
PERFORMANCE AUDIT OF THE CITY'S GRANT MANAGEMENT

Developing Standardized Grant
Guidelines and Procedures Could
Improve City Grant Opportunities and
the Control Framework for Grant
Management

Office of the City
Auditor

City of San Diego



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THE CITY OF SAN DIEGO

October 20, 2017

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is a performance audit report of the City's Grant Management. This report was conducted in accordance with the City Auditor's Fiscal Year 2017 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief are presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 32 of this report.

We would like to thank staff from the Corporate Partnerships and Development Program and The Office of the City Comptroller. All of their valuable time and efforts spent providing us information both in the office and in the field is greatly appreciated. The audit staff members responsible for this audit report are Stephanie Chernau, Arlys Erickson, and Kyle Elser.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Andrea Tevlin, Independent Budget Analyst
Rolando Charvel, Chief Financial Officer
Scott Clark, Interim City Comptroller
Natasha Collura, Director, Corporate Partnerships and Development
Tracy McCraner, Financial Management Director
Mara Elliott, City Attorney
Ken So, Deputy City Attorney

OFFICE OF THE CITY AUDITOR
1010 SECOND AVENUE, SUITE 555 • SAN DIEGO, CA 92101
PHONE (619) 533-3165 • FAX (619) 533-3036

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Results In Brief

A grant is one of the government's tools for funding ideas and projects to provide public services, stimulate the economy, and benefit the general public. Grants can be awarded for a wide variety of activities such as innovative research, recovery initiatives, infrastructure building, or many other funding programs. However, the process of successfully serving the public through grants can be quite complex. From fiscal year (FY) 2010 through FY 2016, the City of San Diego (City) received almost \$558 million in grants revenue, averaging almost \$80 million annually.

Based on our review, we found that the City does not have a standardized process for identifying and applying for grants. Current City guidelines for grant applications need to be updated with a process that can provide direction for City staff. Operating with limited guidance or oversight, the program may not be identifying all grants that could supplement the City's budget and may be utilizing the City's limited resources to apply for grants that are not consistent with the City's mission, strategic priorities, or plans.

Although the City has successfully obtained millions of dollars in grant funding, the City currently has no established requirements for departments to coordinate searching for and properly assessing grants prior to application. All grants require City Council approval; however, the City's process could be improved with a standardized review procedure to ensure a fully vetted analysis of funding requirements prior to grant applications being submitted. The Government Finance Officers Association (GFOA) recommends establishing a grants management policy to seek grants that are consistent with the City's mission and strategic priorities and to assess grants prior to application.

We also found that the City can improve the control framework for managing the grants received by City departments by developing policies and procedures that help ensure proper controls are in place. The City Comptroller is involved in assuring that controls are established and that financial system data is complete. However, departments are solely responsible for managing compliance with grant agreements, including the

compliance of sub-recipients. We found that most departments do not have written procedures in place to ensure proper grant administration, and the City has not required documented departmental procedures. The GFOA recommends that cities establish a process that addresses steps for ensuring efficient administration and operation of grants.

Corporate Partnerships and Development (CPD) staff are drafting a Grant Administration Manual and a proposal for an Oversight Committee to address these issues. We recommend CPD staff implement their plans to streamline the Council process for the grant approvals, update administrative regulations related to grants, and publish the draft Grant Administrative Manual that they are currently working on. We also recommend that CPD strengthen the control framework to ensure accountability for departmental grant responsibilities.

We made a total of five recommendations to improve the City's grant management process. Management agreed to implement all of the recommendations.

Background

A grant is one of the government's tools for funding ideas and projects to provide public services, stimulate the economy, and benefit the general public. Grants can be awarded for a wide variety of activities such as innovative research, recovery initiatives, infrastructure building or many other funding programs. However, the process of successfully serving the public through grants can be quite complex.

In accordance with the Office of the City Auditor's Fiscal Year (FY) 2017 Work Plan, we conducted a performance audit of the City's Grant Management process. Specifically our objectives were to determine if the City had adequate internal controls to efficiently apply for grants and manage the grants it receives.

Grant Management

A grant is an attractive form of financial assistance government entities use for funding projects to provide public services, stimulate the economy, and benefit the general public. Grants are awarded for a variety of activities, such as innovative research, recovery initiatives, and infrastructure projects. For example, the Environmental Services Department received a \$3 million grant in FY 2018 from the California Department of Resources Recycling and Recovery to increase recycling citywide and help divert waste from the City's landfill. The City also completed improvements on a San Ysidro park funded primarily by a \$1 million grant from the Department of Housing and Urban Development and supplemented by City funding of about \$689,000. However, the process of successfully serving the public through utilizing grants can be quite complex. The Government Finance Officers Association (GFOA) recommends that governments develop a formal grants policy that addresses steps taken prior to applying for or accepting grants and ensures the proper administration of the grants after their acceptance.

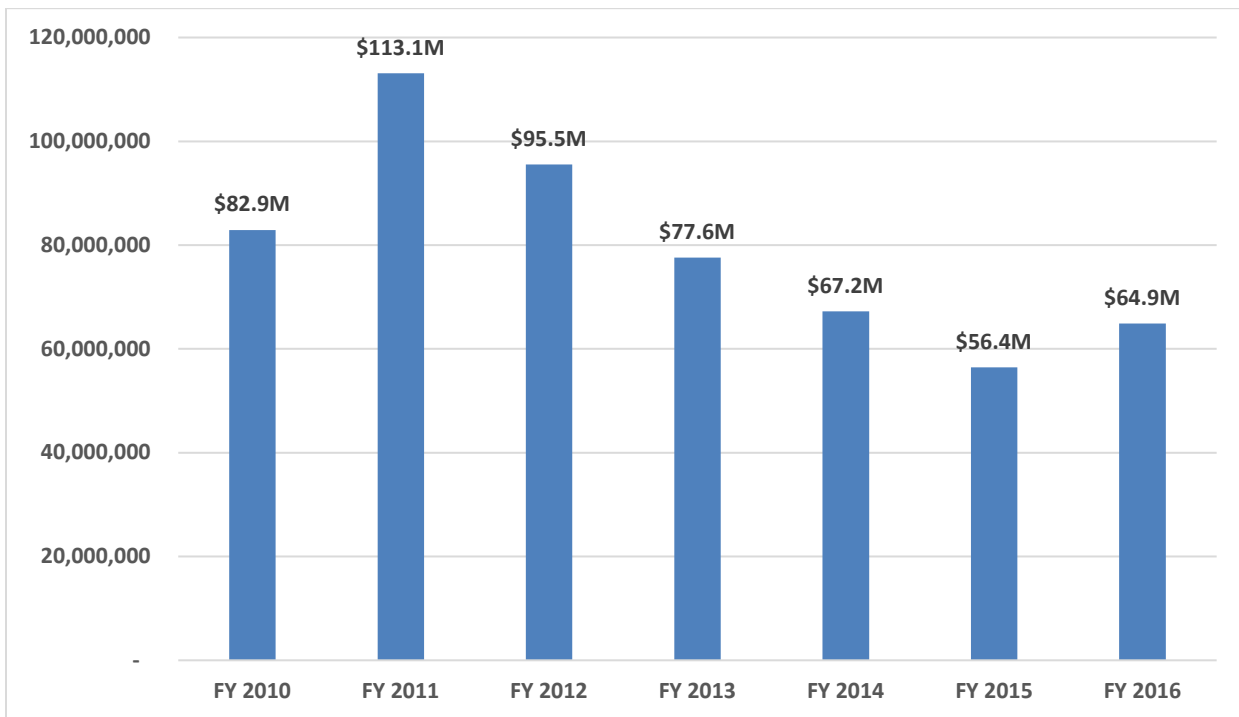
Grants come with requirements that can apply to the general operations of the grant, specific compliance rules, monitoring of other parties that may receive resources from the grants, and specialized reporting requirements. Because of potential negative consequences for failing to meet the grant's specific requirements, such as a need to return some or all of the funds,

it is important that local governments effectively administer grants. In addition, grants may commit a government to financially contribute to a program or asset, or to maintain the program or asset after the expiration of the grant.

City of San Diego Grants From FY 2010 through FY 2016, the City of San Diego received almost \$558 million in grants revenue, averaging almost \$80 million annually. The annual revenue is shown in **Exhibit 1**.

Exhibit 1:

San Diego Grant Revenues FY 2010 through FY 2016



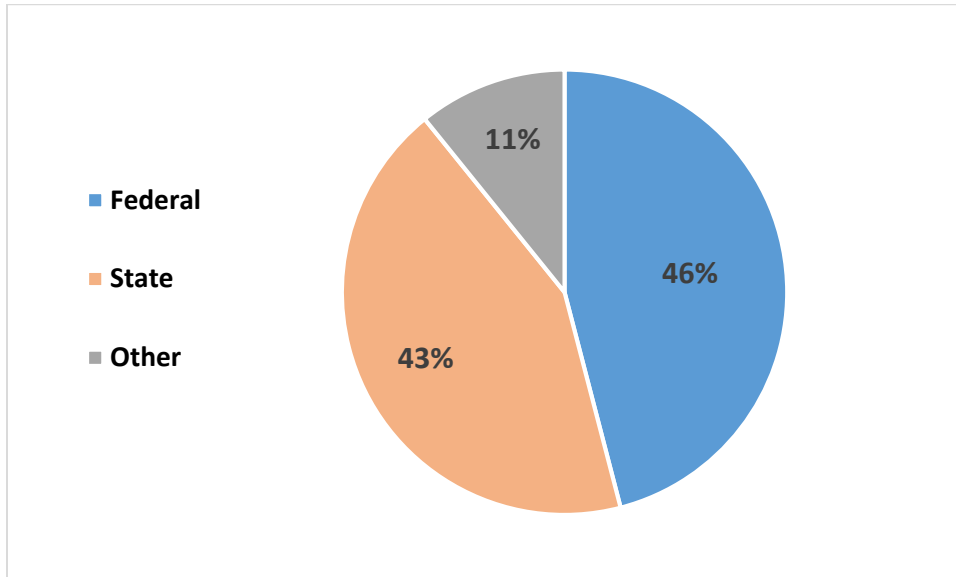
Source: OCA generated from data provided by the Office of the Comptroller.

Sources of Grants According to documented grants in SAP, the City managed a total of 148 active grants in FY 2017.¹ As shown in **Exhibit 2**, the City received the grant awards from federal, state, and other agencies such as local non-profits.

¹ SAP is the City's enterprise resource planning system.

Exhibit 2:

Breakdown of FY 2017 Active Grants Managed By Grant Source



Source: OCA generated based on active FY 2017 grants data provided by the Office of the Comptroller.

History of San Diego Grant Management

In 2008, the City of San Diego undertook a Business Process Re-engineering (BPR) effort of its grant management process and the process was found to be decentralized with outdated guidance. According to the BPR report, which included 25 recommendations, grant management efforts were highly dependent on individual department resources. The report identified a critical need for a centralized, coordinated effort for maximizing grants obtained, and effectively managing and tracking grants received.

The City has since attempted to centralize and coordinate some aspects of its grant management. In FY 2013, the City assigned "grant coordination" responsibility to Corporate Partnerships and Development (CPD). CPD's mission is to prevent duplication of department efforts and to facilitate citywide coordination among departments when seeking funding. Their objectives include ensuring that grant efforts support the City's Strategic Plan, standardizing the management of grant processes, using technology to achieve efficiencies and effectiveness, and coordinating with City Lobbyists on potential grant opportunities. The Office of the Comptroller oversees the financial reporting aspects of grants awarded to the City. Comptroller staff compile federal grant data for the required

Single Audits conducted by external agencies and establish grant numbers and budget items in SAP.

The CPD Director assigned staff the responsibility for creating a Grants Manual, streamlining the City's grant procedures, and developing policies. Before this could be accomplished, staff was reassigned other responsibilities related to the "Promise Zone" and subsequently transferred to another City department.

Promise Zone

In June 2016, a portion of the City of San Diego received a Promise Zone designation from the federal government, which provides federal grant funding advantages.² The Promise Zone is an initiative where the federal government partners with local leaders to increase economic activity, improve educational opportunities, leverage private investment, reduce violent crime, enhance public health, and address other priorities in high poverty communities. The City and its partners have identified the following six goals to improve quality of life and accelerate revitalization:

- Create Jobs;
- Improve Economic Activities;
- Reduce Violent Crime;
- Improve Educational Opportunities;
- Increase Access to Quality Affordable Housing; and
- Increase Access to Healthcare and Healthy Foods.

With the Promise Zone designation, the City receives preferences for certain competitive federal grant programs and possible tax incentives. The designation lasts for ten years; however, benefits made available to these Promise Zones may vary from year to year. It is important that the City take full advantage of the benefits and opportunities of this designation while they last.

² The City of San Diego was one of five urban designations in the nation. There were five urban designations (64 urban applicants), two rural designations (11 rural applicants) and two tribal designations (seven tribal applicants), bringing the total to 22 Promise Zones in the United States and Puerto Rico.

Current Grant Management

The City of San Diego's grant management process is decentralized. Departments identify and apply for grants, execute grant work, oversee compliance requirements, prepare invoices and reports to grantors for reimbursement, and close out grants when work is completed or the grant period ends. The CPD staff maintain an internal list of grants that departments identify and apply to. The Office of the Comptroller sets up the grant budget in SAP, and Comptroller personnel review financial data submitted to the granting agency with data in SAP for completeness. Process narratives exist to guide departments on budget set up in SAP, grant close out in SAP, and Comptroller review prior to reimbursement requests to the grantor. See **Appendix C** for the mapped processes of identification and application and **Appendix D** for the mapped processes of grant execution and close out.

Audit Results

Finding 1: Standardized Guidance May Improve City Grant Opportunities

The City does not have a standardized process for identifying and applying for grants, and current City guidelines for grant applications need to be updated with a process that can provide direction for City staff. The City grant program operates with limited guidance and oversight. Therefore, the program may not identify all grants that could supplement the City's budget and may be utilizing the City's limited resources to apply for grants that are not consistent with the City's mission, strategic priorities, or plans.

Although the City has successfully obtained millions of dollars in grant funding, the City currently has no established requirements for departments to coordinate searching for and properly assessing grants prior to application. All grants are submitted for City Council approval; however, the City's process could be improved with a standardized review procedure to ensure a fully vetted analysis of funding requirements prior to grant applications being submitted. The Government Finance Officers Association (GFOA) recommends establishing a grant management policy to seek grants that are consistent with the City's mission and strategic priorities and to assess grants prior to application. We recommend Corporate Partnerships and Development (CPD) staff implement their plans to streamline the Council process for the grant approvals, update administrative regulations related to grants, and publish the draft Grant Administrative Manual that they are currently working on.

No Established Requirements to Coordinate Identification of and Applications for Grants

We found that the City does not have a standardized process to assist departments with identifying and applying for available grants. Departments do not consistently search for grant opportunities or communicate opportunities to other departments, and the City's annual budget process does not always include grant identification and applications.

How City Departments Identify and Apply for Grants

We surveyed City department staff to find out how the departments identify and apply for grants. Survey information provided by City departments (see **Appendix E** for organizations surveyed) revealed the following limitations:

- The City does not have a standardized process to assist departments with identifying and applying for available grants. Our survey disclosed that only three departments had written procedures for identifying potential grants and preparing grant applications. Ten respondents stated their departments did not complete a comprehensive cost benefit analysis prior to preparing the grant application.
- City departments do not consistently search for grant opportunities. Our survey disclosed 12 departments had assigned staff the responsibility and authority to identify potential grant funding. However, only eight departments require regular searches for potential grant funding.
- City departments do not always communicate grant opportunities to other departments. CPD has requested all departments notify them when a potential grant is identified. However, departments often only communicate with CPD after they have applied for a specific grant, and the City policy and procedures do not require departments to provide information before preparing the application.
- The budget process does not consistently include information related to identifying and applying for grants. Our survey revealed that City management only asked seven departments if they had searched for grants during the budget process and nine departments were asked if they had applied for any grant funding during the budget process. **Exhibit 3** shows the City departments surveyed that stated information was requested during the budget process. City management noted that the departments listed make up a large portion of the City's budget.³

³ According to the Financial Management Department, the departments identified in the table that were asked by City management if they searched and/or applied for grants during the budget process equate to approximately 75 percent of the total Citywide FY 2018 Adopted Budget.

Exhibit 3:

Departments Asked by City Management if They Searched and Applied for Grants During the Budget Process

	Department	Searched for Grants	Applied for Grants
1	ADA Compliance and Accessibility*	✓	
2	Environmental Services	✓	✓
3	Fire Rescue		✓
4	Library		✓
5	Park and Recreation	✓	✓
6	Performance and Analytics	✓	✓
7	Police	✓	✓
8	Public Utilities	✓	✓
9	Real Estate Assets		✓
10	Transportation and Storm Water	✓	✓
Total		7	9

Source: OCA generated from survey responses.

*American Disability Act (ADA).

City Grant Opportunities Identified

Despite these limitations, our survey disclosed that 18 departments identified grant opportunities during FY 2015-2017. Those grants were identified by City departments as a result of previous funding from the agency, agency notification, newsletter subscription, and other City departments. See **Appendix F** for details by department.

City Grant Applications

Survey responses revealed that City departments applied for 48 grants during FY 2017. Eleven departments indicated receipt of grants in FY 2017 with a potential value of \$47,094,438. Nine of those departments had been denied grants in the past. Although most had followed up to obtain information on the denial, only half had shared this potentially beneficial information with other departments. See **Appendix G** for details by department.

City Council Approval of Grants All grants are submitted for City Council approval; however, the City process could be improved with a standardized review process to ensure a fully vetted analysis of funding requirements prior to grant applications being submitted. Also, City Council grant approval can be a time consuming process, taking up to four months. Prior to the audit, CPD staff had considered the benefits of streamlining the Council grant approval process for grants under \$1 million and had been working on a proposal to reduce the time and effort required for the smaller grants.

City Needs Grant Policy and Oversight The City should establish a policy to ensure comprehensive analysis is completed before grant applications and have a centralized oversight body.

Grant Policy The GFOA recommends establishing a policy, including an assessment, prior to grant application and acceptance. At a minimum, the policy should require departments seeking a grant to provide advance notice to the appropriate oversight authority so the effects on the City can be reviewed and understood beforehand. The grant policy should include a requirement for assessing the extent to which a grant is consistent with the City's mission, strategic priorities, and plans, and should include a multi-year, cost-benefit analysis to avoid the risk that the City will unexpectedly spend its own funds to support a grant. See **Appendix H** for the GFOA categories for establishing a grant policy.

Grant Program Oversight Additionally, GFOA recommends establishing a centralized grant oversight committee to analyze grant requirements, grant consistency with the City's mission, the cost-benefit analysis, responsibilities for oversight monitoring, and availability of required resources before the grant application is prepared. The oversight committee should meet at least quarterly and be comprised of both interdisciplinary and permanent members.

Lack of Staff Resources Provided City management has not provided sufficient resources to fully establish a grant management policy or oversight body. In 2013, the City assigned CPD responsibility for oversight of citywide grants; however, no authority was provided through administrative regulations or other directives. Before the grant

program could be set up for the City, the assigned grant personnel was reassigned other responsibilities related to the "Promise Zone" and subsequently moved to a new role in another department. A new employee was hired to fill the vacant position in January 2017. In April 2017, CPD planned to have the program developed by Summer 2017.

Actions Taken During Audit

During the audit, CPD staff provided draft documents that recommended changes to streamline the Council process for grants, and establishing a centralized database with revised forms available to multiple users for tracking the identification and application of grants throughout the City. The documents also proposed revisions to the outdated grant administrative regulation, organized City grant procedures into a manual format, and proposed establishment of a grant oversight committee.

Department Staff Need Grant Training

Our survey also showed employees are not always trained on preparing grant applications. Specifically, staff from only six departments were regularly trained and staff from seven departments were sometimes provided training. However, only eight departments considered the training staff received as sufficient. The details for department training received are contained in **Exhibit 4**.

Exhibit 4:

Grant Training by Department

	Department	Staff Always Receives Training	Staff Sometimes Receives Training	Training was Sufficient
1	Arts and Culture		✓	✓
2	Economic Development		✓	
3	Fire Rescue		✓	✓
4	Gang Prevention and Intervention	✓		✓
5	Homeland Security	✓		✓
6	Library		✓	
7	Park and Recreation	✓		✓
8	Planning		✓	✓
9	Police	✓		✓
10	Public Utilities	✓		
11	Real Estate Assets	✓		✓
12	Special Events and Filming		✓	
13	Transportation and Storm Water		✓	
Total		6	7	8

Source: OCA generated from survey responses.

Potentially Missed Grant Opportunities

Without a codified process, there are potentially missed opportunities for available grant funding or loss of grant funding priority designation. The City cannot ensure that the departments applying for grants are consistent with the City's mission, strategic priorities, or plans. Also without preparing a multi-year, cost-benefit analysis, the City could be at risk of having to unexpectedly spend its own funds to support a grant.

There are potentially missed opportunities for the City to augment the budget without an established grant management process in place. If more grants were identified and received, the City could supplement the budget to address identified program needs and better serve the citizens of San Diego.

With the "Promise Zone" designation received from the federal government in 2016, the City receives federal grant preferences for ten years. Since benefits vary each year, the City should proactively pursue grant identification and application.

Recommendation #1

Corporate Partnerships and Development Program staff should present the proposed streamlined process reducing the number of grants that require City Council approval to City Council for action. (Priority 2)

Recommendation #2

Based upon City Council action, Corporate Partnerships and Development (CPD) Program staff should update Administrative Regulation 1.80, Grant Application Procedures dated August 2, 1993 to:

- Establish CPD's authority over the City's grant application process;
- Provide a centralized database available to multiple users to facilitate the coordination efforts of grant identification and application; and
- Identify departmental training needs and take action to provide Citywide training for common grant identification and application needs. (Priority 2)

Recommendation #3

After addressing suggested audit changes and incorporating revisions to Administrative Regulation 1.80, Corporate Partnerships and Development Program staff should publish and implement the draft Grant Administration Manual. This manual at a minimum should:

- Encourage City departments to systematically search for grant opportunities;
- Require departments to analyze grant requirements to ensure the grant is consistent with the government mission, strategic priorities and/or plans, and a multi-year cost/benefit analysis to avoid the risk that the government will unexpectedly spend its own funds to support a grant prior to preparing the grant application;
- Establish a Grant Oversight Committee and require departments to provide a comprehensive analysis before grant application and approval; and
- Create a review process for denied grant applications.
(Priority 2)

Recommendation #4

The Financial Management Department should incorporate grant identification into the formal annual budget process.
(Priority 3)

Finding 2: The City Can Improve the Control Framework for Grant Management With Additional Policies and Procedures

The City can improve the control framework for managing the grants departments receive by developing policies and procedures that help ensure proper controls are in place. The City Comptroller is involved in assuring that controls are established and that financial system data is complete. However, departments are solely responsible for managing compliance with grant agreements, including the compliance of sub-recipients. We found that most departments do not have written procedures in place to ensure proper grant administration, and the City has not required documented departmental procedures. Corporate Partnerships and Development (CPD) staff drafted a Grants Administration Manual and a proposal for an Oversight Committee to address these issues. The Government Finance Officers Association (GFOA) recommends that cities establish a process that addresses steps for ensuring efficient administration and operation of grants. We recommend that CPD staff update the City Administrative Regulation, publish their Grant Administration Manual, and strengthen the control framework to ensure accountability for departmental grant responsibilities.

The City Can Improve Guidance for Departments

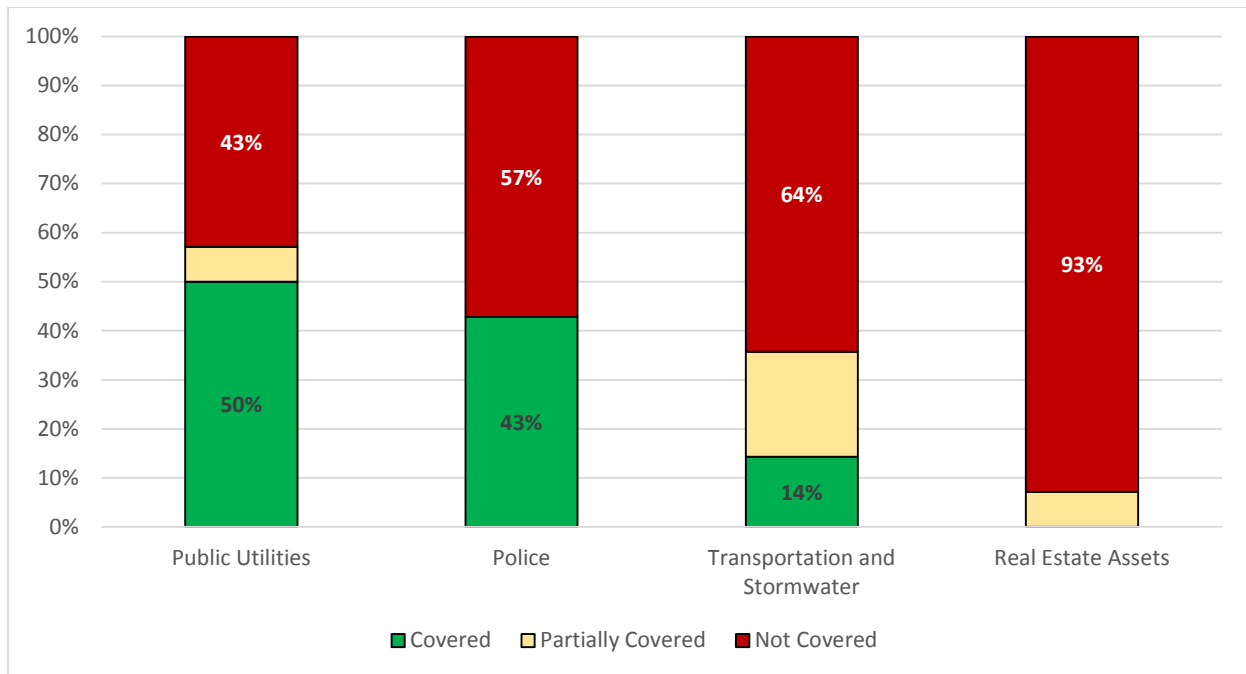
The City can improve guidance for departments to effectively manage their grants once awarded, including ensuring compliance with grant requirements and sub-recipient monitoring. When departments receive their grants, they notify the Comptroller's office to establish a budget in SAP. Prior to requesting reimbursement from the granting agencies, the departments submit their invoices and supporting documentation to the Grant Accountant in the Comptroller's Office. The Grant Accountant reviews the invoices and supporting documentation for completeness and gives approval for the invoices to be submitted to the granting agency for reimbursement. This process depends on the department to ensure compliance with grant requirements and the appropriateness of the department's grant expenditures.

City Departments Need Guidance and Training to Ensure Grant Compliance

We surveyed City departments to find out if there are written guidelines and training for how departments handle this responsibility and other aspects of grant management. See **Appendix E** for organizations surveyed. Our survey found that 14 departments managed a total of 140 active grants in FY 2017. Of the 14 departments, only four reported they have developed written guidelines for managing grants. These four departments managed 29 percent (approximately \$13.5 million) of all FY 2017 grant awards received. We compared the departments' established written guidelines against recommended criteria for administrating grants effectively and found that the guidelines covered 50 percent of the criteria at most. **Exhibit 5** summarizes the details from department written guidelines we reviewed.

Exhibit 5:

Departments' Guidance Compared to Recommended GFOA Criteria



Source: OCA generated based on review of department written guidelines.

Only four departments, managing 41 (29 percent) of active FY 2017 grants, reported always receiving some sort of training. Training can be provided by their department, the City, or the granting agency. Other departments may be relying on their staff with institutional knowledge to manage the grants.

Departments are also responsible for managing their sub-recipients. It is ultimately the City's responsibility as the pass-through entity to provide oversight for these sub-recipients. However, this monitoring varies among departments. Seven departments reported that they pass funding through to sub-recipients, but only one department has established internal policies and procedures to monitor sub-recipients, and two departments provide training to the sub-recipients on grant management.⁴

Control Framework

A control framework should be in place to ensure effective management of grants received. The GFOA recommends that governments establish processes to promote awareness that grants typically come with significant requirements. The process should address steps for ensuring the efficient administration and operation of grants through:

- Financial management;
- IT support systems;
- Internal controls;
- Sub-recipient monitoring;
- Continuous communication; and
- Guidance for specialized reporting requirements.

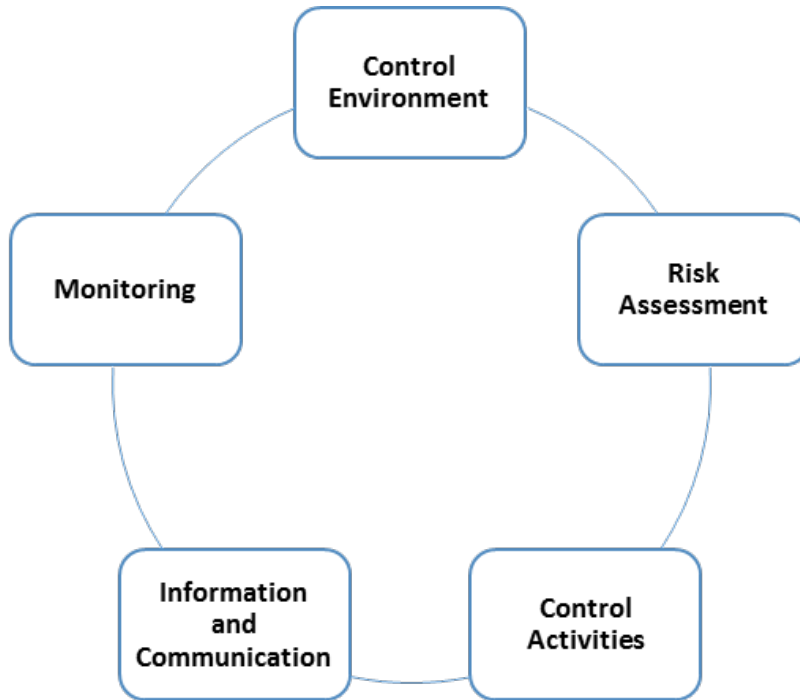
Currently, CPD is working on a citywide grant process by drafting a grants manual and a proposal for a Grants Oversight Committee to oversee the grant process.

In order to support this proposed process, the City should better document the established system of internal controls for administering grants. An effective internal control system has five components that work to support the organization's mission, strategies, and related business objectives – the control environment, risk assessment, control activities, information and communication, and monitoring – which support continuous evaluation and improvement as shown in **Exhibit 6**.

⁴ This policy met GFOA criteria.

Exhibit 6:

Five Components of Internal Control



Source: California State Controller Internal Control Guidelines

Although the currently drafted manual and Oversight Committee proposal provide the control activities for the grant process, we noted the first component of the framework—the control environment—needs to be expanded. A key component in any internal control process is the control environment which includes assigning authority and responsibility. To ensure the internal controls are designed properly, a risk assessment should be conducted to identify the risks that threaten the goals of the program. Once those controls are designed, periodic monitoring is necessary to demonstrate the controls are functioning as intended and risks are mitigated.

Grant Program Authority and Oversight Responsibilities

City management has not provided clear oversight responsibility or committed resources for a comprehensive grant management program. City policies have not been established to identify CPD as the City's grant authority, and departments were unclear where oversight responsibilities reside. For example according to our survey, 3 of 14

departments that managed grants in FY 2017 reported that they did not create grant management guidelines because it was not required. Also, one department believed that the Comptroller or CPD have oversight responsibility.

Recently, the City created a new CityNet "Grants" webpage that provides City employees information about grant management.⁵ However, it is only useful once a department has identified a grant opportunity. The webpage also includes the City's Administrative Regulation that was last updated 24 years ago.

**Unexpected Financial
Obligations and Erosion
of Trust**

Ineffective grant management may require the City to return funds received and lose public trust. Without updated documented procedures in place, City departments may be at risk of not meeting grant requirements when using the grant funding internally or as a pass through agency providing grant funding to other organizations.

Although the City manages millions of dollars in grant awards, a few past audits have identified ineligible or unsupported costs in some City-managed grants. When audits find ineligible or questionable costs, the City must find documentation to support questioned costs or return the funds received. In addition to unexpected financial obligations, unfavorable news reports regarding the audit findings lead to an erosion of trust.

For example, in January 2016, the Office of the Inspector General audited \$4 million of the \$6 million of Federal Emergency Management Agency Public Assistance grant funds awarded to the City for damages resulting from heavy rainfall and flooding that occurred from December 17, 2010 through January 4, 2011. The audit found \$1.2 million of expenditures were ineligible. After the City provided supporting information for a portion of the expenditures, the City still owed a total of \$589,013.

⁵ CityNet is an intranet site for the City of San Diego employees that provides many resources. These essential resources include Administrative Regulations and features City operations that cross over departmental functions.

Recommendation #5

Corporate Partnerships and Development staff in conjunction with the Comptroller should strengthen the control framework for grant management by documenting and implementing accountability expectations communicated in the published Grant Administration Manual and updated Administrative Regulation (AR) 1.80 described in recommendations 2 and 3. At a minimum the Grant Administration Manual and updated AR should:

- Outline the authority and responsibility for the control environment, risk assessment of the grant management process, entity-wide communication, and process monitoring;
- Include procedures to provide for grant management training opportunities or direct departments to ensure staff has received sufficient training;
- Direct City departments with grants to establish written procedures supplementing the manual for effective administration of grants that addresses financial management, internal controls, inter-departmental communication, and sub-recipient monitoring; and
- Clearly identify who in the City is responsible for providing oversight to the various aspects of grant management. (Priority 2)

Conclusion

When applying for grants and managing about \$80 million in grants per year, City management needs to maintain strong internal controls to ensure grant funds are used appropriately. We found that standardized guidance may improve City grant opportunities and the City can improve the control framework for grant management with additional policies and procedures.

Specifically, we found that the City does not have a standardized process for identifying and applying for grants. Current City guidelines for grant applications need to be updated with a process that can provide direction for City staff. The City's grant program, operates with limited guidance and oversight, may not be identifying all grants that could supplement the City's budget. Also, the program may be utilizing the City's limited resources to apply for grants that are not consistent with the City's mission, strategic priorities, or plans. The City's process could be improved with a standardized review procedure to ensure a fully vetted analysis of funding requirements prior to grant applications being submitted. We recommended Corporate Partnerships and Development staff implement their plans to streamline the process for the grant approvals, update administrative regulations related to grants, and publish the draft grant manual that they are currently working on.

Additionally, we found that the City can improve the control framework for managing the grants departments receive by developing policies and procedures that help ensure proper controls are in place. The City Comptroller is involved in assuring that controls are established and that financial system data is complete. However, departments are solely responsible for managing compliance with grant agreements, including the compliance of sub-recipients. We found that most departments do not have written procedures in place to ensure proper grant administration, and the City has not required documented departmental procedures. We recommended that Corporate Partnerships and Development Program staff, in conjunction with the Comptroller, strengthen the control framework to ensure accountability for departmental grant responsibilities.

Recommendations

We made five recommendations to improve the City's grants program and management agreed to implement all the recommendations.

Recommendation #1

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- Require departments to analyze grant requirements to ensure the grant is consistent with the government mission, strategic priorities and/or plans, and a multi-year cost/benefit analysis to avoid the risk that the government will unexpectedly spend its own funds to support a grant prior to preparing the grant application;

- Establish a Grant Oversight Committee and require departments to provide a comprehensive analysis before grant application and approval; and
- Create a review process for denied grant applications. (Priority 2)

Recommendation #4

The Financial Management Department should incorporate grant identification into the formal annual budget process. (Priority 3)

Recommendation #5

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- Outline the authority and responsibility for the control environment, risk assessment of the grant management process, entity-wide communication, and process monitoring;
- Include procedures to provide for grant management training opportunities or direct departments to ensure staff has received sufficient training;
- Direct City departments with grants to establish written procedures supplementing the manual for effective administration of grants that addresses financial management, internal controls, inter-departmental communication, and sub-recipient monitoring; and
- Clearly identify who in the City is responsible for providing oversight to the various aspects of grant management. (Priority 2)

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class ⁶	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

⁶The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

Appendix B: Objectives, Scope, and Methodology

Objectives In accordance with the City of San Diego (City) Office of the City Auditor's Fiscal Year (FY) 2017 Work Plan, we conducted a performance audit of the City's Grant Management process. Our overall objective was to assess whether the City has adequate internal controls to efficiently and effectively manage grants. The specific objectives were to:

- Determine if the City efficiently applies for grants; and
- Determine if the City has established adequate internal controls to effectively manage grants received.

Scope and Methodology We initiated this audit in February and completed field work in September 2017. Our audit focused on the period from FY 2015 to FY 2017. To achieve our audit objectives, we interviewed City staff and management from various departments to determine roles and responsibilities. We also reviewed active grant data from the Office of the Comptroller and Corporate Partnerships and Development. We compared City of San Diego grant revenues received to other cities of similar size. We also evaluated existing Citywide grant guidance and reviewed existing grant guidance provided by oversight bodies, such as the Government Finance Officers Association (GFOA).

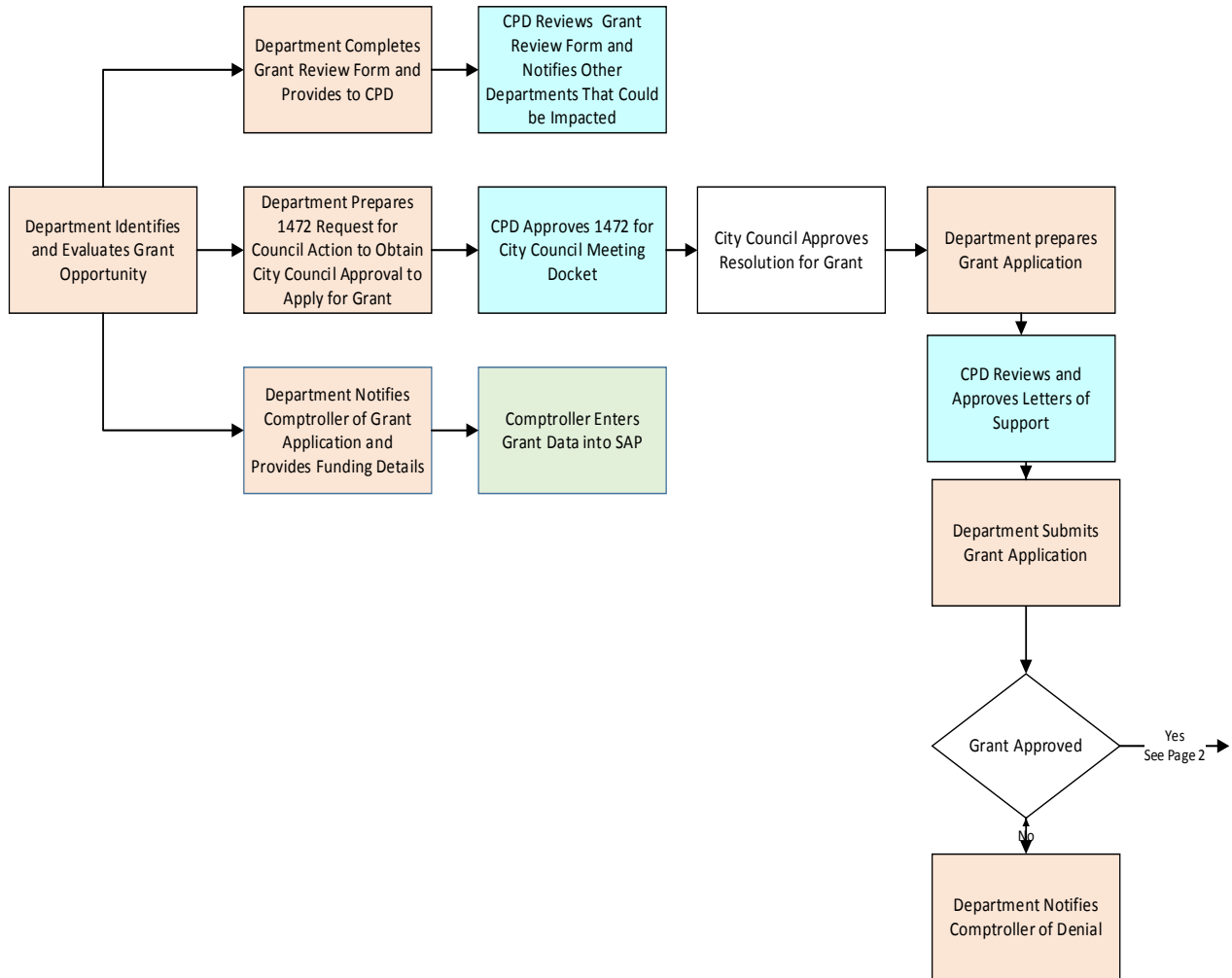
During our preliminary planning, we discovered that the grant management process and control environment is decentralized and varies among City departments. We surveyed 27 departments on grant identification, application, management, and sub-recipient monitoring in order to document any controls that exist within the departments. We also evaluated existing controls identified against criteria provided by the GFOA and documented controls missing from the City's grant management program.

Internal control testing was limited to reviewing the adequacy of the policies and procedures for identifying grants that would be beneficial to the City. Testing included identifying controls for providing advance notice of grants prior to application so all grant components can be evaluated and understood

beforehand and to ensure that grants are in alignment with the City's mission and strategic priorities. We also evaluated the adequacy of policy and procedures related to developing a project plan for implementing the grant, ensuring efficient financial management, and evaluating impacts of grant-funded programs, and monitoring sub-recipients' management of funds.

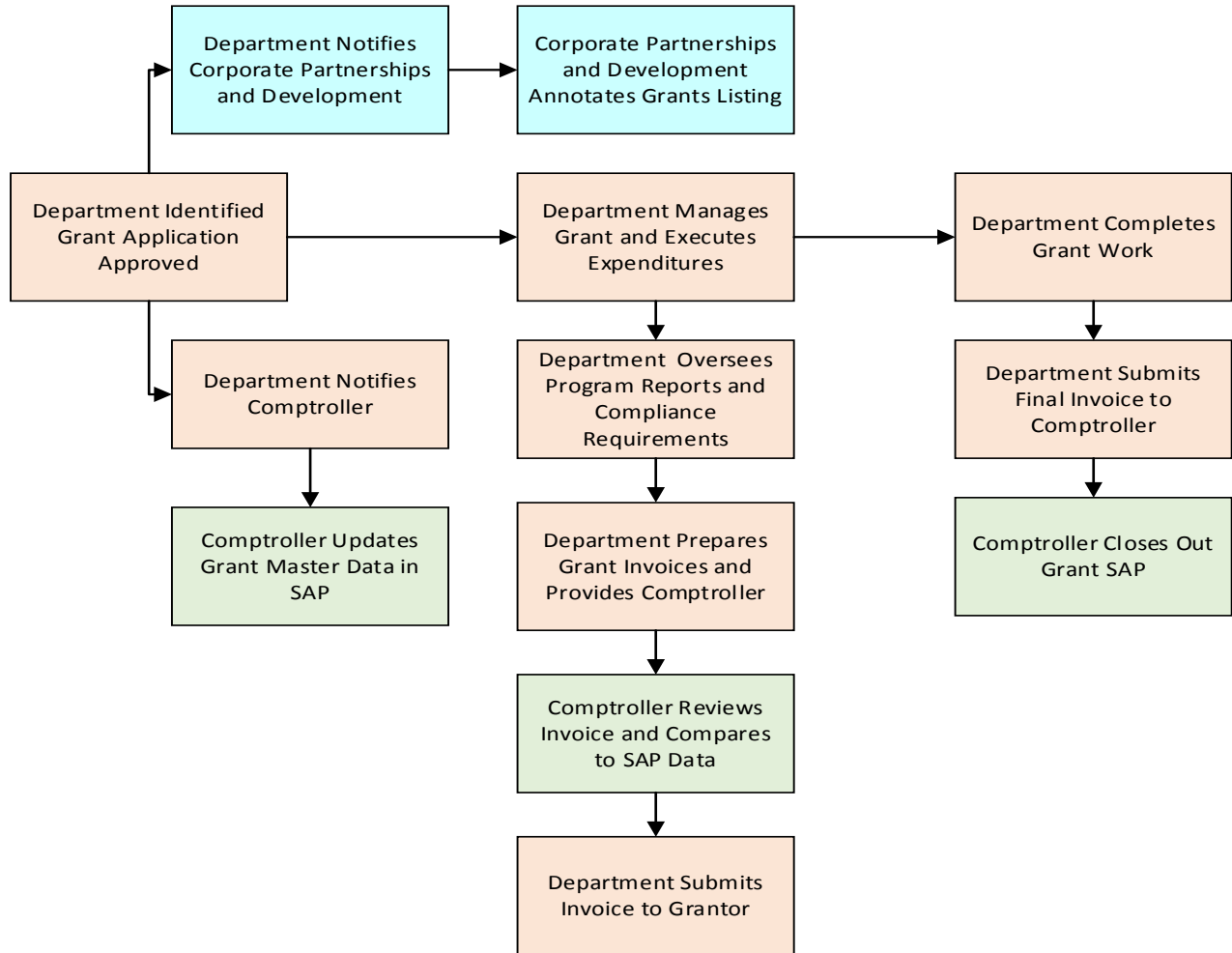
We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.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

Appendix C: San Diego's Decentralized Grant Identification and Application Process



Source: OCA generated from interviews with Corporate Partnerships and Development (CDP) and the Office the Comptroller.

Appendix D: San Diego's Decentralized Grant Execution and Closeout Process



Source: OCA generated from interviews with Corporate Partnerships and Development and the Office the Comptroller.

Appendix E: San Diego Organizations Surveyed

City Organizations Surveyed for Grant Audit*	
1	American Disability Act Compliance and Accessibility (Office of)
2	City Comptroller
3	Commission For Arts and Culture
4	Commission on Gang Prevention and Intervention
5	Communications Department
6	Corporate Partnerships and Development Program
7	Debt Management Department
8	Development Services Department
9	Economic Development Department
10	Environmental Services Department
11	Financial Management Department
12	Fire-Rescue Department
13	Fleet Services Department
14	Homeland Security (Office of)
15	Information Technology Department
16	Library Department
17	Park and Recreation Department
18	Performance and Analytics Department
19	Planning Department
20	Police Department
21	Public Utilities Department
22	Public Works Department
23	Purchasing and Contracting Department
24	Real Estate Assets Department
25	Risk Management Department
26	Special Events and Filming Department
27	Transportation and Storm Water Department

Source: OCA generated from survey respondents.

*Referred to throughout the report as "departments."

Appendix F: Sources Departments Used to Identify Grants

Department		Grants Were Identify By:					
		Previous Grant	Previous Agency Funding	Agency Provided Notification	Newsletter Subscription	Corporate Partnerships and Development	Other City Department
1	ADA Compliance and Accessibility*			✓			✓
2	Arts and Culture	✓	✓	✓	✓	✓	✓
3	Economic Development			✓			
4	Environmental Services	✓	✓	✓			
5	Fire Rescue	✓	✓	✓			
6	Gang Prevention and Intervention		✓	✓			
7	Homeland Security	✓	✓				
8	Information Technology						✓
9	Library	✓	✓	✓	✓		✓
10	Park and Recreation	✓	✓	✓	✓	✓	✓
11	Performance and Analytics			✓	✓		
12	Planning	✓	✓	✓	✓		
13	Police	✓	✓	✓	✓	✓	
14	Public Utilities	✓	✓	✓	✓		
15	Real Estate Assets		✓	✓			
16	Risk Management					✓	
17	Special Events and Filming						✓
18	Transportation and Storm Water	✓	✓	✓	✓		
Total		10	12	14	8	4	6

Source: OCA generated from survey responses.

*American Disability Act (ADA).

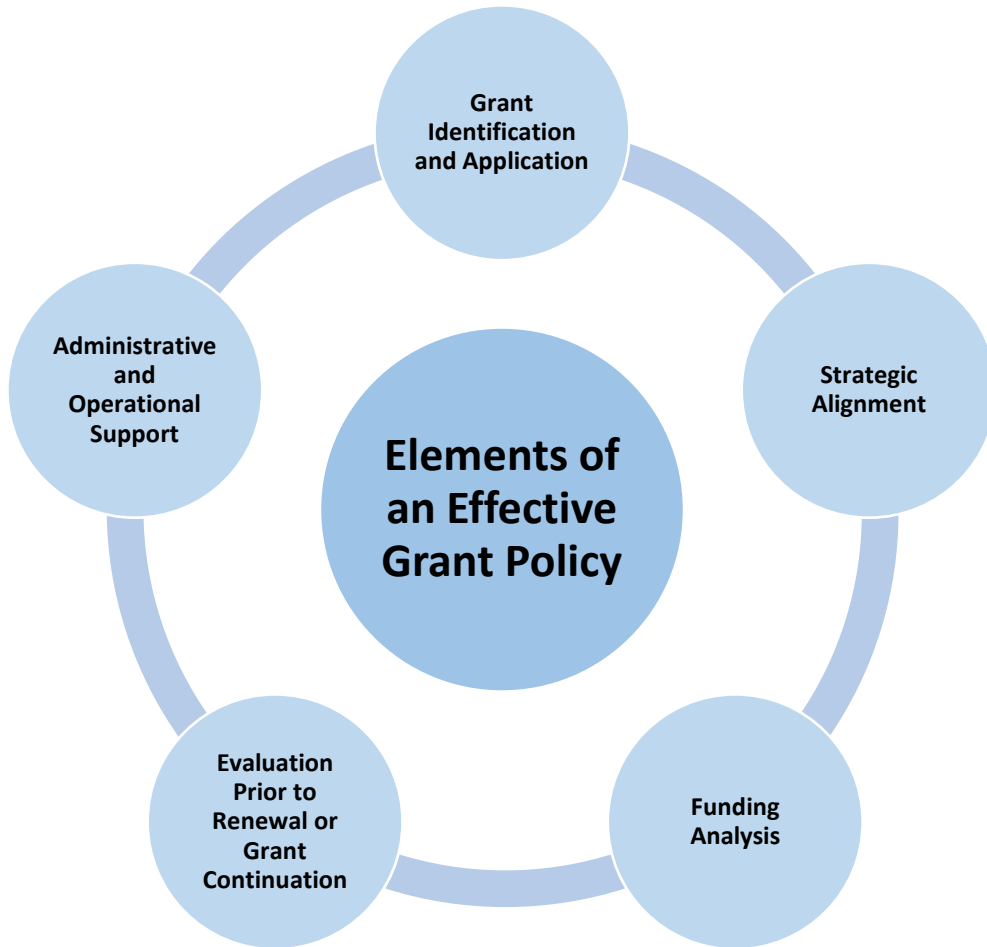
Appendix G: Department Actions When Grant Applications Are Denied

Department		FY 2017		
		Applications Submitted	Grants Received	Value of Grants
1	Arts and Culture	2	2	\$155,000
2	Economic Development	1	1	\$100,000
3	Environmental Services	3	3	\$2,600,000
4	Fire Rescue	3	0	\$0
5	Homeland Security	1	1	\$16,000,000
6	Library	2	7	\$642,084
7	Park and Recreation	7	7	\$8,600,000
8	Planning	4	3	\$5,457,450
9	Police	8	7	\$2,577,306
10	Public Utilities	13	8	\$8,762,598
11	Real Estate Assets	1	1	\$1,000,000
12	Transportation and Storm Water	3	3	\$1,200,000
Total		48	43	\$47,094,438

Department		Have Grants Ever Been Denied	Notify Other Departments of Denial	Follow-up for Denial Rationale	Share Rationale With Another Department
1	Arts and Culture	Yes	Yes	Yes	Yes
2	Economic Development				
3	Environmental Services	Yes			
4	Fire Rescue	Yes			
5	Homeland Security	Yes	Yes	Yes	Yes
6	Library	Yes		Yes	
7	Park and Recreation				
8	Planning	Yes	Yes	Yes	
9	Police	Yes		Yes	
10	Public Utilities	Yes	Yes	Yes	Yes
11	Real Estate Assets	Yes		Yes	Yes
12	Transportation and Storm Water				
Total		9	4	7	4

Source: OCA generated from survey responses.

Appendix H: GFOA Best Practice of Establishing an Effective Grants Policy



Source: OCA generated from GFOA published policy.



THE CITY OF SAN DIEGO

MEMORANDUM

DATE: October 20, 2017

TO: Eduardo Luna, City Auditor

FROM: Natasha Collura, Executive Director, Corporate Partnerships and Development

SUBJECT: Management Response to Performance Audit of the City's Grants Management

This memorandum is Management's response to the audit recommendations made in the Performance Audit of the City's Grants Management.

The City acknowledges and appreciates the efforts of the Office of the City Auditor's Performance Audit of Grants Management. Recognition of the citywide grant application process as well as grants management and the continued efforts undertaken by City departments prior to and throughout this audit are also appreciated.

The following summarizes the recommendations contained in this report and the City's responses to them.

Recommendation 1: Corporate Partnerships and Development Program staff should present the proposed streamlined process reducing the number of grants that require City Council approval to City Council for action. (Priority 2)

Management Response: Agree with recommendation.

Corporate Partnerships and Development (CPD) will seek approval from City Council to give approval authority to the newly established City Grants Oversight Committee. This will allow designated City management to apply for, accept, appropriate, and expend all grants in an amount not to exceed \$1 million. The \$1 million threshold for each grant will capture the majority of grants going to council and therefore streamline the grants application process. This in turn will allow for increased capacity to apply for additional grant opportunities. It is anticipated the item will be presented at the November 15th Budget Committee and December 12th Council Meeting.

Date to be completed: December 12, 2017

Recommendation 2: Based upon City Council action, Corporate Partnerships and Development (CPD) Program staff should update Administrative Regulation (AR) 1.80, Grant Application Procedures dated August 2, 1993 to:

- Establish CPD's authority over the City's grant application process;
- Provide a centralized database available to multiple users to facilitate the coordination efforts of grant identification and application; and
- Identify departmental training needs and take action to provide Citywide training for common grant identification and application needs. (Priority 2)

Management Response: Agree with recommendation.

Proposed revisions to A.R. 1.80 were furnished to Office of the City Auditor at audit commencement. A.R. 1.80 will be finalized pending the outcome of City Council's action, as referenced in Recommendation #1.

- Establish CPD's authority over the City's grant application process.

The revisions to the A.R. 1.80 will outline that CPD is the authority over the City's grant application process.

- Provide a centralized database available to multiple users to facilitate the coordination efforts of grant identification and application.

CPD currently forwards state and federal funding notifications to departments. However, to assist in the identification and application of grants, CPD has consolidated a current and comprehensive list of sources so that City staff can identify funding sources and receive funding notifications. These sources include, but are not limited to, Grants.gov, GrantFinder.com, and Grantwatch, to assist in the identification and application of grants.

- Identify departmental training needs and take action to provide Citywide training for common grant identification and application needs.

Based on the survey results compiled by OCA as referenced in Exhibit 4 of the Audit, CPD has begun the process of identifying the departments' top training priorities. A digital survey is being drafted and is scheduled to be distributed to City Departments in December 2017 to determine training priorities. Once these priorities have been identified, focused trainings will be available for staff to attend. Currently, CPD is collaborating with GrantWriting USA and Grantsmanship Center to host workshops for grant writing, grants management, and how to compete for federal grants. Two trainings are already confirmed for November and December and more will be announced in early 2018. CPD and Comptroller will conduct annual meetings to review current processes and procedures and to solicit input on process improvement. Additionally, CPD and Comptroller will develop mandatory grants training to be implemented in SAP's Success Factors in order to ensure that new staff are aware of current policies and procedures.

Date to be completed: Survey completion January 2018; Success Factors Training Module completion March 2018; other training will be on-going

Recommendation 3: After addressing suggested audit changes and incorporating revisions to AR 1.80, Corporate Partnerships and Development Program staff should publish and implement the draft Grants Administration Manual. This manual at a minimum should:

- Encourage City departments to systematically search for grant opportunities;
- Require departments to analyze grant requirements to ensure the grant is consistent with the government mission, strategic priorities and/or plans, and a multi-year cost/benefit analysis to avoid the risk that the government will unexpectedly spend its own funds to support a grant prior to preparing the grant application;
- Establish a Grants Oversight Committee and require departments to provide a comprehensive analysis before grant application and approval; and
- Create a review process for denied grant applications. (Priority 2)

Management Response: Agree with recommendation.

The original draft Grants Administration Manual was created in early 2016 by CPD staff with City department input. In early 2017, the manual was updated and shared with City Auditor at audit commencement and throughout the duration of the audit. At the same, revisions made based upon Auditor Department staff input.

- Encourage City departments to systematically search for grant opportunities.

The annual budget reference manual (BRM) will provide a prompt to search for grant opportunities and provide a link to CityNet's Grant and Gifts Resources Center. Funding resources for staff are listed on CityNet's Grants and Gifts Resource Center and will also be included in the Grants Administration Manual. Additional resources will be added as they are identified.

- Require departments to analyze grant requirements to ensure the grant is consistent with the government mission, strategic priorities and/or plans, and a multi-year cost/benefit analysis to avoid the risk that the government will unexpectedly spend its own funds to support a grant prior to preparing the grant application.

The draft Grants Administration Manual states that the Grants Oversight Committee will ensure that grant requirements are analyzed to ensure consistency with government mission, strategic priorities and/or plans, and to ensure a cost/benefit analysis is performed to avoid the risk that the government will unexpectedly spend its own funds to support a grant prior to preparing the grant application. To reinforce the importance of analyzing grant requirements prior to preparing the grant application, the Grants Administration Manual will stress that this review remains a key component of the department application process and is included in the Grants Oversight Committee process.

- Establish a Grant Oversight Committee and require departments to provide a comprehensive analysis before grant application and approval.

The Grants Oversight Committee members were notified of their responsibilities in September 2017. The roles and duties of the Grants Oversight Committee have been clearly identified in the draft grants manual. In addition, the development of the application process through SharePoint (the on-line, internal document sharing forum) was created to ensure comprehensive analysis is included in the grant application form for Grants Oversight Committee review.

- Create a review process for denied grant applications.

SharePoint will be utilized as the mechanism to filter out grants that are expecting notification of approval or denial. When there is a denial of funding, CPD will create standard language for all City staff to use when contacting funding agencies to debrief the application. CPD will create a form for staff to report details of denial which will be placed in SharePoint with the original Grant Request Form for all City staff to review prior to applying to this funding source in the future.

Date to be completed: January 31, 2018

Recommendation 4: The Financial Management Department should incorporate grant identification into the formal annual budget process. (Priority 3)

Management Response: Agree with recommendation.

The annual budget reference manual (BRM) will include instructions that will prompt departments to proactively search for qualified grant opportunities when preparing expenditure budget requests and will provide a link to CityNet's Grants and Gift Resource Center that will provide information on funding sources. If a potential source of grant funds is identified for an expenditure budget request, the BRM will require that, as part of the annual budget development process, departments receive approval from the Grants Oversight Committee before submitting expenditure budget requests that will be supported by that grant funding. The BRM will also provide requirements and guidelines for budgeting grant funding, as well as a link to the City's Grants Administration Manual. Finally, Financial Management will work with the Grants Oversight Committee during the budget development process to evaluate the budget against projected cash flows of current and future grants.

Date to be completed: April 2018 for the FY 2019 budget development process

Recommendation 5: Corporate Partnerships and Development staff in conjunction with the Comptroller should strengthen the control framework for grant management by documenting and implementing accountability expectations communicated in the published Grant Administration Manual and updated Administrative Regulation (AR) 1.80 described in recommendations 2 and 3. At a minimum the Grant Administration Manual and updated AR should:

- Outline the authority and responsibility for the control environment, risk assessment of the grant management process, entity-wide communication, and process monitoring.

- Include procedures to provide for grant management training opportunities or direct departments to ensure staff has received sufficient training.
- Direct City departments with grants to establish written procedures supplementing the manual for effective administration of grants that addresses financial management, internal controls, inter-departmental communication, and sub-recipient monitoring.
- Clearly identify who in the City is responsible for providing oversight to the various aspects of grant management. (Priority 2)

Management Response: Agree with recommendation.

Upon completion of Recommendation #1, A.R. 1.80 and the Grants Administration Manual will be updated to include this recommendation component.

- Outline the authority and responsibility for the control environment, risk assessment of the grant management process, entity-wide communication, and process monitoring.

The Administrative Regulation 1.80 and the Grant Administration Manual will outline grant management responsibilities. These documents will provide clarity for each step in the grant management process, control environment, risk assessment of grant management process, entity-wide communication, and process monitoring.

- Include procedures to provide for grant management training opportunities or direct departments to ensure staff has received sufficient training;

The A.R. 1.80 and Grants Administration Manual will include the requirement to ensure that staff is receiving sufficient training. Since the grant management process is decentralized, training will be identified by CPD, Comptrollers, and City departments. Once identified, these trainings will be made available to staff. CPD will be identifying the training as it relates to the application process. Comptrollers will be identifying the training as it relates to financial reporting, Uniform Guidance, and general grant management. Departments will be identifying the training as it relates to the specific grants the department applies for and are awarded.

- Direct City departments with grants to establish written procedures supplementing the manual for effective administration of grants that addresses financial management, internal controls, inter-departmental communication, and sub-recipient monitoring.

The Administrative Regulation 1.80 and the Grant Administrative Manual will provide a general outline of the grant management process. Departments involved in complicated, lengthy, or detailed operations will be directed to work with the Internal Controls Section of the Office of the City Comptroller to develop and issue Process Narratives and/or Work Instructions to detail the performance of these

operations. These supplemental documents will address any financial management, internal control, inter-departmental communication, sub-recipient monitoring, or other specific grant requirements not mentioned in the Administrative Regulation 1.80 or the Grant Administration Manual.

- Clearly identify who in the City is responsible for providing oversight to the various aspects of grant management. (Priority 2).

Together, the Grant Administration Manual and A.R. 1.80 will identify each phase of the grant management process and identify the responsible person(s) providing oversight.

Date to be completed: March 2018



Natasha Collura
Executive Director, Corporate Partnerships and Development

cc: Scott Chadwick, Chief Operating Officer
Stacey LoMedico, Assistant Chief Operating Officer
Rolando Charvel, Chief Financial Officer
David Graham, Deputy Chief Operating Officer, Neighborhood Services
Paz Gomez, Deputy Chief Operating Officer, Infrastructure and Public Works
Ron Villa, Deputy Chief Operating Officer, Internal Operations
Scott Clark, Interim City Comptroller
Marshall Anderson, Director of Council Affairs, Office of the Mayor
Kenneth So, Deputy City Attorney, City Attorney's Office
Kyle Elser, Assistant City Auditor, Office of the City Auditor
Sarah Brenha, Program Manager, Corporate Partnerships and Development