

Ann-Marie Hogan
City Auditor

DATE: September 16, 1997
TO: Honorable Mayor and
Members of the City Council
FROM: Ann-Marie Hogan, City Auditor
SUBJECT: PUBLIC WORKS GRANTS AUDIT



INTRODUCTION

The City of Berkeley's City Manager, the City Auditor, and the City's external auditors have expressed serious concerns regarding the lack of timeliness of City grant billing. At March 31, 1997, the City's "grants receivable" balance was \$9,108,863. However, included in this balance were eligible expenditures which had not yet been billed; those incurred in the first three quarters of fiscal year 1996-1997 totaled \$3,052,445. Of this amount, \$2,114,499 or 69% was attributed to the Public Works department. Public Works managed City grants amounting to \$13,838,562 of which \$4,525,974 or 33% were outstanding "receivables" as of March 31, 1997.

The Auditor's Office, with concurrence of the prior Director of Public Works, determined that this Citywide problem could be best addressed at the departmental level. Therefore, we documented procedures over Public Works grants processing and tested unbilled eligible expenditures.

The purpose of our audit was to document the department's existing procedures for billing and to establish recommendations which would assist the City in improving timeliness of billings.

This report focused on the period from July 1, 1996 through March 31, 1997. Public Works relocated from City Hall to 2201 Dwight Way on June 23, 1997; however, the system in place prior to the move appeared to have remained in place subsequent to the relocation. This report identified conditions which existed prior to the relocation of Public Works and continued to exist after the relocation. This audit was performed in accordance with *Government Auditing Standards* (GAS) issued by the Comptroller General of the U.S.

BACKGROUND

The City is required to have an independent external public accounting firm perform an annual financial statement audit. As

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part of the Public Works Grants Audit, City audit staff examined the findings noted in the 1996 Management Letter based on testwork performed during the audit of the 1996 Comprehensive Annual Financial Report (CAFR). KPMG Peat Marwick noted that the "the City does not appear to be consistently billing grants expenditures."

KPMG Peat Marwick also recommended that the City provide an overall grant coordinator to centralize grants coordinating efforts. The City's response was " . . . the City plans to implement the grant coordinator function in the Finance Department, in order to accomplish the following:

- b Provide a clear, consistent Citywide process for managing grants, including the development of permanent files.
- b Establish a system for documenting what should be billed, when it should be billed and by whom it should be billed.
- b Establish a uniform system for accurate and timely recording and reporting of grants accounting activities on the budgetary basis and accrual basis of accounting.
- b Provide appropriate grant accounting training and technical assistance."

Findings and recommendations regarding grants billings have recurred in the annual audit over the past 12 years. City Management has engaged in ongoing discussions regarding whether to centralize or to decentralize the Citywide grants processing system. The City Auditor's determinations regarding appropriate assignment of responsibility for billing grants were based on several Citywide factors: technological advancement, funding availability, staff experience, training, and structure.

We considered each of these elements when developing our recommendations. In order to explore how these procedures worked, we conducted interviews, examined grant contracts, and performed analytical procedures.

There had been some confusion between Public Works and Finance as to which department was responsible for specific grant functions. Although the functions of Public Works and Finance are interdependent, their functions are distinctly different.

Currently, Finance is responsible for preparing a quarterly grants report to the City Manager from data input to the FUNDS\$ system by Public Works. Finance does not input the revenues and expenditures related to Public Works grants into the FUNDS\$ system.

Public Works is responsible for applying for grants, entering the

revenues and expenditures into FUND\$, posting adjustments, and billing grants. Public Works is responsible for accuracy of information and management of the funds. It is also Public Works' responsibility to bill their grants.

Finance is responsible for the information that is reflected in the Comprehensive Annual Financial Report (CAFR) and, to that degree, is responsible for the final information contained in the City's FUND\$ accounting system. However, Public Works is ultimately responsible for the accuracy of information which lies within the department, since that is where it is initially entered into the City's financial system, and where final adjustments are made. Finance does not audit the information input by the departments. Staff in Finance simply review for reasonableness and to ensure that transactions recorded are supported.

Public Works Current System

It was observed during the audit that there were no formally documented procedures for processing Public Works grants from application through billing. Public Works' current procedure for processing grants is that the grant applications are prepared by the project managers and approved by the City Manager's office. Per Resolution No. 56,766-NS, if the application is for a program that is not currently in place, if the grant or application requires staff time which will be funded by the City, or if the grant or application requires additional City funds, then the grant or application must be approved by Council.

Once the application is approved by Council, it is considered a revenue contract and is subject to the City's standard procedures for contract review, approval, and filing in "blue backed" form with the City Clerk's office. "Blue back" refers to the distinctive cover attached to all contracts filed with the City Clerk's office.

Public Works submits a request for revenue modification to Finance if the grant award differs from the revenue projections established by Public Works during the budget process. Public Works administration requests that Finance and the Budget office set up a revenue budget modification and an expense budget modification. The revenue budget modification request is reviewed and approved by Finance. Finance then activates the revenue budget modification in FUND\$.

Once the revenue budget modification is accepted by Finance, Public Works submits a request for an expenditure budget modification to the Budget office. The Budget office determines that the revenue is established in FUND\$ and then accepts the expenditure modification in FUND\$. Once the expenditure account is established, the project manager can charge expenditures against the project.

There are three Public Works administrators who are responsible for grants accounting: an associate management analyst, a supervising accounting office assistant, and a senior management analyst. They perform analyses, prepare budget modifications, account adjustments and billings, and process contract payments for Public Works, primarily for the Engineering, Solid Waste, and Equipment divisions. The Public Works administrators work with the project managers to track grant related revenues and expenditures and record the information in FUNDS\$.

Based on our interviews with staff, there is a great deal of variance in Public Works regarding who is responsible for and who should be responsible for billings, as well as who should be responsible for tracking receipts and follow-up.

In interviews with the project managers, it was noted that some project managers took responsibility for billing their projects and aggressively billed their projects. There were, however, project managers who did not prepare billings. Their priority was to complete the projects assigned to them. Billing the projects, especially if the projects were not yet completed, was simply not as important as completing their assigned projects.

The project managers who prepare billings do so by extracting information that is in their files and information noted on the project activity listing in FUNDS\$. All of the billing information originates with the project managers. All technical interpretations are performed by the project managers. Billing formats for some grant related projects often do not conform to the City's Chart of Accounts and the project manager must interpret contractor billings so that the City's payment requests to the granting agency conform with agency requirements.

This audit was intended to assist Public Works in establishing and documenting written procedures of their grants processing system. However, our audit identified the following conditions which deserve additional attention and/or immediate corrective action.

Findings Noted in Public Works

Finding 1

Untimely Billings

There has been a significant loss of available cash flow and interest income to the City due to untimely billings. Based on the Quarterly Report prepared by the Finance department, Public Works' estimated accounts receivable balance at March 31, 1997 was \$4,525,974. The estimated \$4,525,974 receivable balance includes more than \$2,252,465 (49.8%) eligible for billing but not yet billed.

Grants Eligible for Billings

NAME OF GRANT	BILLABLE DATE	BILLABLE AMOUNT
ISTEA 3	September 30, 1996	\$1,375,184.00
	July 15, 1997	603,740.00
Wildcat Canyon	November 29, 1995	250,298.00
	March 12, 1996	23,243.00
Total billable yet not billed as of July 15, 1997		\$2,252,465.00

One Caltrans grant in the amount of \$1,978,924 was eligible for monthly billings; as of the last day of fieldwork this entire amount was billable, but had not yet been billed. Of this \$1,978,924 a substantial portion had, in fact, been eligible for billing for over a year; \$1,375,184 could have been billed on September 30, 1996, and still remained unbilled. Another Caltrans grant had a billable amount of \$273,541 as of March 12, 1996. Of this amount at least \$250,298 (92%) could have been billed in 1995.

The cost of not having cash flow in the amount of \$2,252,465 available to the City amounts to \$119,380 per year in lost interest at a conservative current market rate of 5.3%. This is in addition to the lost cash usage of the \$2,252,465. At least \$273,541 has gone unbilled since 1995, which amounts to approximately an additional \$14,500 in simple interest forgone. These are only two Public Works grants. Public Works has over 30 grants.

Based on the auditor's interviews with the project managers in the engineering division, part of the reason for untimely billings appeared to be a lack of documented procedures and poor oversight. The project managers appeared to be focused on the technical (scope, cost, and schedule) issues, and were not necessarily focused on the billings. Because the projects are initially funded by the general fund, not all project

managers have a sense of urgency to obtain funding reimbursement.

One project manager did not know who was billing his project. He wasn't preparing the billings and the individual he thought was preparing the billings did not, in fact, prepare billings as part of her workload.

While Public Works administration is primarily responsible for billing grantors, some project managers prepare and submit billings directly. Public Works does not have any formalized documented billing procedures.

RECOMMENDATION 1:

We recommend that the Director of Public Works make it clear to the Engineers that billing and ongoing review of billable costs are ultimately their responsibility and that billing is essential in managing their projects. We recognize the role of the administrative staff in assisting with the preparation of billings. However, the project managers should ultimately be held accountable for timely billings. In addition, the Manager of Engineering should periodically review the billings as oversight and to ensure that grants are being billed timely.

We recommend that Public Works hire or assign an individual to ensure that the billing task is completed timely and accurately. The person assigned should have training and experience in contract and grant billing, should possess the skills necessary to prepare accounting reconciliations, and should be appropriately supervised. The person assigned should work with the Engineers to ensure that grant revenue is billed and collected in a timely manner, grants activity is properly reported to the granting agency, and grant activity is reconciled to the control account at least quarterly. In addition, this position could also be responsible for budget modifications, adjustments, obtaining revenue and expense modifications, and tracking revenue and expenditures.

Auditee's Response

We disagree with this recommendation. Billing is not the ultimate responsibility of the project manager. They play a key role in an inter-disciplinary process which involves the project manager, administrative support staff, staff of the Finance Department, and the granting agency itself. But the lead responsibility for the actual billings is that of the Administrative Division of Public Works.

The Manager of Engineering is responsible for the management, technical content of the City's capital program, funded only in part by grant sources. It is not the Engineering Manager's

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responsibility to review billings and supporting documents. It is, however, appropriate that the Manager of Engineering emphasize to the project management staff that the project close-out phase includes the completion of all grant billings and the posting of all deposits. Language to the effect is being included in the Project Management Manual, currently circulating in draft form within the Engineering Division.

We do agree with the recommendation that Public Works hire or assign an individual to ensure that the billing task is completed timely and accurately. We are currently pursuing organizational options that would ensure a greater focus of resources on the grants management function within the Administrative Division of Public Works.

Auditor's Response

The Auditor's primary concern is that someone is accountable for timely and accurate billings. If Public Works chooses to assign that responsibility to its administrative staff we find that satisfactory. However, based on the auditee's response, we are concerned that the billings may not be prepared until the "project close-out phase." If the projects are billable monthly or quarterly, we believe that billings must be prepared on a timely basis and not only at the "project close-out phase."

The current practice of delaying billings until long after work is performed results in loss of considerable available cash.

Finding 2

2A. Distribution of Quarterly Report Prepared by Finance

The Quarterly Report prepared by Finance and sent to Public Works was not internally distributed to appropriate personnel. The project managers and the administrators should receive a copy of the Quarterly Report. When Public Works administrators were shown the Quarterly Report, they stated that they had never seen the report before. This report contains useful information which may be used to assist management in important planning decisions.

2B. Reconciliations Not Prepared:

It appears that Public Works does not regularly reconcile its detail schedules/information to FUND\$. The information noted on the Quarterly Report prepared by Finance and extracted from FUND\$ did not agree with the supporting information noted in Public Works. This means that the information noted in City's FUND\$ accounting system did not agree with Public Work's detailed information. Thus, the information recorded in the City's accounting system by Public Works was not accurate and had not been reconciled by staff in Public Works.

Recommendation 2

We recommend that Public Works distribute the Quarterly Reports to project managers and appropriate administrative staff. Public Works project managers and administrative staff should use the Quarterly Report to reconcile the detailed information noted in the department to the information recorded in the City's accounting system (FUND\$). Reconciliation to the City's accounting system (FUND\$) should be performed at least quarterly and preferably monthly.

The information in the Quarterly Report should alert the project managers and administration to late billings, overdue receivables, and other unrecorded/unprocessed information. It should be used by Public Works to assist with grant management.

Auditee's Response

We partially agree with this recommendation. It is the responsibility of the Administrative staff to receive and review the Quarterly report produced by the Finance Department. Administrative Division staff will perform a quarterly reconciliation and work with Finance Department staff on any identified discrepancies.

Administrative staff now reconciles project expenditure and receivables information in FUND\$ on a quarterly basis to prepare the Public Works Grants Receivable Report submitted to the Finance Department. We support monthly reconciliation as a means of alerting Administrative staff of the potential for earlier billing than now is performed on those grants which allow for in-progress billings.

The Quarterly Report is a good tool for this department to use in developing grant billing priorities and strategies. Staff will continue to use this report to assist with grant management.

We agree that grant billings in the Public Works Department have not always been done on a timely basis. There are grants eligible for progress billings for which reimbursement requests are not made until project completion. This has resulted in higher receivable balances than should be expected for certain grants. We have embarked upon a restructuring process to evaluate and apply appropriate resources to reduce our receivables balances and ensure more timely grant reimbursement requests in the future.

However, a key issue impacting the timeliness of grant reimbursements is a lack of confidence in some of the financial data on which the grant billings must be based. For most Project Managers the City's financial system (FUND\$) is not an effective tool for managing large, multi-year, multi-fund capital projects. The Project Managers cite problems with accessing and interpreting the budget and expenditure information in FUND\$. Additionally,

Project Managers point to erroneous data appearing in projects due to technical problems and constraints in the Payroll and Purchasing/Inventory modules of the FUND\$ system. Since errors in reported expenditures must be corrected prior to making any payment requests to a granting agency, these errors reduce confidence in the billing support documentation and act as an incentive to hold payment requests until project completion - especially for the large, complex projects. This is a significant factor contributing to issues of timeliness.

Auditor's Response

Issues regarding Public Works' user difficulty with understanding FUND\$ were not discussed during fieldwork but were discussed at the exit conference. It appears that the participation of Information Systems staff is needed to investigate these issues.

Findings Noted in Other City Departments

Finance Department

Finding 3

Obsolete Administrative Regulation 4.1

The 1983 Administrative Regulation 4.1 which addresses the "Grant Application Review Procedures" is not being used because it is not available on the Citywide computer network and it is obsolete. The Administrative Regulation is "to insure that appropriate City departments and commissions have an opportunity to review and comment upon proposed grant applications; and to enable the City Manager's Office to coordinate all grant applications prior to their submission to the City Council."

Recommendation 3

We recommend that Administrative Regulation 4.1 "Grant Application Review Procedures" be updated to reflect the current Citywide grant application process. It should be revised to include directions on who can apply for grants, who can approve grant applications (e.g., department heads, City Manager's office etc.), and a time line for application processing (e.g., within three days of application approval by the granting agency, notice of application approval should be submitted to Finance, the department head, etc). The Administrative Regulation should include samples of any additional internal grant application information worksheets.

Finally, the updated Administrative Regulation should be placed on the Citywide system for ease of accessibility. This will assist the City in establishing a uniform system for applying for grants.

Finance's Response

We concur.

Finding 4

Lack of Revenue Processing Procedures

There are no procedures which clearly identify how City revenue contracts should be processed. Ordinance Number 6248-N.S. describes how expenditures should be processed. Resolution 56.776-N.S identifies which grants the City Manager is authorized to apply for and receive. However, we noted no Ordinance or Resolution which describes how revenue contracts should be processed. This led to project managers in Public Works identifying differing conditions as to when grant contracts should be submitted to Council for approval. Some project managers processed revenue contract in accordance with expenditure contract requirements so that all grant contracts over \$25,000 went to Council. Other project managers stated that only contracts with matching requirements needed to go to Council. In addition, there appeared to be confusion regarding whether the City contract approval and registration "blue backing" process applied to revenue grants.

Recommendation 4

An Administrative Regulation should be developed to describe the appropriate grants processing procedures for Citywide grants. It should specify Citywide policy for processing grants and when a revenue contract should be submitted to Council for approval (e.g., revenues greater than \$25,000, revenues with matching requirement greater than \$1.00 which will be paid by the general fund, any amendments to grants in excess of \$25,000 etc.). The specific requirements should be investigated and determined by management. Management should ensure that the Administrative Regulation conforms to the contract approval and registration requirements of the City Charter. Again, this will assist the City in establishing uniform guidelines for processing revenue contracts.

Finance's Response

We concur.

Finding 5

5A Checks Not Mailed to Central Location

Payments from the granting agencies are mailed to different individuals/departments within the City. Checks are mailed to Public Works engineers, to Public Works administration, and to Finance. Checks mailed to various departments within the City increase the probability of delayed deposits.

5B Payments Submitted Without Account References

It was noted that there was a \$44,762 check submitted to the City from Caltrans which did not identify the grant project. This check sat undeposited for weeks while research was performed to determine the proper account to credit.

Recommendation 5

We recommend that payments be mailed to a central location such as Finance. We also recommend that the City submit a remittance slip with the grant billings which should be returned with the payment. The remittance slip should identify the fund account, project name, and amounts to which the payment applies.

A copy of the check and remittance should be forwarded to Public Works so that the project managers and administration will be informed about the accounting activity related to their projects and can update their files. This processing procedure should be formalized and documented in writing.

Finance's Response

Finance will evaluate the suggested process and get a more complete response back to Council and the City Manager by April 1998.

Finding 6

Preparation of Quarterly Report

The information noted in the Quarterly Report was not properly reflected in the schedule. For example, fund 256 the East Bay Community Foundation project was not noted in the schedule and the Summary of First Quarter Billings noted billing dates of December and October under the September schedule. In addition, Fund 635 SBA Tree Planting Program was noted as a Public Works grant; however, it was a grant related to Parks and Waterfront. This was due to the reconfiguration of the Public Works department in fiscal year 1995/96. In addition, information noted in the report did not agree with information in Public Works detail records.

Recommendation 6

We recommend that Finance review the Quarterly Report for obvious inaccuracies. We also encourage Finance to continue working with Public Works to ensure that the Quarterly Report accurately reflects Citywide information. If Public Works implements the Reconciliation (Recommendation 2B) which recommends that Public Works reconcile its detail ledgers to FUNDS and the Quarterly Report prepared by Finance, and promptly inform Finance of variances, it would help to alleviate this situation.

Finance's Response

We concur.

Conclusion:

Untimely billing of grantors has an important negative impact on City resources overall. Public Works department management must stress the importance of timely billings. They must establish a high priority for collection of money. The project managers appear

to have the information and the knowledge needed to prepare billings promptly. Implementation of the above recommendations will assist Public Works in achieving an acceptable level of timely billings.

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