



## Kids Hope Alliance Grants Audit - #846

### Executive Summary

#### ***Why CAO Did This Review***

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the grants received by the City through the Kids Hope Alliance (KHA) and its predecessor the Jacksonville Children's Commission.

Chapter 77 of the Municipal Code established KHA as a seven-member Board within the Executive Branch of the consolidated government to provide a continuum of services for the City's children and youth. Specifically, KHA is responsible for developing, overseeing, managing, and implementing an Essential Services Plan that will provide a comprehensive and integrated system of essential programs and services that address the critical needs of the City's children and youth.

Section 77.109(a)(8) of the Municipal Code authorizes KHA to apply for grants from Federal, State, and privately funded sources to provide programs that are consistent with its mission. As a result, KHA could expand its programming capabilities by pursuing grant award opportunities that appear to be sound investments and thereby maximize its overall impact.

#### ***What CAO Found***

Overall, we found that KHA had significant issues related to the management of grant funds received. We found various findings and internal control weaknesses, including the several issues noted below.

- KHA lacked written standard operating procedures, which likely contributed to many of the issues noted below and otherwise in the report.
- Grants that ended were not closed out in a timely manner and unused funds that remained were often reclaimed or re-purposed by KHA without securing evidence of the grantor's authorization to do so.
- We noted compliance issues for more than half of the non-financial requirements included in our test.
- Grant opportunities, including KHA match requirements, were not always properly disclosed to the KHA Board before KHA pursued them, contrary to the Board's requirement.
- We found various issues related to how KHA retained records related to the grants they received.
- We found instances where KHA requested untimely reimbursement from the grantor or utilized City matching funds to pay for costs that were not allowable per the respective binding agreements of the grants in our test.

#### ***What CAO Recommends***

- KHA should establish new written procedures and enhance existing written procedures, as needed, in a way that ensures compliance with the relevant laws, rules, and regulations. More specific details can be found in our recommendations to the respective issues throughout the report. For example:
  - establishing new written procedures for various processes that existed in practice but were not yet documented.
  - enhancing KHA's written policy for closing grants by incorporating a tracking mechanism and a step for retaining documented evidence of the grantor's authorization related to unused funds.



**Council Auditor's Office**

**Kids Hope Alliance Grants Audit**

**February 25, 2020**

**Report #846**

**Released on: April 29, 2021**

**EXECUTIVE SUMMARY**

**AUDIT REPORT #846**

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**OFFICE OF THE COUNCIL AUDITOR**  
 Suite 200, St. James Building



February 25, 2020

Report #846

Honorable Members of the City Council  
 City of Jacksonville

**INTRODUCTION**

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of grants received by the City through the Kids Hope Alliance (KHA) and its predecessor the Jacksonville Children’s Commission. Chapter 77 of the Municipal Code established KHA as a seven-member Board within the Executive Branch of the consolidated government to provide a continuum of services for the City’s children and youth. Specifically, KHA is responsible for developing, overseeing, managing, and implementing an Essential Services Plan that will provide a comprehensive and integrated system of essential programs and services that address the critical needs of the City’s children and youth.

Section 77.109(a)(8) of the Municipal Code authorizes KHA to apply for grants from Federal, State, and privately funded sources in order to provide programs that are consistent with its mission. As a result, KHA could expand their programming capabilities by pursuing grant award opportunities that appear to be sound investments and thereby maximize their overall impact. Accordingly, in the 2018 KHA Essential Services Plan, one of the four strategies KHA outlined to address funding and sustaining evidence-based programs was to pursue grants early, often, and at all levels within the organization.

As demonstrated in the chart below, grant funds comprised 19-25% of KHA’s overall beginning budgets in recent years.

<b>City Fiscal Year</b>	<b>Estimated Revenue From Grants (A)</b>	<b>City Match (B)</b>	<b>Total Grant &amp; City Match (C)</b>	<b>Other City Funding (D)</b>	<b>Total KHA Budget (E)=(C)+(D)</b>	<b>Grant Funds % of Total KHA Budget (F)=(A)/(E)</b>
2019/20	\$ 8,094,500	\$ 1,329,671	\$ 9,424,171	\$ 33,781,715	\$ 43,205,886	19%
2018/19	10,188,830	1,404,218	11,593,048	31,240,330	\$ 42,833,378	24%
2017/18	8,679,971	1,246,500	9,926,471	28,728,068	\$ 38,654,539	22%
2016/17	7,944,145	1,404,218	9,348,363	22,907,510	\$ 32,255,873	25%

The City also recorded in-kind contributions attributable to the grants received by KHA, such as program space in the KHA building or program-related security services provided by the Jacksonville Sheriff’s Office. The collective value of the in-kind contributions ranged from around \$175,000 to \$2 million annually.

KHA experienced various instances of structural and employee changes immediately before and during our audit. These changes included:

- Prior to January 1, 2018, the City's method for providing children services involved two separate entities: the Jacksonville Children's Commission (provided general children services) and the Jax Journey Oversight Committee (oversaw and funded programs related to the City's at-risk youth).
- City Council enacted City Ordinance 2017-563-E on October 10, 2017, which effectively replaced the previous structure with KHA on January 1, 2018 and authorized the mayor to appoint an Interim Chief Executive Officer to manage the three entities through a 180-day transition period.
- The KHA Board replaced the Interim Chief Executive Officer with a new KHA Chief Executive Officer in April 2018 who subsequently hired a Chief Operating Officer and a Chief Programs Officer in June and July of 2018, respectively.
- During our audit, all three employees left the employment of KHA for different reasons.

Although the history above presented certain challenges during the audit for us and KHA staff, KHA was cooperative throughout the audit process.

Section 77.109(a)(18) of the Municipal Code empowered KHA to make and adopt bylaws, rules, regulations, and policies for the Board's guidance, operation, and governance. Bylaws were adopted on January 16, 2019 and prescribed that the Board would be responsible for reviewing, developing, and approving policies consistent with City ordinance and the Essential Services Plan to drive the direction, scope, and priorities of KHA. At the time of our audit, Board policies were still being developed.

Section 77.108 specifies that although KHA was responsible for the Essential Services Plan, the actual services and activities were required to be provided through third-party service providers, City agencies, or other entities, with limited exceptions. Therefore, KHA's acceptance of a grant award generally required them to procure a service provider for the program and the designated entity received grant funds via KHA. In general, these subrecipients would be subject to the same laws, rules and regulations imposed on KHA by the respective entities who provided the grant funds to KHA (grantors).

## **STATEMENT OF OBJECTIVE**

To determine whether KHA properly managed grants received in accordance with requirements specified by the respective grantors in the binding agreements.

## **STATEMENT OF SCOPE AND METHODOLOGY**

Our population included grants that were received by KHA and had a balance (i.e., anything except \$0) in the City's accounting system at any point within the audit period (October 1, 2016 through March 31, 2019).

During the preliminary phase of the audit, we researched the City's Municipal Code, Florida Statutes, the Code of Federal Regulations, and other laws, rules, and regulations pertaining to the scope. We interviewed KHA personnel with related responsibilities, observed relevant processes, reviewed applicable financial and information systems, inspected significant records, and completed other various tests to analyze KHA's overall risk related to grant awards that they received.

For the detail testing phase, we requested the respective binding agreements between KHA and the grantor for all grants within the audit scope. We selected three of the grants to focus certain testing on, as noted below. Our selection included various service categories and binding agreement types. Specifically:

- one grant provided a juvenile justice program and was governed by KHA's application combined with a subsequently executed contract,
- one grant provided an out of school time program that was essentially KHA's application without a separate contract, and
- one grant provided a special needs program through a contract without an application.

For each of those three grants we reviewed the binding agreement and documented the individual requirements in a testing spreadsheet. We assigned each requirement to one of six categories based on how it aligned with KHA's processes for handling 1) the deposit of grant funds, 2) allowable costs, 3) remaining funds, 4) monitoring, 5) deliverables to the grantor, and 6) other requirements. As noted below, our test of remaining funds was not limited to the three selected grants.

Regarding the Financial Categories:

- 1) Deposit of Funds – For the three grants for testing noted above, we reviewed the binding agreements and created a list of 64 expected deposits based on contract terms (note in the end there ended up being 65 deposits) and reconciled those details with details from the City's accounting system and KHA records.
- 2) Allowable Costs – For the three grants selected for testing noted above, we selected a sample of:
  - a. 1 revenue transaction related to the juvenile justice program representing 24% of the grant funds received during the audit period,
  - b. 3 revenue transactions related to the out of school time program representing 19% of the grant funds received during the audit period, and
  - c. 5 revenue transactions related to the special needs program representing 13% of the grant funds received during the audit period.

We used supporting documentation from the City and KHA to test the associated expenditures for compliance with the binding agreement requirements related to allowable costs and reasonableness.

- 3) Remaining Funds – This testing was not restricted to the three grants selected for detailed testing but instead included all grants which moved revenue from where it had originally been deposited (i.e., indication of a closeout). We identified 105 such transactions in the City's accounting system and then reviewed the City's supporting documentation to determine appropriateness, confirm proper authorization and approval, and identify the overall final transaction for each respective grant. We recalculated how much unused

funding appeared to belong to the grantor or the City at the end of the grant based on our review of the binding agreement provisions and activity in the accounting system. We then compared our recalculations to the actual transactions that transferred the remaining balance. In addition, for each grant that ended during the audit period we compared the date of the final transaction to the grant period end date per the binding agreement to determine whether KHA closed out the grants in a timely manner.

Regarding the non-financial categories noted above of (4) monitoring, (5) deliverables, and (6) other, we updated the testing spreadsheets for the three grants to document any previously identified instances of non-compliance (e.g., noted during the preliminary survey or in testing the financial categories) and then designed and executed limited tests that could identify non-compliance for the other requirements. Note we performed direct testing for 158 non-financial category requirements for the three grants. After a description of the test results had been documented for each requirement, we tabulated the results by grant and in total and then provided the spreadsheets to KHA for their review and feedback to gain assurance that our results were accurate.

We also performed analytical procedures applicable to the entire population. Specifically, we reviewed the relevant data from the City's accounting system to identify any unusual transactions or any payments that appeared to be for fines or penalties and then reviewed supporting documentation to investigate as needed.

Unless specifically stated otherwise, based on our selection methods and testing of testing transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions on those results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

## **REPORT FORMAT**

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that management's objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

## **STATEMENT OF AUDITING STANDARDS**

We conducted this performance audit in accordance with 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 conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective.

## **AUDITEE RESPONSES**

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from KHA, via Michael Weinstein, KHA's Chief Executive Officer, in a memorandum dated April 8, 2021 and from the City's Accounting Division, via Marcia Saulo, City's Comptroller, in a memorandum dated April 7, 2021.

## **AUDIT CONCLUSION**

Overall, we found that KHA had significant issues related to the management of grant funds received.

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## **AUDIT OBJECTIVE**

**To determine whether KHA properly managed grants received in accordance with requirements specified by the respective grantor in the binding agreements.**

### ***Finding 1 \*Remaining Funds were Not Always Managed and Tracked Properly\****

We identified various issues with the closing out of grants relating to timing and the calculations of the close-out during the audit. Section 200.343 of the Code of Federal Regulations specifies the actions a non-Federal entity such as KHA must take to complete the closeout process for grants that they receive. KHA's responsibilities included submitting all required reports and liquidating all obligations incurred under the award within 90 calendar days, and promptly refunding any balances of unobligated cash that was paid in advance or was not authorized to be retained for use in other projects.

A grant could include multiple program years with beginning and end dates that differ from the City's fiscal year. The City's Accounting system included a field titled, "grant detail", which was typically used by KHA to account for each specific program year within an overall grant. As a result, since the comprehensive financial activity for any one grant could be spread out across multiple grant years there could be multiple "grant details" for one grant. Funding for multi-year grants was often awarded to KHA by program year based on a budget that was specific to that year. Therefore, we looked at how each of these "grant details" (or grant periods) were closed-out.



Our review of the City's accounting system identified 19 grant periods that had activity during the audit period that included the final transaction for the grant period (i.e., financially closed-out or carried on to a future grant year) and a known end date of the grant period. For 18 of them, or 95%, the posting date for the final transaction exceeded the date that was 90 days after the end date for the grant period, and the number of excess days ranged from 79 to 3,272. We also identified four other grant periods that ended during the scope although the account did not appear to have been closed out. Specifically, the grant balances were \$-6,731, \$52,025, \$150,609, and \$203,135 instead of zero at the end of the audit period (March 31, 2019). However, March 31, 2019 exceeded the grant period end dates by 182, 639, 151, and 199 days, respectively.

From the 19 grant periods, we identified 105 transactions that moved funds from the original location where they were deposited. Within the 105 transactions we identified 31 transactions which moved remaining funds out of the grant period. We attempted to recalculate the City and grantor shares of the remaining funds to confirm the accuracy of the actual amounts that KHA had identified as unused City or grantor funds. Certain issues related to recordkeeping created limitations for us. The test disclosed potential calculation issues for 15 out of the 31 transactions, or 48%. Specifically:

- 13 of the 19 transactions that returned funds to KHA's operating fund had issues related to the City's calculation for how much unused funding belonged to the City (total of \$700,978), including:
  - 7 for which the City returned more than they put in; however, since there was no binding agreement available it was not possible to determine accuracy (totals \$364,955).
  - 5 for which the amounts that were reclaimed by the City appeared inaccurate; however, without a final reconciliation we cannot confirm definitively (totals \$296,992).
  - 1 for which the City's entire contribution was returned without any evidence as to why (totals \$39,030).
- 2 of the 12 transactions that moved funds to a different grant period (either for the same overall grant or a completely different grant) or returned funds to the grantor had issues related to the City's calculation for how much unused funding belonged to the grantor (total of \$544,243), including:
  - 1 with a possibility that the grantor was due \$278,824 more than what the City transferred, but those funds were reclaimed by the City instead without any explanation as to why (the portion returned to the City was not included in the total above regarding the City calculation issues due to timing of the transaction occurring prior to our audit scope).
  - 1 with a possibility that the City may have been required to return an additional \$265,419 to the grantor, including \$20,221 that was returned to the City (the \$20,221 was included in the above regarding the City calculation issues).

In order to facilitate timely conclusions, we combined items that were coded as in-kind contributions and cash contributions when we determined whether the City had complied with the grant's cost-sharing requirements, which would impact the amount that could be returned to the City or whether the City met the match requirements. This was necessary because sometimes reported in-kind contributions were in fact cash contributions that were just paid from other areas

of the City budget. Also, for this testing we took the stance that any funds transferred in from a different grant period were allowed to be and were expended first.

None of the 11 transactions that moved funds to a different grant period had the required authorization from the grantor on file, including 10 that moved the funding across program years within the same grant (\$1,123,858) and 1 that moved the funding to a completely different grant (\$10,816). While it is possible these transfers were allowed, KHA needs to obtain and retain proper support for these types of transfers to avoid an unauthorized transfer for which the grantor could demand the return of funds or deny future grants.

### **Recommendation to Finding 1**

We recommend that KHA:

1. Enhance their established policy to ensure that grants awarded to KHA are closed out in a manner that is timely and results in documented compliance with the relevant laws, rules, and regulations related to closeout. For example, this could include establishing a checklist to be completed at the end of each grant period that was reviewed by another employee (and supporting documentation) which would evidence KHA's compliance with each applicable responsibility outlined in Section 200.343 of the Code of Federal Regulations and any other applicable laws, rules and regulations related to the closeout process.
2. Develop a consistent and reliable methodology that will accurately calculate and clearly demonstrate the amount of remaining funds which belong to the grantor and the City, respectively, prior to moving any funds as part of the close-out process. KHA should document the methodology as part of KHA's policies and procedures related to grant closeout.
3. Obtain and retain documentation of the grantor's authorization for how any remaining funds should be handled. This would include obtaining and retaining the settlement determination that the grantor is required to complete for each grant that is subject to Section 200.344 of the Code of Federal Regulations and request similar documentation from the grantor for any grant that is not subject to that provision.

### **KHA Response to Finding 1**

Agree                       Disagree                       Partially Agree

*KHA is working on procedures that include a closing checklist for grants. The KHA Grants Management Team will request a settlement determination from the grantor at the completion of each grant period to ensure KHA compliance with how remaining funds are to be handled under each grant. Within 90 days, the amount of money to be returned to the grantor, if any, and the amount to be returned to KHA funds, if any, will be calculated. KHA Finance will send a request for the appropriate actions to be taken to General Accounting so that the cash balance becomes zero. A TD will be sent to the Budget office to readjust the budget so that the funds available becomes zero. KHA continues to work with City Accounting to close grants in ICloud. In addition, the Finance Director will monthly review a list of grants to monitor that this deadline is met.*

**Finding 2 \*Noncompliance with Various Non-Financial Program Requirements\***

Our test of non-financial requirements disclosed issues related to KHA's compliance with 88 of the 158 (or 56% of the) requirements in the binding agreements that we decided to test. Specifically, the test for the:

1. First grant included 51 requirements and the error rate was 57% (29 discrepancies).
2. Second grant included 40 requirements and the error rate was 65% (26 discrepancies).
3. Third grant included 67 requirements and the error rate was 49% (33 discrepancies).

Of the 158 non-financial requirements in our test:

1. 21 required KHA to monitor compliance with the grant and we found issues with 16 (or 76%);
2. 50 required that KHA deliver a certain item or items (deliverables) and we found issues with 23 (or 46%); and
3. 87 required KHA to fulfill some other non-financial program responsibility and we found issues with 49 of those (or 56%).

Based on our testing, slightly less than half of the discrepancies were due to the lack of an established mechanism at KHA to address the requirements. Examples included:

- The first grant was to provide the City with a criminal justice diversion program for juveniles and required KHA to ensure that all program staff maintain the applicable minimum licensing, accreditation, training, and continuing education requirements. Although the KHA grant manager stated that the respective recipients-of-funds verify education and certification requirements when they hire the staff, KHA had not taken any steps to ensure compliance.
- The second grant was to provide the City with an academically enriched afterschool program at two school sites and the grant application required KHA to operate the program in active collaboration with those schools. Specifically, the grant required a written communication plan that identified how the various groups (program staff, regular school day teachers, school administrators, and family members) would share information about the needs and performance of the students. However, KHA was unable to provide us with a written communication plan because no steps had been taken to develop one.
- The third grant was to provide the City with a home visitation program related to child health. The grant required KHA to deliver an email to a certain address within five working days of any project staff vacancy to provide notice and allow the grantor to terminate the previous employee's access to the relevant information system network. Our review of a program staff listing identified three vacancies as of the audit period end date (March 31, 2019). We requested to see the corresponding email notifications; however, KHA's response indicated that the vacancy for one KHA position may have been relayed verbally during a scheduled meeting and there was no indication that the other two vacancies were relayed at all.

The other discrepancies were due to a flaw in the process used at KHA to address the respective requirements. Examples included:

- The first and third grants required KHA to ensure that required Level 2 background screenings were completed for subrecipient employees (note that the second grant did not

involve a subrecipient). KHA had assigned a grant manager to each grant and both stated that to ensure compliance they obtained attestations that were required by the grantor and submitted them to the grantor. Although there was evidence that the process KHA described had occurred, no one at KHA took steps to verify that the attestations received were complete (i.e., included all applicable attestations) or reliable (i.e., supported by actual Level 2 background screening results). Without additional procedures, obtaining and submitting the attestations would not have allowed KHA to effectively detect instances of non-compliance in order to apply corrective action.

- The second grant required KHA to examine continual progress toward achieving the program objectives and this included analyzing mid-year data to develop data-driven program decisions that were documented in a formative evaluation summary report that was required to be submitted to the grantor. KHA provided an email that included the formative evaluation summary as an attachment in order to demonstrate compliance. Our review of the report disclosed that KHA had provided suggestions from the program's third-party evaluator; however, there was no evidence that KHA had decided to implement the suggestions. To attempt to obtain this evidence, we reviewed a subsequent report that KHA submitted which was designed to provide status updates regarding the effect of the data-driven program decisions outlined in the formative evaluation summary; however, that report included a different set of actions in lieu of the status updates and KHA told us that those entries were based on recommendations from the relevant school principals. The final report for that program year did not indicate that any effective data-driven program decisions had been made.

Section 200.300 of the Code of Federal Regulations includes Standards for Financial and Program Management that place responsibility for compliance with all requirements of a Federal award on the respective non-Federal entities that carry out the award. Section 200.303, Internal Controls, further specifies that the non-Federal entities are required to, in part:

1. Establish and maintain effective internal control over the award that provides reasonable assurance that the non-Federal entity is managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award; and
2. Evaluate and monitor the non-Federal entity's compliance with statutes, regulations, and the terms and conditions of the award.

The overall test results indicate that KHA has an increased risk of non-compliance that could result in failure to achieve one or more program objectives or failure to execute a successful program in general. Other risks include penalties or fines that could be imposed or could lead to a decline in the amount of future grant funding that grantors are willing to award the City.

### **Recommendation to Finding 2**

We recommend that KHA establish and implement a documented process whereby the individual requirements outlined in the respective binding agreements for grants awarded to KHA are identified in a way that allows KHA to ensure substantial compliance. This could be as simple as a checklist with details for each line item regarding the steps KHA will take to ensure compliance with the respective requirement, along with a methodology for documenting the results (including who completed the step and when) and applying corrective action as needed.

**KHA Response to Finding 2**

Agree

Disagree

Partially Agree

*KHA recently reorganized to create a Grants Management Team to improve compliance over the grants. All KHA Grants Management team members will receive training on State and Federal laws, rules and regulations on the use and oversight of grant dollars. Upon receipt of a grant, the KHA Grants Management team will develop a monitoring tool that includes the specific requirements outlined in the binding agreement with the grantor. The KHA Grants Management team will conduct a monitoring visit with each subcontracted agency receiving grant funds through KHA at a minimum two times per year. This monitoring will include reviewing necessary documentation at the program site to ensure compliance with grant requirements. The monitoring tool will include a signature line indicating acknowledgement by the contract manager and the subcontracted agency representative. When a program is not meeting the minimum grant requirements outlined in the binding agreement and the monitoring tool, KHA will develop a quality improvement plan outlining steps for improvement, dates for review and signatures indicating agreement with the plan.*

**Finding 3 \*Issues with Grant Opportunity Disclosures to the KHA Board\***

The KHA Board established a process to ensure that potential grants were properly evaluated before investing staff time and resources in pursuit of an award, including the development of an application and/or program. The Board’s evaluation process applied to all grants which needed Board approval and required KHA staff and leadership to present documented responses to a series of standard questions (i.e., framework) in the appropriate Committee and Board meetings. We reviewed the Board meeting minutes and were unable to locate the framework or any other indication of Board approval for one application KHA had recently submitted at the time of our fieldwork to continue the 21<sup>st</sup> Century Grant program into year four of the overall five-year grant period. Upon inquiry, KHA staff responsible for adding the frameworks as action items in the meeting agendas cited a perception that it was not necessary for renewal applications. However, without a determination by the Board that renewals are exempt, it appears that the intent was to evaluate renewals as well as original applications.

Audit procedures identified three other grant opportunities that had been successfully approved by the KHA Governance Committee to move forward for the Board’s review and approval; however, that did not happen. One was intentionally withheld from the Board meeting after staff discovered that KHA was not eligible for the award (note this should have still moved forward to the Board and then been denied or withdrawn). The other two were accidentally omitted because the staff member responsible for adding the item to the next applicable agenda did not realize at the time that it was their responsibility. Regardless, KHA did apply for both grants without the Board’s approval.

Our review of five grant opportunities that KHA did present to the Board identified two which required the City to provide funds that were in addition to what the grants award would provide to KHA; however, the documentation KHA presented to the Board failed to make it clear that KHA would be required to contribute additional resources. Specifically, both of the grants

required a contribution of 25% of the grant awards, which could have provided up to \$500,000 (over 3 years) and \$1.1 million (over 40 months) to KHA, respectively. The match requirement is additional information that could have impacted the Board's decision.

Additionally, in response to our request for the completed framework for one grant that had been approved by the Board, KHA informed us that it had been lost. Our follow-up request to see the record for any framework that had been finalized disclosed that KHA did not have a process to obtain the required signatures or retain a finalized record of them.

### **Recommendation to Finding 3**

We recommend that KHA enhance the relevant policies and procedures in a way that ensures:

- 1) compliance with the Board's process regarding renewal applications in addition to original applications unless the Board has documented that this is not necessary;
- 2) follow-through to the Board for all grant opportunities approved in committee, regardless of whether or not management's recommendation changed in the meantime (note that any significant details identified after the committee's approval could be included in the documentation provided to the Board);
- 3) that details regarding whether KHA will be responsible for providing any resources and what exactly those resources would be are sufficiently disclosed; and
- 4) Board documents are properly retained.

### **KHA Response to Finding 3**

Agree                       Disagree                       Partially Agree

*The Board approved a new grant policy in Feb 2021 that states how grants will be approved by the Board. As a part of the Board approval, the match requirement and any additional KHA funding used to enhance the grant application will be included. KHA has implemented procedures which outlines the steps for grant approval which includes a timeline for approval, approval by staff (i.e. Finance, Senior Leadership), and a completed grant matrix to submit to the Board for final approval.*

### **Finding 4 \*Various Issues Related to the Retention of Grant Records\***

During the course of our audit, we found various issues with the retention of various grant records as described below.

KHA informed us that management implemented a policy on November 20, 2018 to ensure that finalized contractual agreements (i.e., signed and stamped with a City tracking number) were retained in a centralized location managed by the KHA Director of Administration and that prior to that policy, these agreements were typically held by various staff responsible for managing the respective agreements. The new policy also required the KHA Data Center staff to upload an electronic version, upon receipt from the City's Office of General Counsel, to a shared archive in order to ensure that the agreements were readily available to all KHA staff and also to ensure that staff consistently used the finalized version. Issues noted regarding this process included:

1. None of the seven agreements that KHA identified as current during the course of our initial inquiries and observations were maintained in the centralized location.
2. Our review of the service agreements between KHA and the subrecipients disclosed that two contract amendments related to one of the grants were not in the shared archive or in the centralized filing cabinets. Our inquiries disclosed that although the City's Office of General Counsel intended to email the finalized amendments to KHA the actual attachment was for a completely different service agreement and KHA failed to detect the discrepancy.

The State's records retention schedule required KHA to retain files related to grants that were awarded to them for five fiscal years after completion of the project and specified that project completion has not occurred until all reporting requirements are satisfied, and final payments have been made or received. Issues related to this requirement are outlined below.

1. Grant applications often contained the specific program details that KHA had committed to and often served as part of the overall binding agreement for awards received; however, KHA lacked a policy for retaining records involved in the application process.
2. Overall, we requested the binding agreements for 35 grants which had activity in the City's general ledger during the audit period and KHA was unable to provide any records for 18 of them (or 53%). It should be noted that many of the grants that KHA could not provide records for appeared to be old. Specifically, details in the general ledger indicated that grant periods for 14 of the 18 could have started anywhere between October 1, 1993 and September 30, 2010, and the range for the other four appeared to be October 1, 2015 through September 30, 2017. Regardless, activity during the audit period indicates that the respective grants were not closed out as of October 1, 2016 and therefore the City's minimum five-year retention requirement would apply at least through fiscal year 2021/22.
3. Based on inquiries with various staff there is not a consistent methodology for transferring KHA's grant records to the City's third-party vendor for off-site storage and this could result in premature destruction. Examples are below.
  - a. KHA staff responsible for one grant stated that they would have submitted the records to the storage vendor under the incorrect records retention provision and this provision would have been less than the minimum period specifically listed in the grant.
  - b. Staff responsible for a different grant claimed that program year records were sent to storage after the program year ended instead of at the end of the overall project; therefore, the records submitted for year one of five could be destroyed four years too early if not properly marked.

KHA's Services & Activities Management Information System (SAMIS) included a financial module which allowed users employed by KHA's subrecipients to electronically create and submit payment requests to KHA and allowed KHA users to electronically review and approve those requests. To achieve this for any given grant, the KHA Data Center was required to set up a workflow sequence within the system by assigning each of the four access rights to a designated user at the direction of the KHA program staff member who was responsible for managing the grant. However, the Data Center did not retain evidence of the program staff's directive and therefore we were unable to verify that the KHA employees who were able to

authorize payments or the subrecipient employees who were able to submit payment requests were appropriate.

As noted above, KHA provided certain subrecipients with access to KHA's SAMIS for various grant-related purposes. For one grant, the agreements between KHA's coordinating subrecipients and the other various service providers required the providers to email a system-generated activity report on a monthly basis to the coordinator with a separate set of service-related signature sheets in order for the coordinator to verify the accuracy of the number of units billed for each person who received services that month prior to paying the respective invoices. During our test of KHA invoices and expenditures related to this grant, we noticed that the 20 service provider invoices in our sample did not appear to be in the required system-generated format and, further, we identified seven which did not include a count for the number of service units at all. We compared system activity reports that staff generated per our request to four of the invoices that payments to the service providers were actually based on and identified discrepancies for three of the four. Specifically, two reports indicated that KHA had paid too much and the third indicated that KHA had paid too little. Upon inquiry, KHA staff told us that they were not aware of the ability to compare provider invoices to system activity and requested an explanation from the coordinating subrecipient who, in response stated that although a reconciliation may have been completed prior to payment, the activity reports (and/or any other evidence of the reconciliation) had not been retained. However, Section 5.1.2 of the coordinator's contract with KHA required them to retain client and financial records along with supporting documentation and any other documentation pertinent to the contract for six years after contract completion.

#### **Recommendation to Finding 4**

We recommend that KHA:

- 1) Establish policies and procedures that will ensure compliance with both the City's records retention requirements for grant files (including applications) and any records retention requirements imposed by the respective grantors.
- 2) Enhance policies and procedures related to filing for binding agreements including the applications for grants to ensure compliance.
- 3) Establish policies and procedures to ensure that documentation regarding access rights such as the ability to create, submit, review, and approve requests for payments are properly retained and include what the authorized access was, identification of the designated user, who authorized the KHA Data Center to provide it, and the effective dates.
- 4) Ensure that subrecipients are adhering to retention requirements included within contracts and applicable state laws. Additionally, KHA should establish policies and procedures to ensure that provider invoices are reconciled to the system activity reports and signature sheets in a documented manner. For example, this might include a review of documentation provided by the coordinator to evidence that the reconciliations were properly completed by the subrecipients and/or obtaining access rights to the system which would allow KHA to independently generate their own activity reports.



**KHA Response to Finding 4**

Agree

Disagree

Partially Agree

*The KHA Grants Management Team is developing procedures that will outline a process for closing out a grant that includes guidelines for record retention, review of the contract file to ensure all necessary documentation is included and closeout of user access to data systems that are no longer necessary after the close of the grant. The KHA Grants Management Team will utilize a contract file closure checklist to document that all data management, fiscal accuracy and documentation requirements are resolved before final closure.*

**Finding 5 \*Unallowable Costs Including Issues with Documentation\***

For each of the nine reimbursements/advances in our test of allowable costs, or 100%, we found one or more issues with the supporting documentation. Section 200.403(g) of the Code of Federal Regulations requires costs to be adequately documented in order to be allowable. The issues related to inadequate documentation totaled \$41,418, or 5%, of the total reimbursements/advances included in our test and are outlined below.

1. Certain costs were not supported at all.
2. The timing of actual expenditures were inconsistent with the respective invoice period.
3. Supporting documentation lacked details needed to determine if the cost had been authorized or accurately calculated.
4. The dollar value was inconsistent with the supporting documentation.
5. Expenses were not classified properly on the invoice.
6. KHA records did not demonstrate how the revenue for indirect or administrative costs were ultimately applied to those costs.
7. Coding in the City's general ledger improperly identified certain City costs as covered by grant funds even though they were not.

Seven of the nine reimbursements/advances in our test, or 78%, included certain expenses which did not appear to be authorized for reimbursement (if paid for by grant funds) or authorized by the City (if paid for by City funds). Each of the grants in our test included a budget to outline which costs were determined to have been necessary, reasonable, and allocable, and therefore authorized. The issues totaled \$17,591, or 2%, of the total revenue included in our test. Specifically, we noted instances where:

1. Actual expenses were not included in the budget;
2. Budgeted expenses appeared inconsistent with intent of the budget;
3. KHA failed to obtain the required prior approval before increasing salaries;
4. Certain expenses were for individuals who did not appear to be associated with the grant;
5. KHA did not review the supporting documentation for City internal service allocations charged to the grant to verify whether or not they were associated with the grant.

In addition, each of the nine reimbursements/advances in our test included certain expenses which appeared to be calculated incorrectly. The issues totaled \$36,815, or 4% of the total revenue included in our test. Specifically, we noted instances where:

1. Actual rates exceeded the budgeted rates;
2. The number of actual employees or positions exceeded the budget;
3. The number of actual hours worked by an employee exceeded the budget;
4. The City's match was higher than budgeted for unknown reasons;
5. One expense was subsequently cancelled and reversed in the City's general ledger;
6. The expense amount recorded and invoiced did not match what was actually incurred.

KHA's reimbursements/advances for two of the three grants in our test included expenses that were incurred by a KHA subrecipient, and the process for one of those grants did not include KHA obtaining supporting documentation from the subrecipient in order to complete its review of the individual expenses. In an attempt to gain some coverage for those expenses, we asked KHA to request support from the subrecipient for one of the five applicable invoices for that grant that we tested. We then used the support that they obtained to test that one invoice and we excluded the other invoices from the subrecipient from further testing). While discrepancies noted during our test of the selected one have already been included in the details above, it is important to note that the overall issue related to a lack of KHA review is that it increases the overall likelihood that KHA will pay the subrecipient for unallowable costs.

**Recommendation to Finding 5**

We recommend that KHA establish and implement written policies and procedures that will ensure that the expenses included in KHA's invoices are properly documented, authorized, and calculated prior to submitting them to the grantor. This would include ensuring that the expenses incurred by the subrecipient are properly reviewed by KHA prior to including them on an invoice to the grantor and prior to paying the subrecipient.

**KHA Response to Finding 5**

Agree                       Disagree                       Partially Agree

*All KHA Grants Management team members are receiving training on State and Federal laws, rules and regulations on the use and oversight of grant dollars, including allowable and non-allowable expenses. KHA Grants Management staff will review all invoices to confirm all expenses are allowable and backup documentation is included before submitting to the finance team for final review and authorization. KHA Grants Management staff will document their review of each invoice through the SAMIS system audit trail function.*

**Finding 6 \*Funds Utilized to Pay Fines for Grant Program Violations\***

We reviewed KHA activity in the City's general ledger for unusual transactions and identified three payments to the State utilizing City funding which totaled \$3,860 that appeared to be for fines or penalties associated with a grant program awarded to KHA. The supporting documentation for the transactions disclosed thirteen violations of Child Care Licensing Standards dated between September 2016 and November 2018. A breakdown is below with the associated costs.

- a. \$3,100 for six instances where documentation of the required background screening procedure was not on file for the respective staff members including three instances where the screening was not completed before the employee was hired;
- b. \$445 for six instances where an Affidavit of Good Moral Character was either not completed, was not on file, or was not signed until after the employee had been hired;
- c. \$110 for four instances where documented verification of employment history for the past two years was not on file for staff members;
- d. \$50 for one instance where KHA did not submit a completed license application and renewal packet within the required timeframe;
- e. \$50 for one instance where the required fire drill had not been completed;
- f. \$30 for one instance where the employee file for one staff member was not available for review by the licensing authority during the onsite inspection;
- g. \$25 for six instances where the required Child Abuse and Neglect Reporting Requirement forms were missing, expired, or signed late;
- h. \$25 for one instance where documentation related to required training was missing for a staff member;
- i. \$25 for soap not being available in the toileting facilities.

Compliance with the Child Care Licensing Standards was a written requirement in the binding agreement between KHA and the grantors for the grant. The additional cost of the violations ultimately reduced the amount of City funding that was available to fulfill program objectives.

### **Recommendation to Finding 6**

We recommend that KHA implement policies and procedures that will ensure compliance with the applicable laws, rules, and regulations such as the Child Care Licensing Standards.

### **KHA Response to Finding 6**

Agree                       Disagree                       Partially Agree

*Upon receipt of a grant, the KHA Grants Management team will develop a monitoring tool that includes the specific requirements outlined in the binding agreement with the grantor, including reference to applicable laws, rules and regulations such as the Child Care Licensing Standards. The KHA Grants Management team will conduct a monitoring visit with each site or subcontracted agency receiving grant funds through KHA at a minimum of two times per year. This monitoring will include reviewing necessary documentation at the program site to ensure compliance with grant requirements. The monitoring tool will include a signature line indicating acknowledgement by the contract manager and the subcontracted agency representative. When a program is not meeting the minimum requirements outlined in the binding agreement and the monitoring tool, KHA will develop a quality improvement plan outlining steps for improvement, dates for review and signatures indicating agreement with the plan. All KHA Grants Management team members will receive training on State and Federal laws, rules and regulations on the use and oversight of grant dollars.*

**Finding 7 \*KHA’s Invoices Omitted Eligible Expenditures\***

Four out of the nine reimbursements/advances that we tested for allowable costs, or 44%, represented payment for one or more KHA invoices that appeared to be incomplete. More specifically, it appeared that KHA omitted expenses that may have been eligible for reimbursement by the grantor. The omitted expenses totaled \$19,549. Specifically, we found that:

1. The budget for the first grant allowed \$16,918 in salary and benefit expense for a KHA grant manager and we could not locate a corresponding entry on the invoice or in the expenditure activity for the grant. We expanded our review of activity in the City’s accounting system and noted that all of the salary and benefit expense for the assigned grant manager was charged to a different grant.
2. The budget for the third grant allowed KHA to recover administrative costs based on an agreed upon rate and, although four of the five invoices in our sample included administrative costs, the other invoice did not. Based on the established rate it appears that the City could have recovered an additional \$1,562 for that month.
3. One of the invoices in our sample related to the third grant was for the final month in the program year; therefore, any final expenditures related to that program year that were posted in subsequent months would need to be included. We found two transactions totaling \$234 and \$498, respectively, for a total of \$732 in costs incurred for the program year which were not included in KHA’s final invoice.
4. The budget for the second grant allowed KHA to recover \$10,799 in costs related to field trips and although the City’s accounting system reported field trip expenditures for that month totaling \$337, they were not included in the corresponding KHA invoice. The invoice indicated that \$10,049 of the field trip budget was still available at that time.

**Recommendation to Finding 7**

We recommend that KHA establish and implement documented policies and procedures to ensure that invoices are complete prior to submitting them. This could include verifying that the budget on the invoice is consistent with the one approved by the grantor and/or reconciling the invoices to the City’s general ledger in a way that will identify discrepancies and allow for corrective action as needed. We also recommend that the policies and procedures include details on how to handle transactions that occur after the invoice for the related service period has been submitted.

**KHA Response to Finding 7**

Agree                       Disagree                       Partially Agree

*Upon receipt of grant funding, KHA staff will review specific grant financial guidelines. These guidelines will then be used to develop a budget that ensures all eligible expenses are included for reimbursement and reconciles to the general ledger.*

**Finding 8 \*Contract Payment Checklist Not Properly Completed\***

The City required a thirteen-step checklist to be completed by program and finance staff at the department level prior to submitting a request for City Accounting to process payment of an invoice for contracted services. The checklist was implemented to ensure that all contractual requirements had been met prior to making payment and it was required to be submitted with the request and invoice as documented evidence of this. Specifically, KHA staff were required to sign-off on their respective step(s) with initials and KHA’s Senior Finance Director was required to certify the overall checklist and payment amount with a signature. We reviewed the records for eight payments that the City made to the KHA recipients-of-funds for three grants and our review disclosed the following issues related to the checklists:

1. Overall, none included all of the required sign-offs;
2. Four did not evidence review by KHA’s finance staff at all;
3. Three included steps that were blank;
4. Five included at least one step where program staff had signed off on a step that KHA’s finance staff was responsible for;
5. One included two steps where KHA’s finance staff had signed off on a step that program staff was responsible for;
6. Four included steps that were not signed off on at all and marked as “not applicable” that appear to be applicable;
7. The KHA Senior Finance Director had certified each of the checklists; and
8. City Accounting had processed each payment despite the discrepancies noted above.

**Recommendation to Finding 8**

We recommend that KHA train staff to ensure that the Contract Payment Checklist is properly completed.

We recommend that City Accounting train staff to ensure that a properly completed Contract Payment Checklist has been obtained prior to processing the applicable payments.

**KHA Response to Finding 8**

Agree                       Disagree                       Partially Agree

*KHA Grants Management team will comply with the accurate completion of the contract payment checklist. KHA Grants Management team will be trained on how to properly complete the Contract Payment Checklist.*

**City Response to Finding 8**

Agree                       Disagree                       Partially Agree

*City Accounting will train staff to ensure that a properly completed Contract Payment Checklist has been obtained prior to processing applicable payments.*

**Finding 9 \*Non-Compliance with Cash Receipt Policy\***

To assess KHA’s risk related to safeguarding grant funds they received, we compared the various cash receipts records for a sample of checks recorded in the City’s general ledger and noted the following discrepancies. It should also be noted that the City and KHA each maintain written policies and procedures related to cash receipts.

- Although the deposit log at KHA included a sign-off field for a reconciliation to the City’s accounting system, it was blank in all instances. Upon inquiry KHA confirmed that the two reconciliations required by the City had not been completed, including the one also found in KHA’s policy.
- None of the eleven checks in our sample were deposited the same day or by night deposit (contrary to the City’s policy) and two were not deposited within three business days (contrary to the KHA policy).
- KHA’s safe log did not indicate that the checks had been stored in the safe as we could not find matching entries. Upon inquiry KHA’s Senior Finance Director stated that checks were typically kept in a folder given to her by her staff (the in-box on her desk) or kept in the locked room that contained the safe (not stored in the safe).
- The safe log had not been updated in months and the existing entries indicated that when the safe had been accessed it was by one employee without a second person as required by City policy.

To assess whether KHA was properly recording their grantor funds, we reviewed the supporting documentation for 65 payments from the grantor for three selected grants, which disclosed that documentation was lacking for 20 of them (or 31%). Although a general collections receipt had been created by either KHA’s Senior Finance Director or City Accounting prior to deposit as required by the Tax Collector, which included a typed description of the check’s purpose (e.g., services provided for a specific month), this was merely an indication or testimony of the event which triggered the payment, not direct evidence of what the payment was for (i.e., a copy of the invoice).

**Recommendation to Finding 9**

We recommend that KHA enhance their policies and procedures related to cash receipts in a way that ensures checks are properly safeguarded and that staff are in compliance with the specific City’s requirements for cash receipts, including documenting the receipt of grant revenue with appropriate correspondence such as a copy of the invoice KHA submitted to request the funds, regardless of whether such documentation was provided by the grantor directly to KHA or another City division. Additionally, KHA should be creating a pre-list for checks (based on the invoices) to include all expected reimbursements that can be tracked to ensure all funds are received.

**KHA Response to Finding 9**

Agree                       Disagree                       Partially Agree

*KHA has developed an internal tracking system for all grant revenue which begins at the reimbursement request being sent to the awarding agency and ends with documenting when the funds were received and entered into the City's Cash Receipts system. KHA is in the process of*

*developing written policies and procedures to ensure cash receipts are safeguarded and in compliance with the City's requirement of handling such transactions. KHA ensures that proper documentation is attached to the cash receipt records in order to support the source of the revenue since June 2020.*

**Finding 10 \*Inadequate Review of Grant Revenue\***

Our test of funds that KHA deposited included comparing the 65 payments KHA received to the corresponding invoices that KHA had submitted. This test identified 20 payments that were for an amount that was different from the amount that KHA had requested in their invoice, including 11 that were related to one grant. Upon inquiry, staff told us that although their process for that grant included reviewing any differences, they did not document the review. The other 9 discrepancies were related to the two other grants and there was not a process to review those differences.

KHA retained documentation that the respective grantor had sent with the payments as support and for 12 of the 20 discrepancies the documentation included an explanation for the difference; however, there was no evidence that KHA had acknowledged the explanations or made a determination related to whether or not the explanation was sufficient, or the reasoning was justified.

Without a reconciliation between the amount requested and the actual amount received, followed by a review of and determinations regarding any differences, KHA is at risk of receiving the wrong amount of funds. We noted one example where the grantor deducted \$1,000 from KHA's payment for the first quarter of a grant as a penalty for failing to meet the required performance measures outlined in the binding agreement; however, the relevant provision allowed KHA to recover the penalty if they met the required performance measures in a subsequent quarter and submitted a supplemental invoice. KHA records indicated that although they successfully met the performance measures in the second and third quarters, they did not submit the supplemental invoice.

**Recommendation to Finding 10**

We recommend that KHA establish policies and procedures that will ensure any discrepancies in the payment amount are detected, reviewed, and addressed in a timely manner and documented. This would include how to handle and address discrepancies that are the result of penalties assessed by the grantor.

**KHA Response to Finding 10**

Agree           Disagree           Partially Agree

*KHA has implemented a grant revenue tracking system that includes documenting the amount of the grant reimbursement request/invoice as well as documenting the amount of the check received. Any discrepancies will be documented on this tracking system, investigated, and documented accordingly.*

**Finding 11 \*Calculation of Federal Grant Drawdown Not Accurate\***

Audit procedures disclosed that the process City Accounting used to calculate the amount of Federal funds to drawdown for one KHA grant likely resulted in overpayments to KHA that were not previously detected. Specifically, on a monthly basis City Accounting subtracted the total Federal revenues reported in the City’s general ledger as of a prior month from the total expenditures reported as of that same prior month and requested the difference. However, without factoring in match or cost share activity that was handled within the same account, this process would result in the drawdown of too much Federal funding. In other words, it appears that City Accounting requested reimbursement for all grant-related expenditures despite the fact that the City had already provided funding for some.

**Recommendation to Finding 11**

We recommend that KHA establish documented policies and procedures to ensure that the amount requested is accurate and due prior to submission of any requests for grant funding. In addition, if City Accounting continues to calculate the drawdown of Federal funds for KHA we recommend modification of the current process to appropriately factor in match or cost-sharing activity and documented confirmation from KHA as to the accuracy of the amount prior to submitting the request.

**KHA Response to Finding 11**

Agree                       Disagree                       Partially Agree

*The process of federal drawdowns within the City has changed with the implementation of the ICloud system. Invoices are now initiated by KHA within the system and sent over to City accounting who then submits the drawdown request in the Payment Management System. The drawdown amount will be the recorded expenditures that have posted to the general ledger for that grant.*

**City Response to Finding 11**

Agree                       Disagree                       Partially Agree

*City Accounting would prefer that KHA be responsible for calculating the drawdown of their Federal funds and is willing to consult with KHA to ensure the process they use is modified to appropriately factor in match or cost-sharing activity. City Accounting will not submit drawdown requests without documented confirmation from KHA as to the accuracy of the amount.*

**Finding 12 \*Requests for Payment Submitted Late\***

The first grant in our test of deposits required KHA to submit invoices to the grantor no later than the 15<sup>th</sup> day of the month which followed each quarter of service. The second and third grants also required KHA to submit invoices by the 15<sup>th</sup> of the month that followed the service



period, but for those grants the service period was one month and therefore the invoices were due on a monthly basis.

We tested the timeliness of KHA’s submission for monthly or quarterly invoices that became due within the audit period and were for a service period that fell within the audit period, which included five (5) for the first grant (a three-year grant), 29 for the second grant, and 29 for the third grant for an overall total of 63. For many sample items we relied on the signature date on the invoice, as KHA’s records did not always include evidence of when the invoice had actually been submitted.

The test disclosed that 40 of the 58 invoices were submitted late, including 28 of the 29 related to the second grant (97% error rate) and 12 of the 29 related to the third grant (41% error rate). Although the overall error rate was 63% (40 exceptions out of 63 sample items), it should be noted that each of the five quarterly invoices due for the first grant were either submitted on time or, in response to our inquiries, KHA located and provided evidence that they had requested an extension before the due date and complied with the terms of the extension.

Late invoices might not be honored by the grantor and therefore could leave the City responsible for covering some or all of the costs incurred for the service period. Late invoices could also result in delayed revenues or penalties. For example, the requirement for the third grant states that, “failure to submit a timely or accurate invoice may result in the monthly payment being withheld or a delay in the payment.”

**Recommendation to Finding 12**

We recommend that KHA establish and implement documented policies and procedures to ensure that invoices or any other payment requests are submitted in a timely manner consistent with grant requirements. We also recommend that any policies and procedures established ensure that KHA obtains (and retains documented approval for) an extension if unable to submit a particular invoice until after the due date. Lastly, we recommend that KHA enhance their records to include evidence of when the invoices were actually submitted, such as a printout or copy of the email that provided the submission.

**KHA Response to Finding 12**

Agree                       Disagree                       Partially Agree

*KHA is finalizing procedures for submitting and documenting payment requests to awarding agencies. Upon notification from the auditors of the lack of documentation in this area, KHA immediately began saving all payment requests as well as documenting extension approvals.*

**Finding 13 \*KHA Invoice Not Consistent with Approved Budget\***

The grantor for one of the three grants in our test of allowable costs required KHA to prepare the invoices based on the approved budget amounts as presented in the binding agreement. However, the sample invoice we tested did not align with the budget in the binding agreement. This

represents an increased risk that KHA could either unknowingly exceed the authorized budget for any given line item or not fully utilize an available remaining balance. In addition, this could create discrepancies related to the amount of matching funds or in-kind contributions that the grant required KHA to provide.

**Recommendation to Finding 13**

We recommend that KHA prepare invoices in a manner that is consistent with the grantor requirements and allows for an accurate and efficient recalculation of the authorized remaining budget.

**KHA Response to Finding 13**

Agree                       Disagree                       Partially Agree

*The Kids Hope Alliance Grants Management Team will provide a copy of the fully executed contracts related to each grant, including the approved budgets, to the KHA Finance team.  
The Kids Hope Alliance Grants Management Team is developing procedures that will include a process for obtaining approval from the KHA finance team when any changes are made to the budget in the binding agreement.*

**Finding 14 \*Federal and State Grant Applications were Not Sent to Office of Grants and Compliance\***

Section 117.109 of the City’s Municipal Code prohibits the transmission of a grant application to any State or Federal agency until after the Mayor has completed a review of the application or 30 days from the date the application was filed with the Mayor for review (whichever is first). Section 77.109(a)(8) further requires the KHA Board to adhere to the grant application provisions required by Section 117.109. However, we identified nine grant applications that KHA submitted to a State or Federal agency between September 20, 2016 and April 19, 2019 which had not been filed with the Mayor for review.

Aside from non-compliance, other effects of this finding could involve the City as a whole. For example, some grants restrict applicants to a limited number of application submissions and, as KHA applies on behalf of the City, other departments may become ineligible to apply in the future based on KHA’s activity.

**Recommendation to Finding 14**

We recommend that KHA establish policies and procedures to ensure that all grant applications for State and Federal grants are filed with the City in accordance with Section 117.109 of the Municipal Code.

**KHA Response to Finding 14**

Agree                       Disagree                       Partially Agree

*As soon as the decision is made to apply for a grant, the information will be filed with the Mayor's office. In addition, we will file with the Mayor the application immediately upon completion. There are situations where the time frame between knowing of and deciding to apply for a grant and the deadline for submittal is less than the 30 day review period as required in the Ordinance. In those instances, we will request a response in a time frame that will enable us to apply for the grant on time.*

**Finding 15 \*Subrecipient Occupied KHA Building Space without Formal Agreement\***

One contract between KHA and a subrecipient was for a grant which began on November 1, 2017 and it stated, "Neither KHA nor the Department [grantor] will furnish services of support (e.g., office space, office supplies, telephone service, secretarial or clerical support) to the Contractor [subrecipient], or its subcontractor or assignee, unless specifically agreed to by the Department or KHA in this Contract." Prior to our review of the contract, KHA had informed us that the subrecipient had staff within the KHA building who worked on the grant; however, we could not locate a separate contract provision which would have authorized KHA to furnish that office space as a service of support. In addition, the City was not recording an in-kind contribution related to this although records showed that this subrecipient occupied 5,252 of the total 47,073 square feet in KHA's facility (11%). Upon inquiry, KHA determined that the office space was provided through a historical arrangement related to a different grant which ended September 29, 2016.

We noted that KHA also provided office space to other entities which received funding from KHA related to different grants; however, in those instances there was a documented arrangement such as a leasing agreement or an in-kind match recorded in the grant's approved budget and the City's general ledger.

**Recommendation to Finding 15**

We recommend that KHA establish policies and procedures to properly document any arrangements to provide building space or other services of support to their subrecipients in a way that demonstrates the City's full contribution. Additionally, KHA should work with the Real Estate Division and/or the Office of General Counsel as needed for any lease agreements.

**KHA Response to Finding 15**

Agree                       Disagree                       Partially Agree

*Lease agreements with all KHA tenants have now been created, approved by City Council and executed.*

### **Internal Control Weakness 1 \*Lack of Written Standard Operating Procedures\***

In general, KHA had not established sufficient written standard operating procedures pertaining to grant opportunities and awards. During our interviews with staff and management, we learned that the policies established by the previous entity (the Jacksonville Children's Commission) were no longer in effect. In addition, although KHA's Senior Finance Director provided several written policies and procedures that management verbally endorsed as in effect, there was no documented evidence of management's review or approval (i.e., the relevant fields on the policy and procedures templates were blank).

Without approved standard operating procedures, the processes related to external grants are susceptible to inconsistencies that could cause undesirable results. For example, regarding the responsibility of identifying viable grant opportunities for KHA:

1. the staff member could fail to use the same criteria for each grant opportunity or apply personal bias, resulting in evaluations that are inconsistent and/or unfair;
2. if multiple staff are involved, varying perspectives for what makes a grant opportunity viable could further complicate the inconsistencies; and
3. the criteria established by staff could differ greatly from what management intended which would represent an ineffective process.

The lack of written policies and procedures also limits management's ability to properly evaluate whether a process is working as it should, investigate the cause for discrepancies to apply corrective action, and effectively manage employees who fall short of expectations.

Audit procedures disclosed that the development of written standard operating procedures related to the following processes that we observed at KHA could be beneficial:

1. The identification of which grant-related items should be presented to the Board, including how and when this should be done, and by whom;
2. The evaluation of grant opportunities, including:
  - a. how to identify grants that could be viable for KHA including a description of management's expectations and guidance on which "sub-groups" should be pursued
  - b. how and when to obtain feedback from program staff or finance staff;
  - c. how the various feedback should be documented including whether or not it needs to be retained;
  - d. how to handle instances where parties associated with KHA are also competing for grant funds.
3. The application process, including:
  - a. when it should be started and by whom;
  - b. what steps need to be taken to prepare the application;
  - c. how to develop the various parts of a budget (e.g., indirect costs);
  - d. how the prepared application will be reviewed;
  - e. what steps need to be taken related to the application submission process.
4. Contract drafting and execution, including:
  - a. how the series of review and approvals for executing contracts with grantors and/or subrecipients should flow;
  - b. a description of which standard forms and documents should be completed and retained;

- c. identification of the standard contract terms and conditions which are expected to be included in all contracts.
- 5. The program staff review of payment requests received from KHA's subrecipients, including:
  - a. what steps program staff should take;
  - b. how to determine allowable/unallowable costs;
  - c. guidelines for collaboration with finance staff.
- 6. The Finance staff review of internal allocations charged to grants to verify it was charged to the correct grant and that the charge was accurate.
- 7. The initiation and authorization of payments to KHA's subrecipients, including what standard documents are required to be sent over to City Accounting or included in the KHA invoice record maintained on-site;
- 8. The preparation of financial and program reports, including guidelines on collaboration and how these should flow through the different levels of KHA review;
- 9. The evaluation of grant programs effectiveness and efficiency (who, what, when, where, why, and how);
- 10. Monitoring KHA's recipients-of-funds;
- 11. Retaining grant-related documents, including details on location(s) and who is responsible for each relevant step.

**Recommendation to Internal Control Weakness 1**

We recommend that KHA develop a set of written standard operating procedures detailing the various processes related to grant opportunities and awards in place at KHA. We recommend that KHA management review and approve all drafted policies and procedures prior to finalizing them. KHA should make all finalized versions readily available to staff.

**KHA Response to Internal Control Weakness 1**

Agree                       Disagree                       Partially Agree

*KHA is developing written procedures which details the grant research/viability, preparation, approval process, proposal submission/feedback, documentation, and renewal process. Procedures will include approval date, effective date, and acknowledgement of Senior Leadership. Procedures will be centrally located (electronically) and accessible to all KHA staff.*

**Internal Control Weakness 2 \*Insufficient Management of the Application Process\***

The KHA employee responsible for identifying viable grant opportunities was also responsible for preparing and submitting a request for Board approval of the opportunity and the actual grant applications. Combined with a lack of review of the employee's work, this represents a limitation in management's ability to adequately monitor the process. Although the employee verbally updated management on any viable opportunities in a weekly meeting, there was not any documentation available to demonstrate the overall results of the employee's efforts (including the amount of time spent searching, which resources they accessed, which specific grants were

given consideration, or their viability assessment for grant opportunities that were considered but not reported in the weekly meeting).

In response to our inquiries regarding how KHA ensured a timely application submission for new grant opportunities, the staff member informed us that in January 2019 they started using a timeline document that included descriptions of multiple steps, corresponding deadlines, and a field to document whether the respective steps had been completed. We asked to see the timeline documents for five grant opportunities that KHA received approval to pursue in either January, February, or March of 2019; however, the records for three did not include a timeline. In response to our inquiries regarding how KHA ensured the timely renewal of existing grant opportunities, staff informed us that they setup personal reminders for each anticipated start date and corresponding deadline in the electronic calendar that was part of City's email software; however, our request to see the calendar reminders for a specific renewal disclosed that this process was not used consistently as there were not any reminders related to that grant (in addition, we noted that employee turnover could render this method ineffective). In response to these audit results, KHA Management informed us in April 2019 that staff had been instructed to create a timeline and tracker for all grants being researched, considered, or applied for that included a status measure. In January 2020 (after our audit scope but while still on site for field work), we became aware that KHA was not yet able to request reimbursement for two grant programs that began on October 1, 2019 (and allowed for monthly reimbursements) because KHA's applications (which included the respective budgets that were needed to determine the amount of payment KHA should request) were pending approval from the grantor due to being submitted on November 27, 2019, although they were due September 30, 2019. Therefore, it appears that the management directive had not been effectively implemented.

The grant application process did not include a secondary review of the completed application by any other person. A secondary review to ensure that the application complied with the application requirements and that details accurately reflect management's intentions and KHA's ability related to the grant would assist in securing the integrity of KHA's technical ability to compete for the grant and future grants.

The grant application process also did not include a secondary review of the results for grant applications that were denied in order to understand why they had failed. We requested the available records for four grant applications that KHA had submitted after January 1, 2018 and received results for prior to March 31, 2019. KHA provided records for four grant applications and this included three which had been denied by the grantor. The records for two of the three included feedback from the grantor regarding KHA's application. For example, a common comment between the two was the lack of "quantifiable objectives" or metrics for the goals of the program. Although the staff member who was responsible for grant applications indicated that they had reviewed the feedback, the establishment of a process for review by management or a secondary person could assist with overall strategy improvement going forward and also help ensure that applications are properly completed on the front-end.

## **Recommendation to Internal Control Weakness 2**

We recommend that KHA:

- 1) Enhance their process to ensure that viable grant opportunities are efficiently and effectively identified, and that documentation related to the search sufficiently allows management to monitor the overall process;
- 2) Establish and implement written policies and procedures that will ensure the timely submission of applications with respect to deadlines and each required step in KHA's process;
- 3) Enhance the grant application process to ensure that a documented secondary review is completed for each grant application prior to submission;
- 4) Enhance the grant application process to include a documented review of the results for applications that were denied by someone other than the person who prepared the application in a way that ensures process improvement.

### **KHA Response to Internal Control Weakness 2**

Agree                       Disagree                       Partially Agree

*KHA is implementing procedures which include the use of a recently purchased grant tracking software and the grant matrix approved by the KHA Board and the use of a grant matrix. The new program outlines the grants' name, owner, funder name, opportunity name, status, deadline, and required actions (workflow, approval, timeline, and notes).*

### **Internal Control Weakness 3 \*Lack of Consideration for Grant-related Costs\***

Staff responsible for requesting Board approval to pursue a grant did not always consult with KHA's Finance staff in order to sufficiently assess the costs associated with the grant. Our inquiries related to three grants opportunities that were approved by the Board disclosed that Finance had not reviewed two of them prior to the first meeting. Overall, KHA's Senior Finance Director stated that the department did not have enough time to analyze grant opportunities and noted that they had provided the employee who analyzed the grant opportunities with a spreadsheet to help calculate facility and personnel costs. However, there was no evidence that this was actually used or that it would have been effective. Cost considerations that we noted during the audit included:

1. Required cash match contributions
2. Required in-kind match contributions
3. Administrative staff time spent on:
  - a. Drafting the contract(s), including budgets;
  - b. Amending budgets;
  - c. Appropriating funds;
  - d. Reviewing and processing payment requests submitted by recipients-of-funds;
  - e. Closing out grants.
4. Program staff time spent on:
  - a. Familiarizing with the various grantor requirements;
  - b. Attending training;

- c. Procurement processes;
- d. Monitoring service providers;
- e. Reviewing and approving invoice submissions;
- f. Preparing reports and other required deliverables.

The lack of a proper assessment of the cost considerations associated with a grant opportunity could result in wasted resources if KHA must reject an award offer due to unanticipated costs. If KHA fails to address the unanticipated costs prior to implementation of the grant, this could result in overall failure to meet the requirements of the grant or to establish an effective program. Either of these scenarios could impact KHA’s ability to compete for subsequent grant opportunities.

**Recommendation to Internal Control Weakness 3**

We recommend that KHA enhance their process to ensure that cost considerations are properly analyzed by KHA Finance prior to the submission of an application. This could involve program staff completing an initial documented analysis with a sign-off by KHA Finance.

**KHA Response to Internal Control Weakness 3**

Agree                       Disagree                       Partially Agree

*KHA has implemented a procedure that outlines the approval flow of grants to include review and approval by KHA's Finance team. The grant matrix will identify city-funded grant related costs as a match requirement or enhancement funding.*

**Internal Control Weakness 4 \*Contract Changes were Not Sent to Management\***

KHA established a process whereby contracts between KHA and the grantor were reviewed by various KHA and City parties prior to execution. However, there did not appear to be a mechanism in place to ensure that each party was kept apprised of changes that were made to the contract subsequent to their own review. For example, one contract was modified by the City’s Office of General Counsel after KHA’s Chief Operating Officer and KHA’s Senior Finance Director had approved it and the contract was finalized without notifying them. As a result, the budgeted revenue that KHA’s Finance staff had recorded in the City’s general ledger system remained higher than the actual amount of funds KHA expected to receive.

**Recommendation to Internal Control Weakness 4**

We recommend that KHA implement controls to ensure that draft contracts which undergo changes after KHA management has signed off are routed back to the relevant parties for a secondary review and approval of those changes.



**KHA Response to Internal Control Weakness 4**

Agree                       Disagree                       Partially Agree

*KHA is implementing procedures which outline the approval process of contracts to include the resubmission of contracts through the approval process if and when changes are made to the contract. All KHA staff that are a part of the approval process will receive a copy of the fully executed contract.*

**Internal Control Weakness 5 \*Lack of Documented Information System Policies and Procedures\***

KHA Data Center staff had established certain processes related to SAMIS (Services & Activities Management Information System) that were significant with respect to grants awarded to KHA; however, these were not written out or otherwise documented. We noted the following instances where policies and procedures should be documented in order to preserve their continuation and effectiveness of the established process:

1. How new users and access rights are setup, including what authorizations are required and how those should be retained.
2. How workflow chains are setup, including what authorizations are required.
3. How user accounts are reviewed for appropriateness, including how often, which screens to use, and criteria for those that need to be terminated.
4. How to back-up functional reports that have been created using SAMIS data.

It should be noted that throughout the course of our inquiries staff was able to retrieve an Administrator Manual (from the Data Systems Director’s files) and parts of a Fiscal Workflow Administration Manual (from the managing entity over SAMIS) for a previous version of the system. Although parts of these manuals may still be relevant, the Director noted others that did not accurately reflect the current processes.

**Recommendation to Internal Control Weakness 5**

We recommend that KHA document policies and procedures for processes that are necessary to fulfill the various system administration responsibilities.

**KHA Response to Internal Control Weakness 5**

Agree                       Disagree                       Partially Agree

*KHA is in the process of developing procedures for system administration designed for the new version of SAMIS that will be implemented in Fall 2021.*

**Internal Control Weakness 6 \*A Documented Description of Access Capabilities in SAMIS Did Not Exist\***

KHA relied on SAMIS to preserve data which allowed them to monitor the overall effectiveness and performance of various programs. In addition to program data, the system also included a financial module which allowed service providers to submit requests for payments through an electronic workflow for KHA to review the request and accompanying supporting documentation and ultimately approve or deny it.

The system had over 700 user access rights that KHA staff granted to users by assigning them to one or more group roles within the system. Specifically, each group role provided a combination of the individual access rights. In an attempt to verify that access rights for grant-related users had been assigned appropriately, we requested documentation to evidence what capabilities the access rights within each group role were intended to provide to the system users; however, KHA explained that such documentation does not exist. Due to the lack of documentation, staff originally had to setup group roles based on testing the individual access rights through a trial-and-error process to determine which combination of access rights would achieve the intended outcome. KHA was also unable to provide us with those test results because they did not create or retain documentation at the time of testing.

A lack of the documented description for which capabilities each individual access right was designed to provide represents an increased risk that any given user could be inadvertently granted access which would allow them to make changes within the system that they really should not be able to do.

Also, in the course of our inquiries the KHA's Director of Data Systems learned from the entity which managed the system that read-only access to the program data would have to be developed through an enhancement request, which would be a project that required billing KHA.

**Recommendation to Internal Control Weakness 6**

We recommend that KHA take steps to either obtain or create a documented description of what capabilities each of the access rights utilized by KHA is intended to provide.

We also recommend KHA management refrain from granting excessive access to users. Accordingly, if KHA determines that read-only access to the program data is needed or desired, we recommend performing a cost-benefit analysis in order to determine if an enhancement request should be submitted to add the read-only access in lieu of providing any other type of access as a workaround.

**KHA Response to Internal Control Weakness 6**

Agree                       Disagree                       Partially Agree

*KHA changed its procedure to only create new user accounts based on templates defined by specific user access group. Once the new system is implemented, KHA will evaluate these access group functions and document what they allow the user to do under the new system. In addition,*

*a read-only permission user role is being designed in the new system that will include all financial screens and almost all programmatic documents with the exception of a few maintenance screens on the programmatic side,*

**Internal Control Weakness 7 \*User Passwords Lacked Complexity\***

We asked KHA staff responsible for setting up users in SAMIS to demonstrate the process for creating a user account. When staff set up the password, we noticed the system allowed a new user to have a weak password, such as “12345678.” In response to our inquiries, KHA informed us that although the system included other password complexity options, the only requirement in use was that passwords must be eight characters in length. Strong passwords limit KHA’s risk of unauthorized access. For example, a password that is easy to guess could facilitate an opportunity for a user who was employed by one of KHA’s subrecipients (and had access to submit a payment request to KHA) to log in as a KHA user and approve the request. In another example, unauthorized individuals attempting to access the system have a higher chance of success and, as a result, sensitive data or other important data could become compromised.

**Recommendation to Internal Control Weakness 7**

We recommend that KHA utilize or establish additional password requirements in order to strengthen user passwords. This could include criteria such as requirements for various types of characters (i.e., a combination of letters, numbers, and special characters) and periodic password changes.

**KHA Response to Internal Control Weakness 7**

Agree                       Disagree                       Partially Agree

*The system has been changed to require:*

- Minimum password length of 8 characters w/at least one number and one alpha*
- Password attempts before lockout set to 3*
- Timeout for locked accounts set to 10 minutes*
- Password Expiration set to 120 days*
- Inactivity Timeout set to 240 minutes*

*A procedure is being created to document this requirement.*

**Internal Control Weakness 8 \*Lack of Process to Remove Inappropriate Access\***

KHA’s main process for removing inappropriate user access rights to the system was for Data Center staff to review user activity every 100 days and deactivate accounts that did not have any activity in the most recent 90 days. Although there was not a formal policy or procedure to remove access immediately after an event, such as when a KHA employee terminated, Data Center staff indicated that it would occur if the employee’s supervisor proactively notified them or if they became aware of the event through other means. Regarding users who were not KHA employees, staff referred to a standard provision in KHA’s procurement bidding template which

required the other entities to notify the KHA Data Systems Office of employee terminations; however, the provision would not have facilitated the timely removal of user access for the subrecipients who received funding through a non-competitive bid process.

Although staff deactivated accounts that were stagnant and otherwise made an effort to remove access for terminated users, there was not a process to periodically review the appropriateness of access rights overall in order to detect inappropriate access and thereby respond accordingly (i.e., remove the inappropriate access).

**Recommendation to Internal Control Weakness 8**

We recommend that KHA establish and implement documented policies and procedures that will ensure the timely detection and removal of inappropriate access rights to the system for both employees of KHA and the subrecipients.

**KHA Response to Internal Control Weakness 8**

Agree                       Disagree                       Partially Agree

*Upon implementation of the new SAMIS 3.0, a new view and/or report will be created to list each active provider agency and each user assigned to that agency. This list will be made available to the active providers on an annual basis with a requirement that they reply to confirm each user is still active or inactive. This will not change the requirement that providers contact KHA at the time of termination of employees so that accounts can be deactivated.*

**Internal Control Weakness 9 \*Lack of Defined Retention Period for System Records\***

Our review of the contractual agreements related to SAMIS disclosed that it did not include a defined retention period for data or files that KHA retained in the system. KHA provided a security report which indicated that records would not be deleted until authorized by the customer (i.e., the system developer, which was not KHA) or the end of the customer agreement. However, KHA was not a party to that contractual agreement. This represents an increased risk that system records might not be available when needed.

**Recommendation to Internal Control Weakness 9**

We recommend that KHA take steps to include a defined agreed-upon retention period in the contractual agreement that allows KHA to use the system and retain documents in accordance with any grant requirements.

**KHA Response to Internal Control Weakness 9**

Agree                       Disagree                       Partially Agree

*The President of the software (SAMIS) company provided us a confirmation that the company does not alter or delete any data without express written documentation from the client. Each*

*client owns the data stored even after termination of the agreement. Therefore, KHA will continue to follow state and local retention policies.*

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We appreciate the assistance and cooperation we received from Kids Hope Alliance and the City's Accounting Division throughout the course of this audit.

Respectfully submitted,

*Kim Taylor*

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