

Performance Audit

**Department of Budget and Management
Services
Grants Management**

October 2008

Durham County Audit Department

Introduction

This audit of the Department of Budget and Management Services nonprofit grant program was conducted pursuant to the September 12, 2005 Audit Department Charter which establishes the Audit Oversight Committee and the Audit Department and outlines the internal auditor's primary duties. The Audit Committee authorized this audit in July 2008.

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.¹

Audit Objective

This audit was conducted to determine if current monitoring processes provide reasonable assurance that County provided grant funds are being spent for the purpose for which it was granted. Specific questions to be answered were:

1. Are grantees spending grant funds for the purpose for which it was requested?
2. Is there an effective system in place to monitor how grant funding is spent by grantees?

Scope and Methodology

This performance audit was conducted 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 the findings and conclusions based on the audit objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions based upon the audit objectives.

Fieldwork was conducted from July 3 to August 15, 2008. Data analysis for the audit covered fiscal year 2008. We also gathered and analyzed information for the fiscal year 2009 application period to identify

¹ Comptroller General of the United States, *Government Auditing Standards*, Washington D.C: U.S. Governmental Accountability Office, 2007, p.17

process changes intended to improve controls implemented during that application period.

Audit methods included:

- Interviewing Budget staff to gain understanding of the processes involved in the grant award process,
- Interviewing the Compliance Manager to obtain information regarding financial review,
- Reviewing policies, applications, and contracts applicable to grantees and the grant program,
- Reviewing documentation provided by grantees to support grant related expenditures, and
- Discussing expense documentation submissions with 14 grantee representatives that called to clarify information needs.

This audit did not include reviewing the process to determine the amount of funding provided to applicants nor did it include reviewing the criteria for grantee selection.

Background

The County's Department of Budget and Management Services administers the County's nonprofit grant program. Through this program the County provides financial assistance to nonprofit agencies it determines will assist it in carrying out its mission "to enhance the quality of life for its citizens by providing education, safety and security, health and human services, economic development, cultural and recreational resources."² In fiscal year 2008, the County provided \$988,564 to 32 nonprofit organizations. Grant amounts ranged from \$4,200 to \$185,000. The percentage of agency revenues contributed by the County ranged from 0.70 percent of the NC Food Bank's \$2.149M budget to 35.95 percent of Interfaith Food Shuttle's \$27.8K budget.

Agency objectives and missions varied among those agencies selected to participate in the fiscal year 2008 grant program. Nonprofit objectives included providing food, shelter, medical assistance, counseling, and art. Appendix 1 is a table listing the various agencies and their objectives.

The County has a fairly vigorous process to determine if a nonprofit agency is allowed to participate in the grant program. The application process requires that applicants show that it is a valid nonprofit organization by requiring:

- IRS tax-exempt letter confirming nonprofit status,
- Most recent solicitation license or exemption letter,
- Certificate of liability insurance, and
- Most recent Form 990 IRS income tax return.

² Durham County Nonprofit Agency Funding Policy, Revised Dec 12, 2005

Applications that meet these requirements are forwarded to departments throughout the County for review to determine if the agency's objectives meet the County's criteria for furthering the County's mission. The application packages are also forwarded to the County Manager for review. Upon completion of the County Manager's review the packages and funding recommendations are forwarded to the Board of County Commissioners. The Board of County Commissioners makes final funding decisions.

Findings and Analysis

Brief Summary

The Department of Budget and Management Services relies upon the County Compliance Manager in the Department of Finance, to conduct financial monitoring of grantee agencies. The Compliance Manager's responsibility is described in the Nonprofit Agency Funding Policy of December 12, 2005.

Currently, financial monitoring consists of reviewing financial reports such as balance sheets and income statements provided by nonprofit agencies. However, monitoring as currently implemented does not include the level of detail necessary to specifically determine how agencies spend County provided grant funds. The financial documents obtained and reviewed by the Compliance Manager provide high level financial information regarding the agencies financial health but provides little, if any, insight into how funds provided by the County are managed and spent. Based upon the results of our audit, we believe the lack of a detailed monitoring program creates an atmosphere of uncertainty about how funds are spent and provides an opportunity for agencies to spend funds inappropriately.

During our audit of grant fund expenditure monitoring, we attempted to determine how agencies spent fiscal year 2008 grant funds. Our audit went beyond the current monitoring effort by asking agencies to provide documentary evidence that they used grant money for the purposes they described during the application process. (See appendix 2 to view the information request letter.)

With the exception of one agency that we were unable to contact, all 32 agencies funded in fiscal year 2008 provided grant expenditure documentation. However, much of the information we received was similar to the information agencies provide to the Compliance Manager; information that is not designed to identify spending details at the lowest accountability levels and therefore, not sufficient to provide evidence to determine if County granted funds were appropriately

spent. Additionally, documentation submitted by several agencies were either incomplete or did not comply with our information request letter.

The current financial statement approach to monitoring grantee spending provides needed insight into the agency's financial stability; however, we believe insights into how County funds are actually spent are needed as well. Without a more focused approach, we cannot obtain the data necessary to make sound decisions regarding whether to continue funding the agency or possibly, recover funds that were spent inappropriately. For example, one agency provided expenditure information supporting the use of grant funds to pay a mortgage on real property, a use that the County Attorney said may be inappropriate. In another example, we were unable to definitively determine if and where the agency existed in fiscal year 2008, yet it continued to receive approximately \$400 monthly at a post office box. We believe such examples provide evidence of the need for a more focused approach to reviewing how agencies use County funds.

In the 2009 application period, the Department of Budget and Management Services set a process into motion that could lead to a system whereby sufficient monitoring can be achieved. Unlike previous years, the Department now requires agencies to complete a line item budget documenting how they will use grant funds. We believe this is a good first step in strengthened grant funding controls. The logical next steps are to develop methods and timetables by which agencies will provide documentary evidence supporting expenditures and make provisions to stop payments and recover funds that were not spent appropriately. To facilitate those improvements, we recommend that in addition to the changes made in the 2009 application process, county management, including the Departments of Finance and Budget, County Attorney, County Manager, and the Board of County Commissioners work to:

- develop clear criteria for use of County funds,
- periodically monitor spending, and
- stop payments and recover funds when the agency does not use funds in accordance with the grant application.

Opportunities exist to enhance County grant funds expenditure monitoring

All agencies had several sources of funds and County provided funds were indistinguishable from funds provided by other sources. These agencies did not account for County funds once it was entered into their aggregate revenue pool, therefore, they could not identify County provided funds and track expenditures against them. Overall, we were unable to definitively identify \$474,057 provided to 14 agencies and determine if funds were spent appropriately.

We spoke with agency representatives that had financial information available but could not be specifically link it to County provided funds. In these cases, we instructed the representatives to designate any category of operational costs they chose and provide documentation in

support of those expenses. Many of these representatives chose to designate personnel costs and their documentation supported that they had incurred such costs in amounts that equaled or exceeded the grant amount. However, because we allowed the agencies to designate fund allocations from their pool of revenue, after the fact, we could not definitively determine if County funds were spent appropriately or inappropriately. We found the information useful, however, in determining that the agencies had accounting systems in place. Agencies that provided more specific details in their applications regarding their intended use of funds provided information that was more readily and visibly linked to expenditure documentation.

In past years nonprofit agencies were allowed to request funds without being very specific about how they would use them. The 2008 application form asked applicants how funds would be used and allowed agencies to respond in general terms. For example, 8 grantee applications amounting to \$302,764 stated that the grant fund request was for the purpose of defraying operational expenses, a very general and varied category of spending. As stated earlier, the application process was changed for the fiscal year 2009 application period by requiring applicants to complete a line item budget earmarking how they intend to spend grant funds. The application change was a much needed step in gaining control over the use of funds and setting up a vehicle by which spending can be monitored in a more focused manner. In order for the change to be meaningful, a focused effort to monitor the information must be established.

Focused expenditure monitoring would reduce program risks

Grant programs offer several risks, such as fraud, abuse, misuse of public funds, and negatively affect the County's public image. Focused expenditure monitoring would provide a level of assurance that the County would not be taken by surprise or suffer public embarrassment in its administration of the nonprofit grant program. Best practices suggest that preventative controls be put in place for such programs to mitigate the possibility of risk exposure. The examples below demonstrate how the lack of a focused expenditure monitoring program exposes the County to risks in the grant program.

Some agencies did not provide evidence that money was spent as applied for. Documents provided by three agencies did not support that they spent funds for the purpose for which it was requested. One agency provided data that showed that current year allocations were to be spent in a subsequent year, one agency provided data for a year prior to the year for which we requested information, and one agency provided expense data that we could not relate to the grant.

Operation Breakthrough received \$100,000 in fiscal year 2008. The agency asked for the funds to support the agency's indirect costs. They provided documents supporting expenditures of approximately \$54K

they incurred in fiscal year 2008. The agency provided documentation for the remaining \$46K for expenditures in which the services were to be provided in fiscal year 2009. In the later instances, the agency provided invoices dated June 30, 2008 or later and paid in July 2008 for services to be provided in July through December 2008. We considered these to be 2009 expenditures, thus the agency did not support the use of \$46K of the 2008 funds they received. The agency representative said the agency can be unsure of how projects and expenditures will play out during the year. She said to compensate, it is not unusual for the agency to wait until late into the year before it commits funds to a project. Based upon our interpretation of standard accounting practices, we believe this approach does not fairly represent the County's intentions in granting funds for use on a yearly basis. We believe the agency's obligations for 2009 should be paid for with 2009 grant proceeds.

In 2009 Operation Breakthrough was again granted \$100K. Using the revised format for requesting funds by budget line item, the agency representative told me the agency intended to use approximately \$57K of the funds for personnel cost. The remaining \$43K would be used for "other" expenses, an application form designation that does not require detailed explanation. The representative explained that the \$43K will be used for a program that is not currently in place but in the planning stage. She said success of the new program is dependant upon raising money from other sources and at the moment she does not know exactly how the \$43K will be allocated to the program but it will augment funds raised through other sources. She said some of it will be used to promote the new program and help in the fund raising effort. In this case we believe more attention should be focused on how funds will be used in order to determine if the County will derive a benefit from its use. Currently it is uncertain how the funds will be spent or whether any benefit will be derived since the program has not yet been established.

Planned Parenthood received fiscal year 2008 funding in the amount of \$20,000. During their submission of documents in support of spending, the agency provided rent documents for approximately \$15,960 for fiscal year 2007 as documentation for fiscal year 2008 expenditures. We believe Planned Parenthood's submission supports our conclusion that continuous monitoring is required for properly accountability.

Communities in Schools provided incomplete information regarding its expenditures. The agency received a \$5,450 grant and provided adequate documentation to support approximately \$4,461. The documentation to support the remaining \$989 did not have sufficient explanation to determine its relationship to the grant. This information included a personal check in the amount of \$550 and receipts that we could not determine their relationship to the grant. A more focused expenditure monitoring program may be a vehicle to obtain clarity on these expenditures and provide greater assurance that funds are spent appropriately.

Agency with uncertain status participated in the program.

SeeSaw Studio was awarded \$5,250 in fiscal year 2008 but did not apply for 2009 funding. The agency did not respond to our request for information; they were no longer located at the street address listed in the application, the telephone was not in service, and the website was not operational. A visit to the Geer Street address listed on the application resulted in information from the current occupant that SeeSaw Studio had not resided at that address for "more than a year," a period that included fiscal year 2008. Since our initial attempts to contact them, SeeSaw has begun to operate a new web site and has a telephone listed (our calls went unanswered). The website lists a location where the agency will be housed beginning in September 2008.

We reviewed SeeSaw Studio's Mid-Year Program Report submission for the period July through December 2007. The report addressed changing locations, lack of access to the location, and lack of progress in fulfilling its mission. Although our primary objective for this audit was to determine if agencies spent County funds appropriately, the information above, taken together with our inability to contact the agency, raises questions about the agency's effectiveness in fiscal year 2008 and thus, the agency's use of County funds. SeeSaw received more that \$400 per month at a post office box in fiscal year 2008. Again we believe this is evidence that more focused monitoring is needed to determine if county funds are spent for the purpose for which it was awarded.

Subsequent to providing the draft of this report to the Budget Director, the Department made a successful attempt to locate the grantee. The newly appointed Agency Director acknowledged that the agency was in a transition period and were not available for contact during our efforts to contact them. However, the director said the agency had continued to operate and asked that I grant them several weeks to assemble and provide documents demonstrating how they spent County funds.

Spending was documented, however, criteria for use would benefit from additional clarification. Genesis Home was awarded \$23,100 for the purpose of "underwriting the cost of housing and supportive services for families participating in its Home's Family Matters program. Information provided by the agency showed that they spent the funds to pay the mortgage on real property. In fiscal year 2009 the agency was granted \$24,500. The agency's grant application indicated that \$7,000 would be used for mortgage expense.

We could not identify specific County policy to prohibit the purchase of real property with County grant funds and asked the opinion of the County Attorney. The County's Attorney reviewed the application and contract and said that Genesis Home had not acted illegally because it had not violated the contract or veered from the stated grant purpose which in part was to "underwrite the cost of housing." The Attorney further stated that although the agency had not acted illegally in

spending the funds on a mortgage, he doubted that County managers would have approved of such use of County funds if it had been aware of its intended use. To avoid this type of situation, we believe the County should develop strict criteria for how County funds will be used and closely monitor the use of funds.

Agencies can provide information in the format necessary for County purposes. Sixteen of the 32 agencies provided the information we requested. These were agencies that were more specific in describing how they would use their grant funds during the application process. For example, such agencies stated that they would hire and pay a staff member or provide transportation. The agencies provided payroll records and receipts directly related to those purposes. We asked the fourteen agency representatives we spoke with if they were willing to earmark funds and provide receipts, invoices, or other documents in support of expenditures relating to their earmarks. They said they were willing and capable of accounting for County provided grant funds in that manner.

Continuous monitoring is required to determine if agencies spend grant funding appropriately. Assurance that grantees spend grant money appropriately is fundamental to grant management. This is accomplished by setting and communicating requirements for accountability to grantees and enforcing those requirements. In order to achieve this assurance in Durham County government, a program is needed to periodically obtain and review documentation from grantees in support of how they are spending County funds. A monitoring program reduces the risks that an agency will spend funds inappropriately and helps managers make informed decisions regarding the agency's continued participation in the grant program. We believe the examples cited above demonstrates some of the problems that can occur when grantee expenditures are not monitored consistently.

Policies and procedures regarding inappropriate fund expenditure should be developed and enforced. Management needs to develop policies and procedures to handle instances in which monitoring results show that an agency spent funds inappropriately. We believe that when the results of monitoring show that funds were inappropriately spent, the County should not continue to provide funds to that agency. Additionally, we believe that funds that are not spent in accordance with used described in the application should be recovered if the County's grant managers feel it is in the best interest of the County.

Recommendations

To mitigate the possibility of fraud, abuse, and misuse of funds in the County's nonprofit grant program, we believe recipient agencies should provide strict accountability for the use of grant funds. We believe the following recommendations will be effective in providing reasonable

assurance that the County's grant program is managed in a manner that is financially responsible. We recommend that grant program administrators:

1. Develop clear criteria for use of grant funds.
2. Develop a method to obtain and review County grant expenditure data.
3. Develop a program to stop payment and recover funds that were spent inappropriately.

APPENDIX 1

2008 GRANTS AND GRANT OBJECTIVES

	Agency	Agency Objectives	Operational Budget	Durham County Grant Amount	Percent of Agency Budget
1	Achievement Academy	Provides at-risk, low reading students living in poverty with the means to achieve a GED or post-secondary education.	\$ 176,950.00	\$ 10,000.00	5.65%
2	Alliance of AIDS Services	Provides support services to meet the needs of persons living with HIV/AIDS in Durham County.	\$ 317,606.00	\$ 15,000.00	4.72%
3	American Red Cross	Prepares, prevents, and responds to disasters by educating citizens on preparedness for disasters and providing direct assistance with recovery after a disaster occurs.	\$ 289,744.00	\$ 5,000.00	1.73%
4	Child Advocacy Commission	Provides legal and advocacy assistance for children at risk of abuse, neglect, dependency and delinquency.	\$ 172,124.00	\$ 38,000.00	22.08%
5	Child Care Services Association	Provides child care referral, consultation services, subsidies to low & moderate income working families, support services that help child care providers operate more efficiently, technical assistance to child care centers, and public policy research/advocacy of early care/education.	\$ 420,768.00	\$ 32,588.00	7.74%
6	Child & Parent Support Services	Prevents child abuse and neglect by providing home visiting services, connecting parents to available community resources, connecting children to medical providers, and conducting child developmental screenings.	\$ 535,035.00	\$ 10,164.00	1.90%
7	Communities in Schools	Offers a twelve week program to parents of students exhibiting significant behavior problems in grades K-2.	\$ 56,962.00	\$ 5,450.00	9.57%
8	Coordinating Council for Senior Citizens	Provides educational, social, and health promotion programs to seniors and provides adults 60 and older with one well balanced meal per day.	\$ 1,256,310.00	\$ 128,429.00	10.22%

	Agency	Agency Objectives	Operational Budget	Durham County Grant Amount	Percent of Agency Budget
9	Durham Companions	Breaks the cycle of juvenile delinquency by matching troubled youth with an adult volunteer for one year to help redirect their lives.	\$ 140,866.00	\$ 5,000.00	3.55%
10	Durham Council for Children with Special Needs	Ensures that children from birth to age five with special needs receive services to enable them to reach their potential.	\$ 166,067.00	\$ 10,500.00	6.32%
11	Durham County Teen Court	Offers prevention & intervention strategies that hold youth accountable for their offenses, provide resources to families, and recognize victim's rights.	\$ 229,486.00	\$ 35,000.00	15.25%
12	Durham Crisis Response Center	Works with the community to end domestic and sexual violence through advocacy, support, education, and prevention.	\$ 725,797.00	\$ 50,610.00	6.97%
13	Durham Literacy Center - Adult Program	Improves the functional literacy skills of Durham adults.	\$ 217,500.00	\$ 29,415.00	13.52%
14	Durham's Partnership for Children	Creates funding opportunities and subsequent financial support for programs providing direct services to children and their families ages 0-5.	\$ 63,050.00	\$ 15,000.00	23.79%
15	El Centro Hispano	Serves youth aged 12-20 by providing a bilingual tutoring program, weekly skill building trainings, educational workshops, and group discussions on key topics.	\$ 147,020.03	\$ 25,000.00	17.00%
16	Eno River Association	Sponsors educational presentations and historic & scientific research concerning the Eno River Valley.	\$ 247,930.00	\$ 12,967.00	5.23%
17	Food Bank of NC	Accumulates and distributes perishable and non-perishable food and non-food essentials to nonprofit agencies serving the hungry.	\$ 2,149,147.00	\$ 15,000.00	0.70%
18	Genesis Home	Moves families from homelessness to housing through a program that utilizes case management support and life skills training to help clients prepare for independence.	\$ 485,730.00	\$ 23,100.00	4.76%

	Agency	Agency Objectives	Operational Budget	Durham County Grant Amount	Percent of Agency Budget
19	Interfaith Food Shuttle	Recovers, prepares, and distributes wholesome, perishable food for the area's poor, hungry, homeless, and citizens of low income with chronic illnesses who use Lincoln Community Health Center.	\$ 27,818.00	\$ 10,000.00	35.95%
20	John Avery Boys & Girls Club, Inc	Provides educational enhancement for disadvantaged youth aged 6-18 from at-risk neighborhoods with mentoring, tutoring, and high-yield learning activities.	\$ 186,492.00	\$ 42,000.00	22.52%
21	Meals on Wheels	Provides nourishment to those people who cannot provide for themselves.	\$ 425,350.00	\$ 10,473.00	2.46%
22	Operation Breakthrough	Assists low-wealth families with becoming more economically self-sufficient.	\$ 4,760,531.00	\$ 100,000.00	2.10%
23	Piedmont Wildlife Center	Provides wildlife rehabilitation services and educate and inform residents about wildlife issues and concerns.	\$ 443,220.00	\$ 5,000.00	1.13%
24	Planned Parenthood	Provides quality, affordable reproductive healthcare to low income women and men.	\$ 768,250.00	\$ 20,000.00	2.60%
25	Project Graduation	Provides an all-night, safe, and sober celebration for the graduates of Durham Public Schools and their guests.	\$ 33,000.00	\$ 4,200.00	12.73%
26	Salvation Army	Provides athletic activities to youth, train and mentor participants in life skills, provide one-on-one tutoring, and career coaching.	\$ 123,942.78	\$ 15,000.00	12.10%
27	SeeSaw Studio	Provides an after school venue for youth in Durham that provides training and practical experience in art, design, and business.	\$ 258,750.00	\$ 5,250.00	2.03%
28	Senior PHARMAssist	Promotes healthier living for seniors through health management and advocacy.	\$ 558,265.00	\$ 94,264.00	16.89%

	Agency	Agency Objectives	Operational Budget	Durham County Grant Amount	Percent of Agency Budget
29	Triangle Radio Reading Services	Provides access to local news and information from the print media to the elderly, blind, and print impaired.	\$ 155,178.00	\$ 4,488.00	2.89%
30	Urban Ministries of Durham	Provides emergency food, shelter, clothing, and supportive services to Durham citizens in need.	\$ 1,498,000.00	\$ 185,000.00	12.35%
31	Victorious Community Dev.	Offers an after school holistic approach to academic success for students who have been deemed academically challenged.	\$ 312,000.00	\$ 10,000.00	3.21%
32	Volunteer Center of Durham	Brings approximately 50 identified programs in Durham that utilize mentors under one umbrella in the interest of sharing resources, maximizing efficiency, and identifying gaps in service.	\$ 50,000.00	\$ 16,666.00	33.33%
		Totals	\$ 17,398,888.81	\$ 988,564.00	5.68%

APPENDIX 2

LETTER REQUESTING SPENDING INFORMATION FROM GRANTEES REGARDING FISCAL YEAR 2008 EXPENDITURES

July 10, 2008

Re: Audit of Year 2007-2008 Nonprofit Agency Grant Funding Usage

Dear:

As provided for in Section 3.1 of Durham County's Nonprofit Agency Funding Policy, the internal audit department is conducting an audit of the County's Administration of the grant program. As provided for in the policy, nonprofit agencies receiving grants from the County should make available upon request, documents required to determine that it is spending funds for the purpose for which it was requested and granted.

For the County fiscal and funding year July 1, 2007 through June 30, 2008, Durham County granted your agency \$_____. The purpose of the funding, as stated in the application, was to _____.

We are requesting that you provide receipts, invoices, payroll records or other applicable documents supporting your use of the grant funds. We request that supporting documentation you provide be specific and adequate enough to provide evidence to support expenditures. For example, if you requested funds to hire a new instructor, your documents should be adequate to demonstrate that a new instructor was hired, the time period in which the instructor was hired, and your payroll or expenditure records should show that the instructor was paid a sum equal to or exceeding the grant proceeds.

Please submit supporting documentation by the end of the day on July 28, 2008. Please send documentation to Richard Edwards, 200 E. Main St, 4th Floor, Durham, NC 27701. If you have questions regarding this request, please contact Richard Edwards at 919-560-0042 or send an email to rcedwards@durhamCountync.gov.

Sincerely,

Richard Edwards, CIA, CGAP
Director of Internal Audit

APPENDIX 3

MANAGEMENT RESPONSE

September 16, 2008

Budget & Management Services Departmental Response

The Budget & Management Services department has reviewed the Performance Audit of the Financial Monitoring of the Nonprofit Funding Process dated August 2008, and has discussed with Internal Audit staff as well as the County Finance Director. The stated purpose of the audit was to determine 1) Are grantees spending grant funds for the purpose for which it was requested; and 2) Is there an effective system in place to monitor how grant funding is spent by grantees. Due to the focus of this audit on the financial monitoring of grantees, both the Budget Director and Finance Director have met with Internal Audit to discuss and review their audit recommendations.

Background

While the Nonprofit Funding process is primarily managed by the Budget office, the program's policies are set by the Board of County Commissioners in the Nonprofit Agency Funding policy. The Budget office is the primary contact with nonprofits for the application process and overall management of the program. Over the last several years the monitoring responsibilities for grants has been shared with the Finance Department, specifically the Compliance Manager in Finance has received and reviewed the required financial reports, which consist of a mid-year (February 15) and final (August 15) report, and in some cases audits have been supplied. Beginning in FY2007 a mid-year program report was instituted for grantees, and this report has been received and reviewed by the Budget staff. The review and recommendation process for applications has been shared by the Budget office and the Assistant County Manager for Special Projects. Over the last few years the Assistant County Manager and Budget staff have made funding recommendations to the County Manager; and then the County Manager has made his final recommendations to the BOCC. The BOCC has each year through the budget process made final funding decisions for Nonprofit grantees.

We agree that improvements should be made in the monitoring of grant funds beyond the current practice of financial statements reviewed by the Compliance Manager and the mid-year Program Report reviewed by the Budget Office. This can be accomplished through continued refinement of the Nonprofit Funding Policy to ensure it continues to meet the goals of the Board of County Commissioners, along with refinement of the application process, the financial reporting and monitoring components, and the program monitoring. .

Response to Audit Recommendations

Develop clear criteria for use of grant funds.

The Nonprofit Agency Funding Policy approved by the Board of County Commissioners defines through a policy statement the focus of funding nonprofit agencies which promote the County's mission and promote Durham's Results-Based Accountability initiative. Further the policy defines eligibility requirements for applicants, some general accountability requirements, and two funding

categories which have been developed over the years (start-up grant and operations grant). In the definition of the operations grant there are some examples of the type of expenses which could be funded. During the application process for FY2009, Budget staff developed a more detailed budget summary which required a line item budget request, which will now lend itself to more specific financial monitoring. The Budget and Finance Directors have agreed to first work on fine-tuning the criteria for use of nonprofit grants funds, by convening a staff working group which would consist of representatives from budget, finance, internal audit, and the attorney's office. This team would refine the funding criteria and definitions (where necessary), to provide clarity to both the nonprofit applicants as well as to the BOCC concerning allowable use of County grant funds.

1) Develop a method to obtain and review County grant expenditure data.

As previously mentioned, financial statements are reviewed by the Compliance Manager twice per year (in February and August). For the purposes of the audit, the Internal Audit department requested receipts from nonprofit agencies funded in FY2008. During a meeting with the Budget & Finance Directors, and Internal Audit, agreement was reached to move forward and implement this recommendation during the current year FY2009. FY2009 Nonprofit Grantees will be required to use their approved grant program budget to provide the Compliance Manager with a detailed accounting of expenditures through December 31, 2008 (the first 6 months of the fiscal year), with supporting documentation that can be verified. In addition we will require a second financial expenditure report be submitted to the Compliance Manager in April 2009 (tracking expenditures through March 2009). This will help the County ensure that the grantees are continuing to expend funds in accordance with the approved grant. A final yearend report in the same format will be required in August. All grantees will be contacted and advised of the format and timing changes in the reporting, as well as the requirement to provide supporting documentation which verifies the expenditures being reported.

2) Develop a program to stop payment and recover funds that were spent inappropriately.

Currently, the majority of nonprofit agencies funded by the County receive monthly payments. If the County determines that the agency is in breach of its contract, payment can be stopped by notifying the Accounts Payable department. With the more frequent and detailed monitoring as defined in #3 above, we believe the necessity to recover funds will be minimal. If after review of either report it is determined that funds were spent inappropriately, the next monthly payment will be withheld, pending resolution of the problem. A final financial report would be required after completion of the grant for the entire 12 month period, and should it be discovered that funds were spent inappropriately, then legal action would be required if the grantee did not comply with a request to return funds to the County.

General Comments:

The focus of this audit on reviewing grantee records of grant expenditures, and whether there is an effective system in place to monitor how those funds were spent, has raised broader issues concerning the County's Nonprofit grant process. With the focus on clearer documentation of expenditure of funds, we see implications for improving the funding policy and the application process; so that both staff and agencies can be clear concerning allowable expenditure, the level and frequency of reporting, and the type of grants to be awarded. The funding categories in the policy define a Start-up Grant vs. Operations Grant, but it does not clearly specify allowable uses. We would like to consider enhancements in the policy as well as the application process which provide a clearer distinction of the funding categories as well as include the specific allowable use of County funds. Such changes we believe would result in an improved program and process.

Finally, while this response primarily focuses on the responsibilities relating to the budget and finance departments and their responsibilities regarding the application and monitoring process; other departments are involved in making this process successful. Specifically the County Attorney's office lends support in finalizing recommendation on the grant agreement contracts each year, and the Risk Manager provides assistance regarding insurance requirements for grantees; and of course the County Manager's office, through the Assistant County Manager for Special Projects provides the lead for the funding recommendations for nonprofit grantees, and other county departments who serve as reviewers. Over the next several months the Budget Department will take the lead in setting up another staff workgroup to address process issues which we believe need clarification and input from all departments referenced. The goal will be to produce an improved application process with input from all county agencies which take part in this grantee program.

We believe that County staff along with the Board of County Commissioners has made good progress toward improving the Nonprofit Funding Policy, the application process, the contract process and the monitoring process over the years and look forward to bringing some recommendations to both the County Manager and the Board regarding further improvements.