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Audit Report

DCED GRANTS

As of June 30, 2016

**Office of the Controller
County of Northampton
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January 20, 2017

Members of the Northampton County Council
John A. Brown, County Executive
County of Northampton, Pennsylvania

We have completed an audit of DCED Grants as of June 30, 2016.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the Department of Community and Economic Development. Their help was essential to the performance of this audit.

Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

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Table of Contents

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
PURPOSE AND SCOPE.....	3
METHODOLOGY	3
AUDIT RESULTS	4
<u>Section A – Policies and Procedures</u>	
1. Documentation of Policies and Procedures for Grant Processes	4
<u>Section B – Internal Controls</u>	
1. County’s Responsibility for Adherence to Application Guidelines	6
2. Monitoring Grant Recipients.....	8

EXECUTIVE SUMMARY

Each grant program included in this audit has its own application and grant approval process. Grant agreements are in place and recipients of funding are filing reports with the Department of Community and Economic Development (DCED). However, improvements to the various grant processes can be made to strengthen internal controls. The office would benefit from developing a policies and procedures manual that addresses each grant program's unique requirements.

DCED was receptive to comments made during the testing process. It was noted that DCED is eager to work on improving the grant contracting and monitoring processes. DCED stated that prior to the start of this audit, they were working on improvements to the grant application, review, and approval process for the Hotel Room Rental Tax (HRRT) program, and were working on standardizing this process as much as possible for all grant programs. They further stated they are creating a checklist to aid in the processing of grants as a way to document the status of each grant and grant recipient.

INTRODUCTION

The Department of Community and Economic Development (DCED) operates under the direction of the County Executive. Their mission is to “strategically leverage resources that foster economic prosperity and enhance the quality of life in Northampton County”. To accomplish this mission, DCED administers various grant and revolving loan programs to promote qualified community and economic development initiatives which expand the tax base and increase the number of jobs and affordable housing opportunities for the constituents of the County, and to assist individual municipalities in developing their specific community and economic development initiatives.

The following grant programs were included in this audit:

- Hotel Room Rental Tax
- Community Development Block Grant
- Emergency Solutions Grant

Hotel Room Rental Tax (HRRT) at the rate of 4% (per Ordinance 440) is collected from hotels, bed and breakfasts, and other lodging facilities throughout the County. Grants are distributed to public and non-profit organizations. Municipality and non-profit applications are evaluated and ranked by a review team. Their final recommendations are presented to the County Executive and are included in the County’s proposed budget for approval by County Council.

The Community Development Block Grant (CDBG) program funding is provided as an allocation from the Federal government for the benefit of non-entitlement municipalities. Eligible projects include public infrastructure, affordable housing, public services, and planning and administration projects. This is a competitive grant program requiring municipalities apply to DCED annually for funds allocated by the U. S. Department of Housing and Urban Development (HUD) program. Project applications are evaluated and ranked by a review team based upon need. The County gives highest priority to activities that benefit low and moderate-income residents pursuant to regulations set forth by HUD. Any unspent portion of each grant is rolled forward to subsequent years until all grant projects are completed.

The Emergency Solutions Grant (ESG) program provides financial assistance to homeless shelters in the County. This funding may be used for rehabilitation, operations, and homeless prevention activities. Non-profit organizations submit applications to DCED. These applications are reviewed for eligibility and then included in the County’s application for funding to the State. The State applies to HUD for funding. Final awards for projects are dependent on Federal and State approval.

PURPOSE AND SCOPE

The purpose of this audit was to:

- Determine if internal controls are established and effective in allocating and distributing grant funding, and monitoring the recipients of funding for the various programs.
- Determine compliance with grant terms, PA Rules and Regulations, and various policies and procedures.

The scope of the audit covered the 2015 grant awards for the programs noted in the Introduction (HRRT, CDBG and ESG) that were distributed from January 1 through June 30, 2016. Due to the timing of payments for certain awards selected for testing, transactions occurring after June 30, 2016 were also reviewed.

Our testing did not include an examination of the HUD Integrated Disbursement and Information System (IDIS) used in requesting funding draws from HUD for the CDBG program.

METHODOLOGY

Our methodology included:

- Interviewing DCED personnel to document the various grant processes and procedures.
- Identifying applicable grant terms, policies and procedures, and laws and regulations.
- Identifying and assessing internal controls.
- Performing tests of transactions for compliance with internal controls and various grant terms, policies and procedures, and laws and regulations.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Section A – Policies and Procedures

1. Documentation of Policies and Procedures for Grant Processes

OBSERVATION

DCED does not have a comprehensive policies and procedures manual that staff can reference for guidance on the handling of the various grants administered by the office. There was turnover in various positions in 2016 that resulted in remaining staff taking on unfamiliar job responsibilities that were beyond their training, and had limited resources to learn what was required for each grant program.

HRRT procedures have been informally developed by the Specialist over time but are not in writing. Procedures for processing CDBG and ESG invoices were developed over the summer of 2016. These procedures do not encompass all aspects of the grant process.

Policies and procedures are a necessary tool that enables employees to understand the expectations and requirements of their job duties as well as ensure compliance with regulations.

The absence of a policies and procedures manual, coupled with turnover in staffing, resulted in several areas of concern noted during testing of 2016 transactions. The following items were noted:

- ESG grant funds received were not posted as ESG revenue in IFAS before payments to recipients were made.
- The 2015 HRRT grant application recommendations were not properly included in the 2016 budget submitted to Council for approval.
- An HRRT grant awarded during 2016 was paid in full when it should have been paid according to the normal quarterly payment schedule.
- There were potential conflicts of interest with regard to DCED staff and outside review committee members responsible for ranking and reviewing HRRT grant applications, with no written procedure to ensure this process is done in a fair and impartial manner.
- There is no guidance on who is required to complete the State Ethics Commission form titled Statement of Financial Interests.
- DCED is not consistently maintaining documentation for the various grants. Documentation for all programs is maintained in various formats (paper and electronically). At times it was difficult for DCED to locate some documentation needed for testing.

- Invoices submitted to the County for reimbursement by the grant recipients are not always date stamped when received. It is not possible to verify the timeliness of HUD draws and processing of check requests.

It was noted that to some degree these areas of concern were carryovers of situations that occurred with prior staffing. Current DCED management has taken steps to rectify some of these items. Procedures have been implemented to ensure the ESG funding is recorded as revenue before disbursements are made to recipients. The 2016 HRRT grant application recommendations were included in the County's 2017 proposed budget and Fiscal Affairs discussed payment procedures for HRRT grant disbursements with DCED management. DCED management is working on a grants checklist in an effort to standardize processing of grants. All DCED employees involved in the grant decisions will be completing the PA State Ethics Statement of Financial Interests form. DCED management is developing procedures to standardize grant documentation.

RECOMMENDATION

DCED's management should review all aspects of processing the various grants administered by the office. These processes should be documented in a department policies and procedures manual. Policies and procedures should be communicated to each individual involved in the administration of the various grant programs.

MANAGEMENT RESPONSE

Tim Herrlinger, Director, Community and Economic Development

DCED management has reviewed this limited program audit and finds it largely accurate. The loss of leadership and area-specific specialists, as well as the department's executive secretary, threw into crises mode the remaining three DCED staff and the federal grants compliance hiree (who was in place less than three months). The four took on the responsibility of maintaining the County's programs even when it was clear that no specialized training and other resources were available to assure accurately-managed day-to-day operations. It is a credit to some of those who left who later offered their help, and a credit to the department administrator, the finance specialist and the Gaming Authority Executive Director who rallied to do the work of twice the number of people in the department. As indicated in the Executive Summary (Page 1), DCED is working to: a) develop a comprehensive policies and procedures manual in 2017; b) complete the revision of all contracts and agreements, standardizing where possible and establishing templates for each grant program and agreements for other uses; c) DCED has already established monitoring program standards for CDBG and Gaming Authority grants, and will extend these to all other grants and programs, such as HRRT grants, that are prudent opportunities for monitoring the use of County-managed funds. Checklists are now required on all contracts and agreements before execution, and a numbering system has been developed to track and identify each grant and other program documents.

Section B – Internal Controls

1. County’s Responsibility for Adherence to Application Guidelines

OBSERVATION

DCED experienced some staff turnover during 2016. That staff turnover, coupled with the lack of documented office policies and procedures, resulted in the County’s Federal and State grant deadlines being missed.

The following items were noted:

- DCED missed the grant application due date for the ESG funding period 2016-2018; and funding for this period will need to be obtained from County sources rather than the State for this program. ESG awards have been averaging between \$100,000 and \$130,000 per award period. Actual usage of these funds is lower because the subgrantee could not find uses for the money based on HUD guidelines.
- DCED fell behind on monitoring the CDBG timeliness requirement for drawdowns of funding. The consequence of not maintaining adequate amounts of drawdowns per federal guidelines could have resulted in major cuts to future funding allocations from HUD. To correct this, DCED had to take a \$1.1 million draw from HUD in July 2016 before recipients completed their projects and submitted their requests for reimbursement. The CDBG funding award for grant year 2015 totaled \$1.4 million. The current year’s allocation plus prior year unspent funds totaled \$1.7 million available for projects in 2016. This draw in July was 65% of the total CDBG award. Drawing down HUD funding without proper recipient documentation has inherent risks in that draws for projects that don’t materialize could result in funding that may need to be returned.

It was noted that DCED management appears to be working with staff to gain a greater understanding of grant requirements and the respective grant deadlines.

RECOMMENDATION

DCED management must ensure that the County’s Federal and State grant requirements and deadlines are met. Management should carefully review all County grant submission and reporting requirements, and develop policies and procedures to ensure adherence.

MANAGEMENT RESPONSE

Tim Herrlinger, Director, Community and Economic Development

The loss of the legacy employee who would have maintained this schedule affected the ability of remaining personnel to meet this deadline. This current state/federal grant was concluded in 2016.

The funds for CDBG are drawn from the federal government using the HUD IDIS system. Over-draws to meet the timeliness criteria had been taken in the previous year and had resulted in a HUD-mandated performance plan that was unable to be implemented because of inadequate staffing after the departures. DCED's remaining staff worked with the assigned HUD representative on a five-day on-site audit (for which there were no findings) and followed their recommendations to repeat the previous year's draw, specifically to avoid the penalty associated with non-compliance due to the mandated performance plan. Subsequent actions included creating a CDBG P&P manual and a monitoring schedule late in the year, which satisfied federal requirements and mitigated the circumstances of this point in your audit narrative.

2. Monitoring Grant Recipients

OBSERVATION

DCED has no formal in-house monitoring procedures for its ESG and HRRT grant programs to ensure compliance with federal, state and county guidelines. Monitoring is left to the discretion of each staff member in charge of each program. Recipient monitoring does not always include a review of compliance with regard to the various contract terms outlined in the grant agreements between the County and the recipients.

Adherence to contract terms in the grant agreements is an integral part of ensuring that the recipient remains eligible to continue receiving grant funding. Without policies and procedures in place to outline the monitoring that should be done, the County could be supporting a recipient that no longer qualifies to receive grant funding.

In various discussions with DCED management and staff, DCED stated they are working toward improving the monitoring process. DCED has been working with HRRT grant recipients to ensure proper acknowledgment of funding is displayed.

RECOMMENDATION

DCED management should review the various grant programs administered by DCED staff and grant agreements between the County and recipients, and develop a monitoring system that best suits each grant program. Monitoring should be performed on a consistent basis for each program.

MANAGEMENT RESPONSE

Tim Herrlinger, Director, Community and Economic Development

New contracts developed by DCED now include more specific monitoring notices and compliance requirements that will be followed up by DCED staff. Since hiring replacement staff for these programs, DCED now has the capacity to undertake developing and following specific monitoring schedules for each grant program, and add such monitoring where none had been before. CDBG and Gaming Authority programs do have extensive procedures. CDBG has a P&P manual containing these monitoring procedures.