sets the objectives, puts the control mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen.

Internal Control
Provides Reasonable
Assurance, Not
Absolute Assurance

Management should design and implement internal control based on the related cost and benefits. No matter how well designed and operated, internal control cannot provide absolute assurance that all agency objectives will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent control can affect meeting agency objectives. Therefore, once in place, internal control provides reasonable, not absolute, assurance of meeting agency objectives.

[This page intentionally left blank]

Appendix D

Excerpts From OMB Circulars A123, A133 and the Circular A133 Compliance Supplement

[This page intentionally left blank]

OMB Circular A-123, Management's Responsibility for Internal Control

III. INTEGRATED INTERNAL CONTROL FRAMEWORK

A. Developing Internal Control. It is management's responsibility to develop and maintain effective internal control. As agencies develop and execute strategies for implementing or reengineering agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal control. The degree to which studies and analysis are performed will vary depending on the complexity and risk associated with a given program or operation. The expertise of the agency CFO can be valuable in developing appropriate control and the IG can be valuable in providing advice or consultation. Decisions made during this process should be documented and readily available for review.

IV. ASSESSING INTERNAL CONTROL

Agency managers should continuously monitor and improve the effectiveness of internal control associated with their programs. This continuous monitoring, and other periodic assessments, should provide the basis for the agency head's annual assessment of and report on internal control, as required by FMFIA.

Agency management should determine the appropriate level of documentation needed to support this assessment. Documentation should be appropriately detailed and organized and contain sufficient information to support management's assertion. Documentation should also include appropriate representations from officials and personnel responsible for monitoring, improving and assessing internal controls. Specific assessment and documentation requirements to support management's assurance statement on internal control over financial reporting are defined in Appendix A.

OMB Circular A133 - Audits of States, Local Governments, and Non-Profit Organizations

Subpart C--Auditees

§ __.300 Auditee responsibilities.

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

OMB Circular A133 Compliance Supplement

Part 3 – Compliance Requirements

Compliance Requirements, Audit Objectives, and Suggested Audit Procedures

Auditors shall consider the compliance requirements and related audit objectives in Part 3 and Part 4 or 5 (for programs included in this Supplement) in every audit of non-Federal entities conducted under OMB Circular A-133, with the exception of program-specific audits performed in accordance with a Federal agency's program-specific audit guide. In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-Federal entity or that noncompliance with the requirement could not have a material effect on a major program (e.g., the auditor would not be expected to test Procurement if the non-Federal entity charges only small amounts of purchases to a major program). The descriptions of the compliance requirements in Parts 3, 4, and 5 are generally a summary of the actual compliance requirements. The auditor should refer to the referenced citations (e.g., laws and regulations) for the complete statement of the compliance requirements.

The suggested audit procedures are provided to assist auditors in planning and performing tests of non-Federal entity compliance with the requirements of Federal programs. Auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the stated audit objective and whether alternative audit procedures are needed.

The suggested procedures are in lieu of specifying audit procedures for each of the programs included in this Supplement. This approach has several advantages. First, it provides guidelines to assist auditors in designing audit procedures that are appropriate in the circumstance. Second, it helps auditors develop audit procedures for programs that are not included in this Supplement. Finally, it simplifies future updates to this Supplement.

The suggested audit procedures for compliance testing may be accomplished using dual-purpose testing.

Internal Control

Consistent with the requirements of OMB Circular A-133, this Part includes generic audit objectives and suggested audit procedures to test internal control. However, the auditor must determine the specific procedures to test internal control on a case-by-case basis considering factors such as the non-Federal entity's internal control, the compliance requirements, the audit objectives for compliance, the auditor's assessment of control risk, and the audit requirement to test internal control as prescribed in OMB Circular A-133.

The suggested audit procedures for internal control testing may be accomplished using dual-purpose testing.

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (Pub. L. No. 111-5) (Recovery Act) has significant implications for audits performed under OMB Circular A-133. Auditors should specifically ask auditees about and be alert to recipient and subrecipient expenditure of funds provided by the Recovery Act. A more detailed discussion of the effect of the Recovery Act on single audits is included in Appendix VII, which also contains references to where additional information can be obtained.

Part 6 – Internal Control

Introduction

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e., auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned.

This Part 6 is intended to assist non-Federal entities and their auditors in complying with these requirements by describing, for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal control that, when present and operating effectively, may ensure compliance with program requirements. However, the categorizations reflected in this Part 6 may not necessarily reflect how an entity considers and implements internal control. Also, this part is not a checklist of required internal control characteristics. Non-Federal entities could have adequate internal control even though some or all of the characteristics included in Part 6 are not present. Further, non-Federal entities could have other appropriate internal controls operating effectively that have not been included in this Part 6. Non-Federal entities and their auditors will need to exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with Federal program requirements.

The objectives of internal control pertaining to the compliance requirements for Federal programs (Internal Control Over Federal Programs), as found in §____.105 of OMB Circular A-133, are as follows:

- (1) Transactions are properly recorded and accounted for to:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:
 - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and

- (ii) Any other laws and regulations that are identified in the compliance supplements; and
- (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. COSO also has published *Guidance on Monitoring Internal Control Systems* (January 2009), which is available at www.coso.org/GuidanceonMonitoring.htm. Statement on Auditing Standards No. 78 (SAS 78), *Consideration of Internal Control in a Financial Statement Audit*, issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) and a related AICPA audit guide, *Consideration of Internal Control in a Financial Statement Audit*, incorporate the components of internal control presented in the COSO Report.

This Part 6 describes characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements. A description of the components of internal control and examples of characteristics common to the 14 types of compliance requirements are listed below. Objectives of internal control and examples of characteristics specific to each of 13 of the 14 types of compliance requirements follow this introduction. (Because Special Tests and Provisions are unique for each program, we could not provide specific control objectives and characteristics for this type of compliance requirement.)