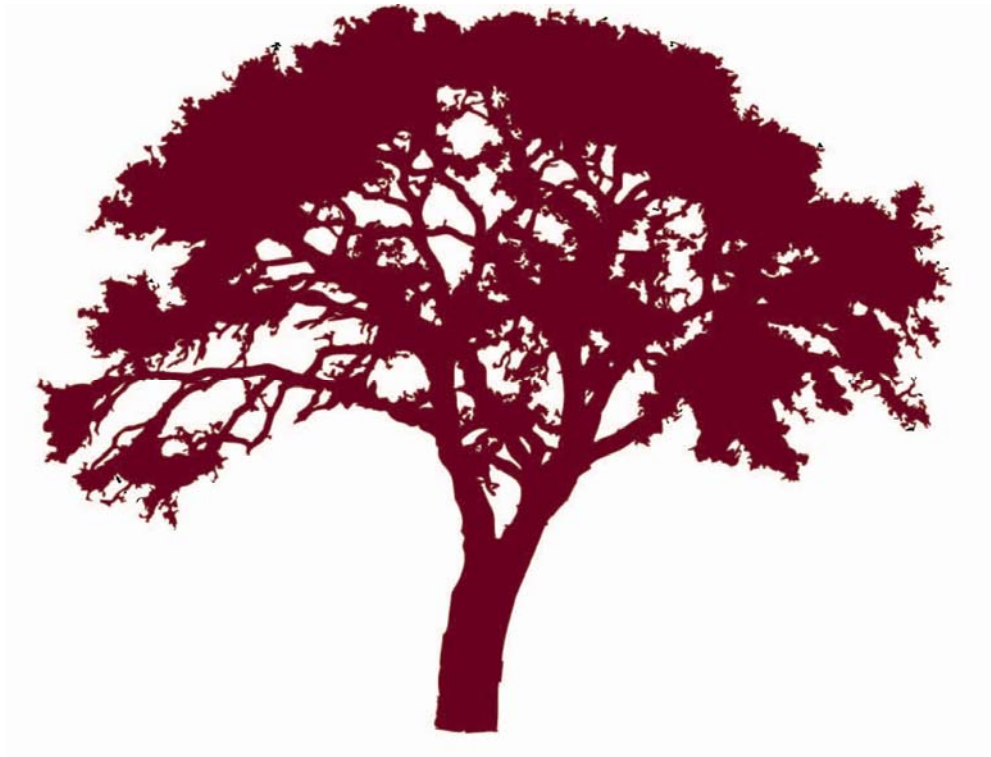


City of Oakland Office of the City Auditor

June 22, 2011

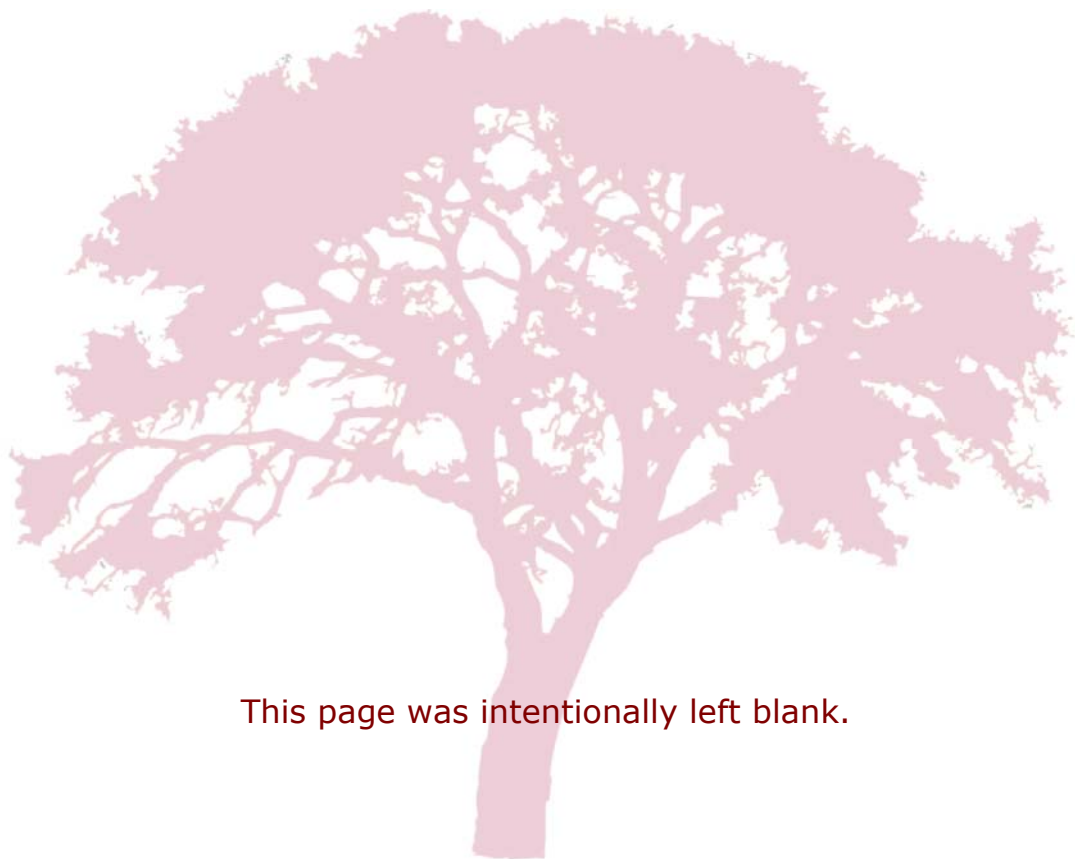
American Recovery and Reinvestment Act Internal Controls Compliance Audit

*City Administration established 19 of 19 Federal compliance
requirements; improvements needed to achieve
full effectiveness in three areas*



City Auditor
Courtney A. Ruby, CPA, CFE

PERFORMANCE AUDIT



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June 22, 2011

OFFICE OF THE MAYOR
HONORABLE CITY COUNCIL
OFFICE OF THE CITY ADMINISTRATOR
OAKLAND CITIZENS
OAKLAND, CALIFORNIA

RE: AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) INTERNAL CONTROLS COMPLIANCE AUDIT

Dear Mayor Quan, President Reid, Honorable City Council, City Administrator Ewell and Oakland Citizens:

Attached is the American Recovery and Reinvestment Act (ARRA) Internal Controls Compliance Audit. The audit's objectives were: (1) to assess whether or not the City Administration's internal controls were in compliance with the funding and reporting requirements, as stipulated by ARRA and Office of Management and Budget (OMB) guidelines; and (2) to report on the status of implementation of the City Administration's internal controls over ARRA funding.

This \$787 billion Recovery Act package was intended to jump-start the economy by creating and saving jobs, while requiring unprecedented levels of transparency and accountability. Our audit found the City Administration successfully established and implemented 19 of 19 ARRA and OMB internal controls compliance requirements; however, we identified deficiencies in three internal control areas that need improvements to achieve full effectiveness:

- Inaccurate Reporting: indicated weaknesses in the Administration's ARRA reporting and data quality review process
- Inaccurate Tracking: revealed that fiscal controls were not fully effective to ensure accurate ARRA recordkeeping and billing
- Inaccurate Subrecipient Jobs Information: indicated inadequate subrecipient monitoring

Meeting defined levels of accountability and transparency within ARRA's strict reporting deadlines has been challenging for government agencies across the nation. Despite major obstacles like the reduction of human and institutional resources, the City still must ensure that a system of effective internal controls is operating. Only then can Oakland provide reasonable assurance that public funds meet their end objective, are reported upon properly and are in compliance with all applicable laws and regulations.

I want to acknowledge that the City Administration worked diligently to secure more than \$66 million in City-administered grants, as well as participated with other public agencies to secure more than \$139 million that benefited other Bay Area organizations; and yet, all public money comes with a price in terms of public trust. Unfortunately, the Administration's response fails to illustrate it understands that controls are only fully compliant if they are found to be fully effective, which in this case, they fell short in three areas.

Inherently, an audit identifies what must be fixed, but more importantly, it provides management with an opportunity to see where Oakland must bolster its city-wide systems so that, going forward, Oakland is executing City programs from a solid foundation of effective internal controls. In this time of shrinking resources and increased scrutiny, it is essential that the City continues to demonstrate its dedication to continuous improvements, as well as meeting ARRA's compliance requirements, by expeditiously implementing the audit's recommendations.

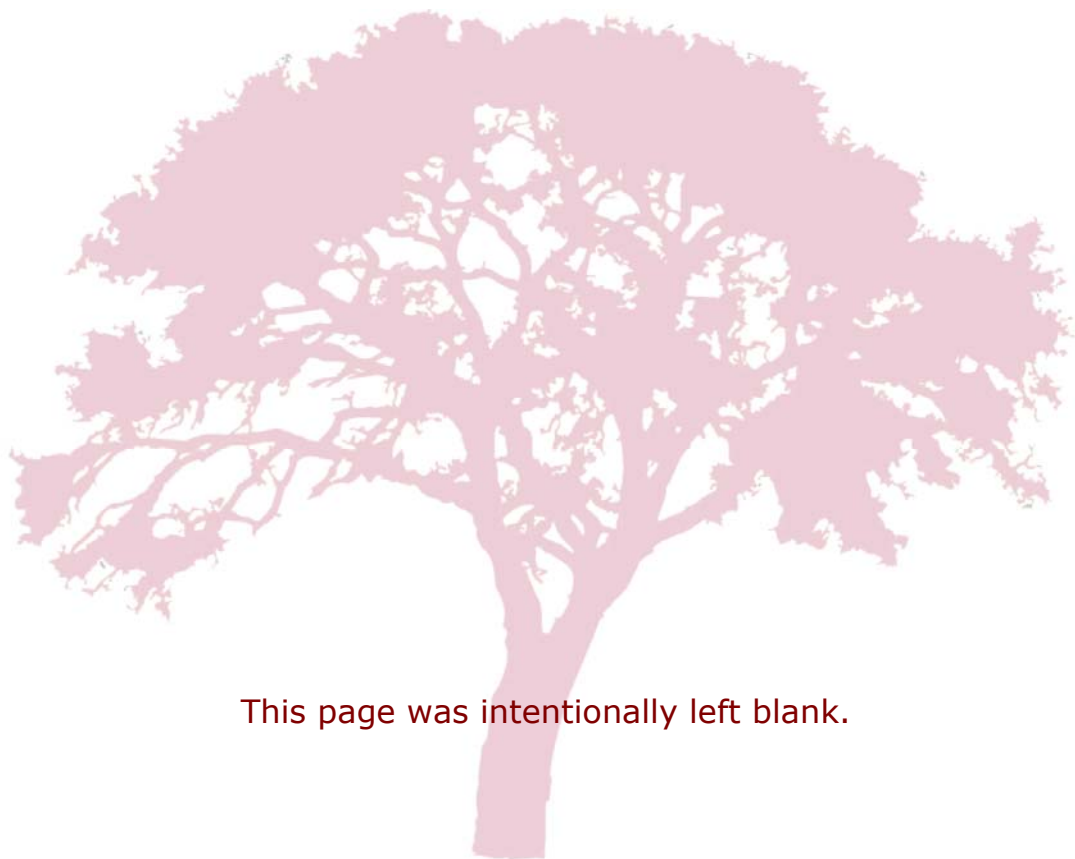
Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Courtney A. Ruby". The signature is fluid and cursive, with the first name "Courtney" being more prominent and the last name "Ruby" following in a similar style.

COURTNEY A. RUBY, CPA, CFE
City Auditor

Table of Contents

Summary	1
Introduction	3
Section One: Federal Compliance Requirements	9
Section Two: Improving Internal Controls	31
Recommendations	48
Administration's Response	51
Office of the City Auditor's Response and Actions to Close the Report	75



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ARRA INTERNAL CONTROLS COMPLIANCE AUDIT REPORT SUMMARY

Internal Controls

Internal Controls Established but Improvements Needed: *Overall the City Administration established and implemented processes and controls to meet 19 of the 19 ARRA and OMB compliance requirements. However, improvements are needed for three Federal compliance requirements to achieve fully effective internal controls over the City's ARRA funds.*

Overview

The Office of the City Auditor conducted a compliance audit of the City Administration's¹ internal controls over American Recovery and Reinvestment Act (ARRA) funding. The objectives of the audit were to:

- Assess whether or not the City Administration's internal controls were in compliance with the funding and reporting requirements as stipulated by ARRA and White House Office of Management and Budget (OMB) guidelines.
- Report on the status of implementation of the City Administration's internal controls over ARRA funding.

Key Findings

The following are key findings from the audit:

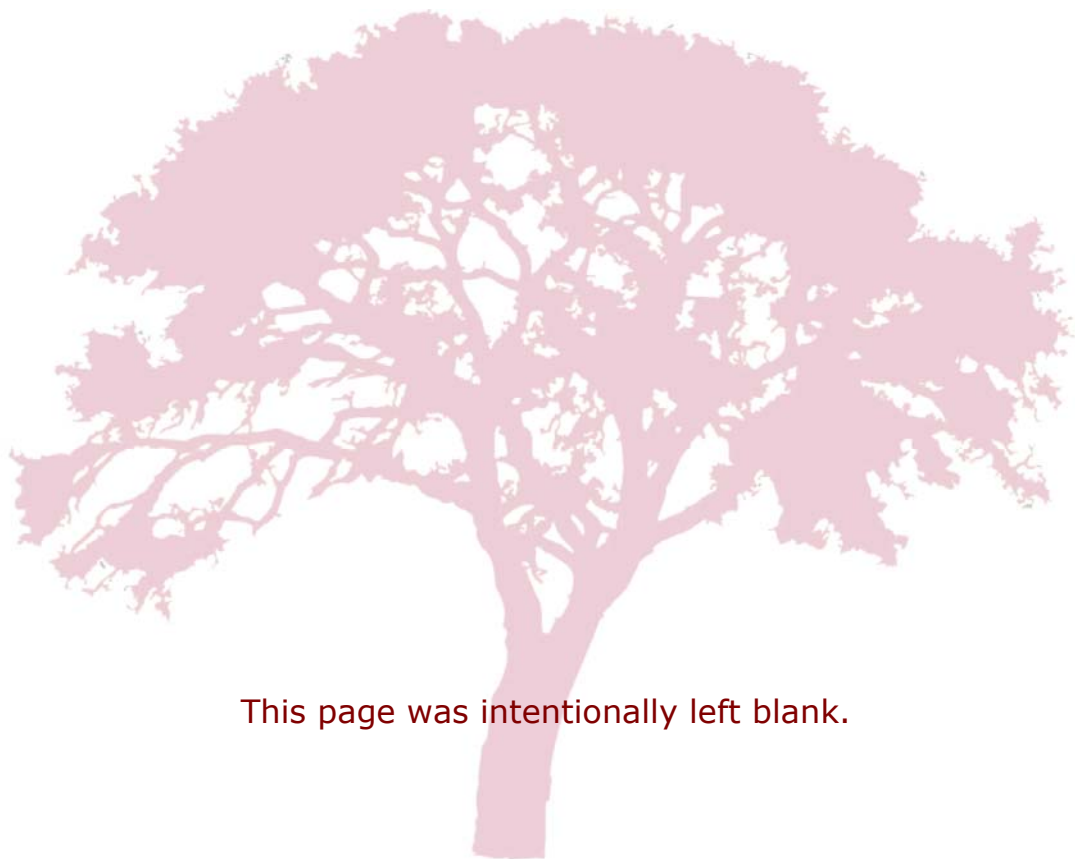
- The City Administration established and implemented 19 of 19 ARRA and OMB internal control compliance requirements.
- Three Federal compliance requirements need improvements in the following three areas:
 1. Accurate Reporting:
 - Six of the seven sampled grants had inaccurate ARRA reports
 - 5.8% average misstatement of jobs
 2. Accurate Tracking:
 - Not all sampled transactions were processed correctly
 3. Subrecipient Monitoring:
 - Two subrecipients failed to report timely or accurate jobs data to meet ARRA requirement.
 - Training to subrecipients occurred only days before the reporting deadline.
- Improvements are needed for two internal control areas separate from the 19 ARRA and OMB requirements:
 - COPS grant: more timely drawdowns, redesign of inefficient accounting processes, and a commitment to consistency in reporting.
 - Whistleblower best practices: communication and posting of Federal whistleblower protections and Oakland Fraud, Waste + Abuse Program information for all ARRA grants.

Key Recommendations

To address the audit's findings, the report includes several key recommendations:

- Improve the data quality review process at the City Administrator's Office (CAO) and/or departmental level to ensure that submitted reports are complete, accurate and timely as required by the OMB.
- Consistently perform periodic reconciliation processes – at least quarterly – to ensure only ARRA-related allowed costs are completely and accurately captured in the assigned ARRA funds and billed to the funding agency on a timely basis.
- If alternative methodologies are used, clearly document it (including written confirmation from funding agency prior to implementation), review supporting documentation, and certify the alternative methodology is reasonable and consistent with Federal guidelines.
- Implement best practices to ensure monitoring of reporting by subrecipients.

¹ The City Administrator's Office (CAO) provides centralized oversight for the City's ARRA (stimulus) activities. In this report, "CAO" is used when the CAO has the primary responsibilities over the stated activities. "City Administration" is used when multiple departments worked in collaboration with the City Administrator's Office to complete the stated activities.



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Introduction

The City of Oakland (City) has been operating in an environment of severe budget deficits since fiscal year (FY) 2007-08. The one-time and limited duration funding provided by the American Recovery and Reinvestment Act (ARRA) has helped the City generate local jobs and address community needs in public safety, economic and workforce development, energy efficiency, housing and social services, and public infrastructure. The Recovery Act requires unprecedented levels of transparency and accountability by the City Administration and its subrecipients. To ensure the City Administration successfully met these heightened requirements, the Office of the City Auditor (Office) conducted a compliance audit of the City Administration's internal controls over ARRA funding and report on the status of their implementation.

Background

The American Recovery and Reinvestment Act (ARRA) was passed by Congress and signed into law by President Obama on February 17, 2009. The purpose of the \$787 billion Recovery package was to jump-start the economy to create and save jobs.² The Act includes Federal tax incentives, expansion of unemployment benefits, other social welfare provisions, domestic spending in education, healthcare, renewable energy, and infrastructure.³

Accountability and transparency are the cornerstones of the Recovery Act and are reflected in the significant provisions imposed on recipients to ensure funds are used for the intended purposes and are transparent to the public. For instance, the City Administration must establish a stimulus website linked to the Federal Recovery.gov website. All ARRA funds appropriated must be established in separate accounts and there should be no comingling of Recovery and non-Recovery Act funds. In addition, Section 1512(c) of the Recovery Act requires the City Administration to submit a report no later than 10 days after the end of each quarter. The quarterly ARRA reports are made public and are available on the Recovery.gov website and include the following required information:

- Amount of ARRA funds received
- Amount of ARRA funds spent
- Jobs created or retained
- Details on sub-awards

In the midst of the severe economic downturn and budget crisis facing the City of Oakland, the City Administration worked collaboratively with its partners⁴ (see Appendix 1) to secure approximately \$205 million in Federal and state economic stimulus grants, which at the time of the grant applications would provide an estimated 11,000 jobs.⁵

² <http://www.recovery.gov/FAQ/Pages/ForCitizens.aspx>

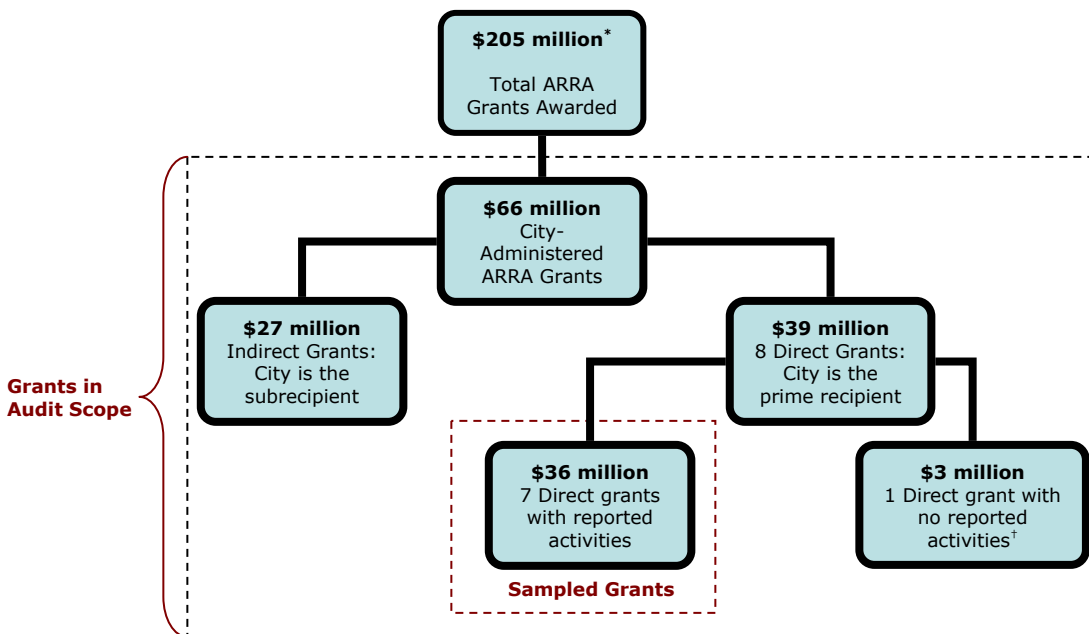
³ http://www.recovery.gov/About/Pages/The_Act.aspx

⁴ Other public agencies, foundations, labor, not-for-profit organizations and the business community

⁵ According to the grants information published on City of Oakland's Stimulus website <http://www.oaklandstimulus.com> as of December 1, 2010

Of the \$205 million in grant funds, the City is the applicant or lead agency for \$66 million in City-administered grants (see Exhibit 1). The City has no reporting or monitoring responsibility for the \$139 million in non-City-administered grants, of which the City provided support or worked in collaboration with other organizations that were the lead agencies of these grants. For example, the \$1 million California Clean Energy Workforce Training grant was awarded to Laney Community College, the lead agency in partnership with the City of Oakland, Oakland Workforce Investment Board (WIB), and community-based organizations, to provide training opportunities for residents in energy efficiency, renewable energy, and renewable transportation technology.⁶

Exhibit 1: City's ARRA Grants in Audit Scope as of June 2010[‡]



[‡] Exhibit 1 does not reflect additional grants and bonds awarded after June 30, 2010.

* City worked with other public agencies, foundations, labor, not-for-profit organizations and the business community to secure these Bay area grants.

† Port Security Grant Program (Domain Assistance Center) which the Port of Oakland served as the original lead. No quarterly ARRA reports were reported to Recovery.gov as of 6/30/2010. At the time of the audit, contract negotiations were still underway for this grant.

⁶ According to the grants information published on City of Oakland's Stimulus website

Direct Grants vs. Indirect Grants

The \$66 million in City-administered grants fall under two categories: direct grants and indirect grants.⁷

Direct grants are received by the City directly from Federal agencies, where the City is the prime recipient. Prime recipients are required to submit quarterly ARRA reports to the Federal government, and as owners of the data submitted, have the principal responsibility for the quality of the information submitted.⁸

Indirect grants denote when Federal money flows through another entity prior to the City. For grants received through non-Federal agencies, such as the State of California, the City is known as a subrecipient and the flow-through entity is the prime recipient. For indirect grants, the City is responsible to report information required by the prime recipient, who is then responsible for submitting the quarterly ARRA reports. For example, the Community Services Block Grant (CSBG), funded by the U.S. Department of Health and Human Services (DHHS), is an indirect grant that the City (subrecipient) received from the state Department of Community Services & Development (CSD)⁹ (prime recipient).

At the time of the application for the \$66 million in ARRA grants, all awards would create and/or retain an estimated 1,500 jobs over the various grant periods.¹⁰ As of April 2010, of the \$66 million in City-administered grants, approximately \$10 million or 13% had been expended and 1,022 jobs had been created and/or retained.¹¹ Of the \$66 million, the City had eight direct grants totaling \$39 million, of which seven had reported activities¹² with the remaining balance of \$27 million in indirect grants, as illustrated in Exhibit 1.

According to the Federal Recovery.gov website, the City of Oakland is the 4th top ARRA-funded city in the State of California, as shown in Exhibit 2. Most notably, the City of Oakland received the largest stimulus COPS grant award in the nation of \$19.7 million over three years to fund 41 officers.¹³

⁷ Definition taken from City of Charlotte's ARRA report dated 10/20/2010

⁸ OMB M-09-21, Section 4.2 (p. 27)

⁹ CSD is a state department and part of the California Health and Human Services Agency.

¹⁰ According to the grants information published on City of Oakland's Stimulus website <http://www.oaklandstimulus.com> as of December 1, 2010 - these figures have not been audited

¹¹ Source: Informational Report on the Status of Grants from ARRA, dated May 25, 2010. These figures have not been audited.

¹² According to www.Recovery.gov June 30, 2010 data reported by recipients

¹³ <http://www2.oaklandnet.com/Government/o/CityAdministration/DOWD005832>

**Exhibit 2: TOP FUNDED CITY RECIPIENTS IN THE STATE OF CALIFORNIA
(FROM FEBRUARY 17, 2009 to SEPTEMBER 30, 2010)**

Rank	California City	Total Award Amount
1	City of Los Angeles	\$ 559,965,055
2	City & County of San Francisco	\$ 172,171,252
3	City of Long Beach	\$ 78,598,876
4	City of Oakland	\$ 77,614,164
5	City of San Jose	\$ 76,529,618
6	City of Modesto	\$ 47,245,081
7	City of Sacramento	\$ 44,240,009
8	City of Fresno	\$ 41,664,078
9	City of Glendale	\$ 33,365,504
10	City of Santa Ana	\$ 28,206,357

Source: www.Recovery.gov, reported by recipients

Objectives, Scope & Methodology

Audit Objectives

The objectives of the audit were to:

- Assess whether or not the City Administration's internal controls were in compliance with the funding and reporting requirements as stipulated by ARRA and OMB guidelines; and
- Report on the status of implementation of the City Administration's internal controls over ARRA funding.

Audit Scope

The audit reviewed the City Administration's internal controls to determine their compliance with the accountability and transparency requirements and significant provisions of the Recovery Act, as well as OMB guidelines. Internal controls include related rules and regulations, provisions, guidelines, policies and procedures, as well as practices that the City Administration has identified and implemented to meet ARRA compliance requirements. The audit primarily focused on the \$66 million City-administered ARRA grants. Of that, the audit sampled \$36 million in direct grants with reported activities, as previously illustrated in Exhibit 1. Exhibit 3 summarizes funds received and expenditures for the seven sampled grants as of June 30, 2010. The primary audit period is from ARRA's inception in February 2009 to June 30, 2010, with follow-up review for some of the sampled grants through February 2011. The audit did not assess the program effectiveness of these ARRA grants, nor did the audit evaluate the performance of individual ARRA programs.

Exhibit 3: SAMPLED CITY DIRECT ARRA GRANTS (AS OF JUNE 30, 2010)

Grant Name	Award Amount	Funds Received	Actual Expenses [§]	Actual Jobs ¹⁴	Estimated Jobs [‡]
Community Development Block Grant (CDBG)*	\$2,259,921	\$0	\$103,905	5.00	108.00
Early Head Start and Head Start (COLA & Quality Improvement)*	\$895,396	\$179,043	\$343,289	5.22	3.44
Early Head Start Expansion*	\$5,651,167 ^{††}	\$182,758	\$1,028,530	25.49	25.00
Homelessness Prevention and Rapid Rehousing (HPRP)*	\$3,458,120	\$580,486	\$582,362	5.88	7.88
Brownfields Assessment ^{**}	\$400,000	\$15,593	\$19,822	0.11	1 to 2 ^{**}
Energy Efficiency & Conservation Block Grant (EECBG)*	\$3,919,200	\$386,428	\$388,055	1.59	39.00
Community Oriented Policing Services (COPS) [†]	\$19,747,117	\$3,963,146	\$5,145,301	41.00	41.00
TOTAL GRANTS	\$36,330,921	\$5,307,454[¥]	\$7,611,264[¥]	84.29	225.82
* indicates grants with inaccurate ARRA reporting † indicates grants that disallow administrative costs †† Funding agency increased year 2 funding by \$67,500. The total award amount was \$5,718,667 starting for the 9/30/10 report		§ cumulative total for the amount of ARRA fund expended ‡ Estimated jobs over the life of the grant at the time of grant application ** 1.5 is counted to derive the total of 225.82 ¥ Difference in Funds Received and Actual Expenditures due to timing of reimbursement drawdowns (see Chapter 4)			

Audit Methodology

To determine the Recovery Act requirements, the audit reviewed the following documents:

- The American Recovery and Reinvestment Act of 2009
- Office of Management and Budget (OMB) Memorandum M-10-34, Updated Guidance on the American Recovery and Reinvestment Act (September 24, 2010)
- Office of Management and Budget (OMB) Memorandum M-10-08, Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates (December 18, 2009)
- OMB Memorandum M-09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009 (June 22, 2009)
- Office of Management and Budget (OMB) Memorandum M-09-15, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009 (April 3, 2009)
- Office of Management and Budget (OMB) Memorandum M-09-10, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009 (February 18, 2009)

¹⁴ Jobs created and retained. The combined number of jobs created and jobs retained funded by the Recovery Act in the United States and outlying areas. For grants and loans, the number shall include the number of jobs created and retained by subrecipients and vendors. The number shall be expressed as "full-time equivalent" (FTE), calculated quarterly as all hours worked and funded by the Recovery Act during the current reporting quarter divided by the total number of hours in a full-time schedule for the quarter, as defined by the recipient or federal contractor.

To determine the City Administration's internal controls relevant to the Recovery Act, the audit reviewed City Administration memoranda, ordinances, policies and procedures, the Oakland Municipal Code, Administrative Instructions, staff reports and Council resolutions, correspondences, procurement and contract files, ARRA award documents, and the City's stimulus website. The audit reviewed the City's fiscal year (FY) 2008-09 Single Audit report and the State of California Office of the Inspector General's report on the City of Oakland Workforce Investment Board (WIB)¹⁵ dated April 20, 2010. The audit also obtained and reviewed the City of San Jose's Office of the City Auditor's report "ARRA Preliminary Report on Internal Controls" dated June 18, 2009. In addition, the audit included interviews with City staff responsible for overseeing Recovery Act activities, tracking Recovery funds, and preparing quarterly reports. Finally, the audit included subrecipient site visits to understand and assess the implementation of the City Administration's controls on fraud and subrecipient reporting.

To assess the accuracy of reported information, the audit reviewed a sample of quarterly reports and their source documentation. To assess the completeness of Recovery Act reporting, the audit:

- Compared reported funds received and expenditures with transactions posted in the City's general ledger system;
- Tested sub-award disbursements to determine whether or not sub-award disbursements were accurately reported;
- Reconciled reported sub-award disbursements with accounting records for accuracy and completeness;
- Reviewed the methodology City staff used to calculate the jobs funded by Recovery Act to assess compliance with Federal guidance; and
- Reviewed a sample of subrecipients to determine compliance with the following specific Recovery Act provisions: fixed price contract, "buy American," prevailing wages, Dun and Bradstreet Data Universal Numbering System (DUNS) registration, and subrecipient monitoring.

The Office conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the Office plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit findings and conclusions based on the audit objectives. The Office believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

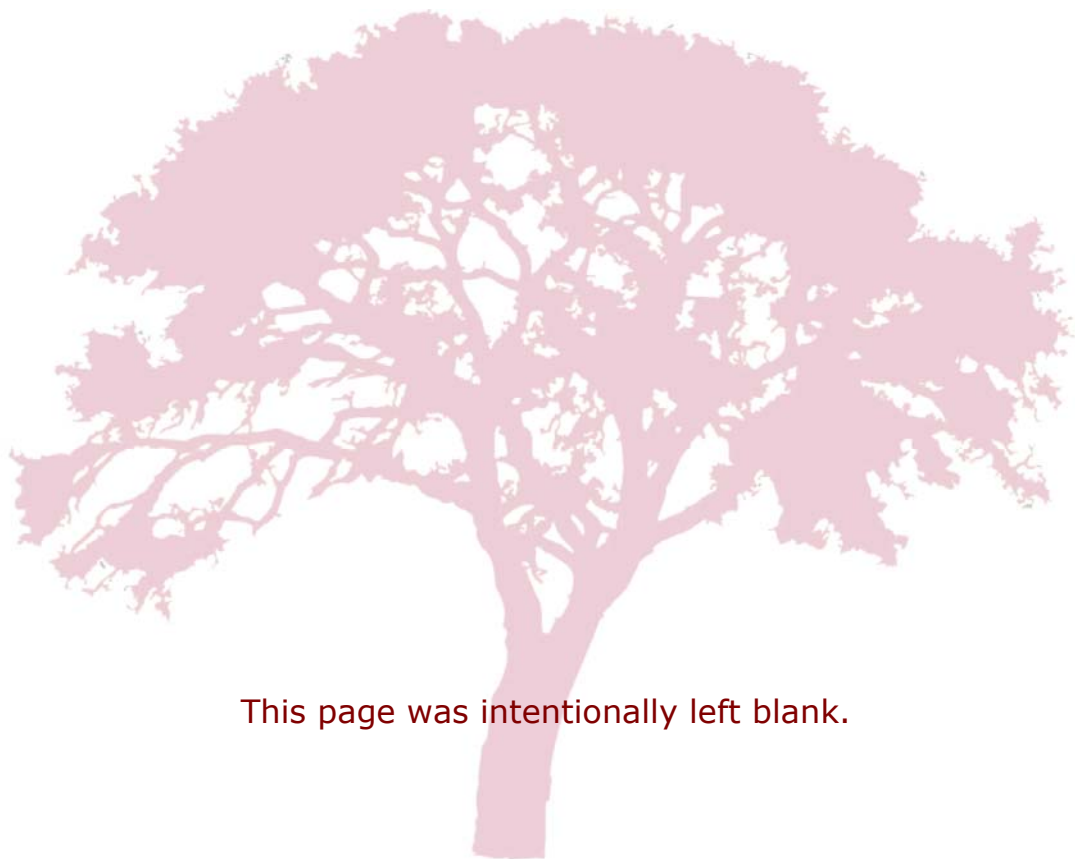
The Office offers special thanks to the City Auditor's Office of San Jose, California for sharing their knowledge.

¹⁵ The Oakland WIB was a subrecipient awarded ARRA funds totaling approximately \$6 million.



SECTION ONE

FEDERAL COMPLIANCE REQUIREMENTS



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Overall Assessment of the City's ARRA Controls

The City Administration largely complied with ARRA and OMB requirements but three areas need improvements to ensure all internal controls operate effectively and fully.

Based on the audit's review, overall the City Administration established and implemented processes and controls to meet 19 of the 19 ARRA and OMB compliance requirements (see Appendix 2). However, improvements are needed for three Federal compliance requirements: 1) accurate reporting, 2) accurate tracking of ARRA activities (including timely removal of disallowed administrative costs from ARRA grants), and 3) subrecipient monitoring. Additional improvements are needed for two internal control areas separate from the 19 ARRA and OMB requirements: 1) timing of COPS drawdowns, inconsistent reporting methodology and inefficient accounting process, and 2) fraud, waste, and abuse prevention measures.

The City Administrator's Office (CAO) serves as the City's central point of contact for monitoring ARRA and OMB compliance. Highlights of successfully established internal controls and the audit's assessment include:

- The CAO established an inter-departmental senior management council to oversee stimulus activities
- The OMB had not identified the City of Oakland as one of the non-compliers for any of the five reporting periods through October 2010. The OMB also had not identified the City as having invalid data or unrealistic data for the first reporting period ending October 2009¹⁶
- The audit confirmed that sampled quarterly ARRA reports were submitted timely
- The audit verified that all stimulus grant applications were approved by the City Administrator to ensure no prohibited use of stimulus funds
- The City Administration established separate ARRA accounts in its financial system to record and track ARRA funds
- The progress of projects is monitored periodically – by the CAO, project managers, as well as funding agency – to ensure on-time completion
- The City's stimulus website keeps the general public informed of the City's stimulus grants and contracting opportunities
- The City Administration's existing competitive bid policies and procedures ensure ARRA contracts are awarded to the lowest responsible bidder
- The City is registered with Central Contractor Registration (CCR) and has a DUNS number
- ARRA Buy American and prevailing wage rate requirements were included in ARRA-funded contracts
- City has a number of City Charter and Oakland Municipal Code sections, as well as Administrative Instructions on mitigating fraud, waste and abuse. A link to the City Auditor's Fraud, Waste + Abuse program was also posted on the City's ARRA website

¹⁶ According to the Recovery.gov website

While the City Administration made good faith efforts to establish processes to comply with ARRA requirements and OMB guidelines, the audit's evaluation concluded that there are three areas needing improvements.

Specifically, for the compliance requirements listed in Exhibit 4, the City Administration designed and established the internal controls to achieve full compliance. However, the audit found that their implementation needs improvements to ensure they operate effectively and fully. The Office defined the status of such internal controls as "established but needs improvements."

The audit identified three Federal compliance requirements needing improvements encompassing the following three areas:

- Six of the seven sampled grants had inaccurate ARRA reports, resulting in an understatement of \$361,000 in expenditures (5% of total expenditures) and \$329,000 in funds received (6% of total funds received)
- Inconsistent reporting methodology employed for some grants led to a 5.8% average misstatement of jobs that ranged from over-reporting 0.89 jobs to under-reporting 4.71 jobs
- Subrecipient monitoring over reporting requirements were not always effective in ensuring their accuracy and timeliness

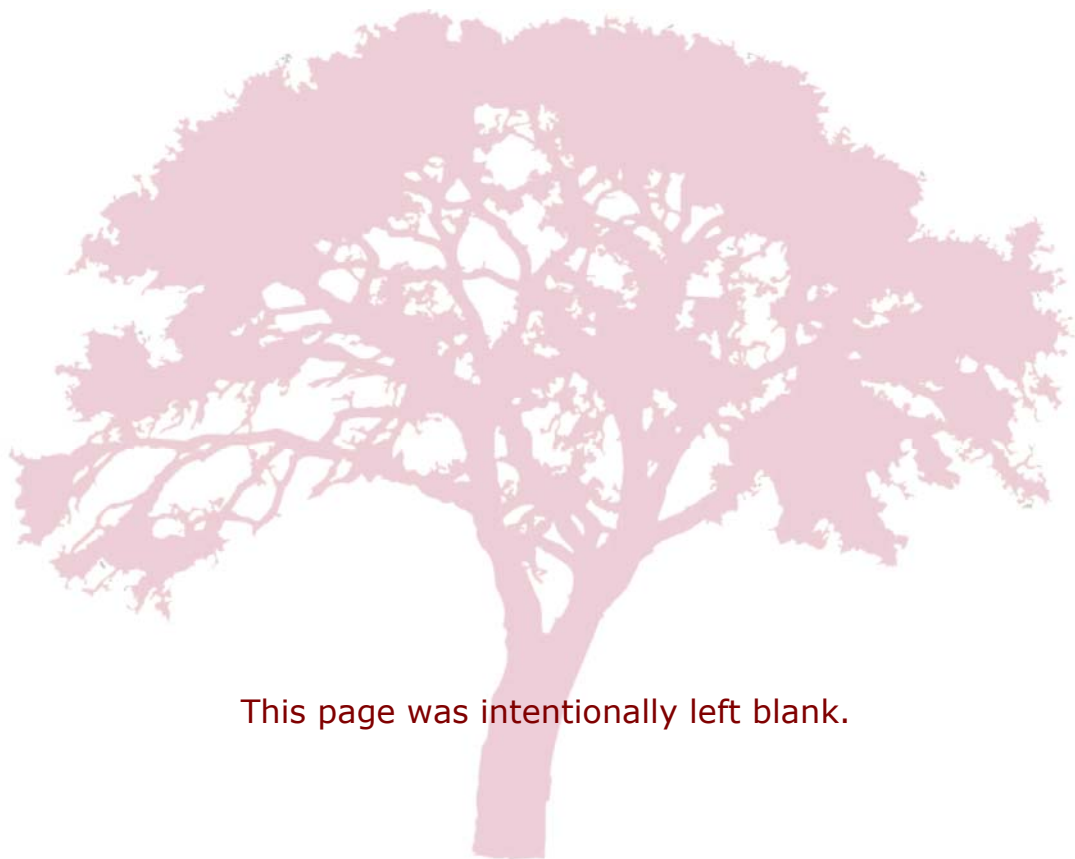
Additionally, the audit identified two non-Federal internal control areas implemented by the City Administration that also need improvements, which will be covered in Section 2 of this report:

- Federal grant drawdowns not completed on a timely basis, inefficient accounting practices, and inconsistent reporting methodology for the COPS grant exist
- Communication and posting of the City's Fraud, Waste + Abuse Program should be expanded to all grants to achieve best practices of providing the highest level of protection for non-Federal employees

Exhibit 4 presents the three Federal compliance requirements needing improvements, the relevant provisions and guidance for the Recovery Act, and the City Administration's established internal controls to address them. Specifically, Exhibit 4 shows the key accountability, transparency requirements, general provisions for recipients, and OMB guidance for Federal agencies that are relevant to the City's compliance with the Recovery Act. Exhibit 4 also includes the audit's assessment of the specific actions taken by the City Administration to meet the requirements. The remaining balance of the audit report provides further detail on each of the Federal compliance requirements that need improvements, as well as the two non-Federal internal control areas implemented by the City Administration that need improvements.

Exhibit 4: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS NEEDING IMPROVEMENTS (AS OF JUNE 30, 2010)

Compliance Requirement	City Auditor's Office Assessment of the Implementation of the City Administration's Internal Control	Status
A. Key Recovery Act Accountability and Transparency Requirements for Recipients		
<p>3. Reporting within 10 days of quarter end for recipients, including:</p> <ul style="list-style-type: none"> • Amount of funds received and expended or obligated; • Descriptions of projects and evaluations of each project's completion status; • Estimate of number of jobs created or retained; • Information on subcontracts or subgrants; and • Additional detail for infrastructure investments. 	<p>The CAO and program staff receive communications directly from funding agencies about reporting procedures. Program staff is notified of reporting requirement changes directly by funding agency. However, the audit revealed inconsistent reporting methodology used in some ARRA grants. For one grant, staff followed verbal guidance from Federal agency that diverged from OMB guidance.</p>	Established but needs improvements
	<p>The City has established a reporting oversight process through the CAO to help ensure timely submission of quarterly reports. While the City was compliant with timely submission of quarterly reports, its controls over data quality and reporting methodology need improvements.</p>	Established but needs improvements
	<p>All subrecipients are required to provide the City with reporting information; however, subrecipient submission is not always accurate or timely to meet ARRA reporting requirements.</p>	Established but needs improvements
C. Relevant Accountability and Transparency Requirements of the Recovery Act for Federal Agencies		
<p>12. All funds appropriated shall be established in separate funding (Treasury) accounts (i.e. as indicated in OMB guidance, there should be no comingling of Recovery Act and non-Recovery Act funds to ensure separate tracking and reporting on the use of Recovery Act funds).</p>	<p>The City Administrator issued a memo on 7/23/09 to all departments stating that they need to create separate funds to track ARRA receipts, spending and reimbursements/drawdowns in a central Citywide database to prevent comingling of ARRA and non-ARRA funds. The audit verified that separate funds have been established to track ARRA funds. However, the audit found that the City's recordkeeping process needs improvement to ensure accurate tracking of ARRA activities.</p>	Established but needs improvements
E. Relevant Budget Guidance from Office Management and Budget for Federal Agencies		
<p>15. Appropriate and allowable administrative cost allocations. In general, Recovery Act funds should not be used for telecommunications services or IT desktop support, or for incidental administrative costs (e.g. paper for copy machines).</p>	<p>The City prepares an annual Grant Cost Allocation Plan in accordance with Federal cost allocation rules. Some Federal agencies' funding notices for recipients have specific administrative cost percentage caps and limitations. The City's recordkeeping process did not remove disallowed administrative costs from grants in a timely manner.</p>	Established but needs improvements



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CHAPTER 1

Six of seven sampled grants had inaccurate ARRA reports, resulting in an understatement of \$361,000 in expenditures and \$329,000 in funds received

The audit found that the City Administration did not have adequate controls in place to ensure that reported grant information was accurate and complete for six of seven sampled grants. As a result, the City Administration:

- Under-reported cumulative expenditures and sub-award disbursements by \$361,000 (or 5% of \$7.6 million total expenditures of sampled grants) for the quarter ending June 30, 2010;
- Under-reported cumulative funds received by \$329,000 (or 6% of \$5.3 million total funds received of sampled grants) for the quarter ending June 30, 2010;
- Under-reported jobs by 3.74 FTEs (or 4% of 84.29 actual jobs) for the quarter ending June 30, 2010; and
- Not all ARRA-related costs were completely and accurately reflected in the City's financial records – thus the City Administration inappropriately billed one Federal agency for \$300, under-billed another Federal agency for \$1,600, and misstated the accounting of ARRA funds by approximately \$4,000.

Based on the above results from the sampled June 2010 quarterly reports, the audit conducted a follow-up review with the September 2010 quarterly reports for two grants and found that the City Administration under-reported cumulative expenditures by approximately \$104,000 for the quarter, as shown in Appendix 3 of this report.

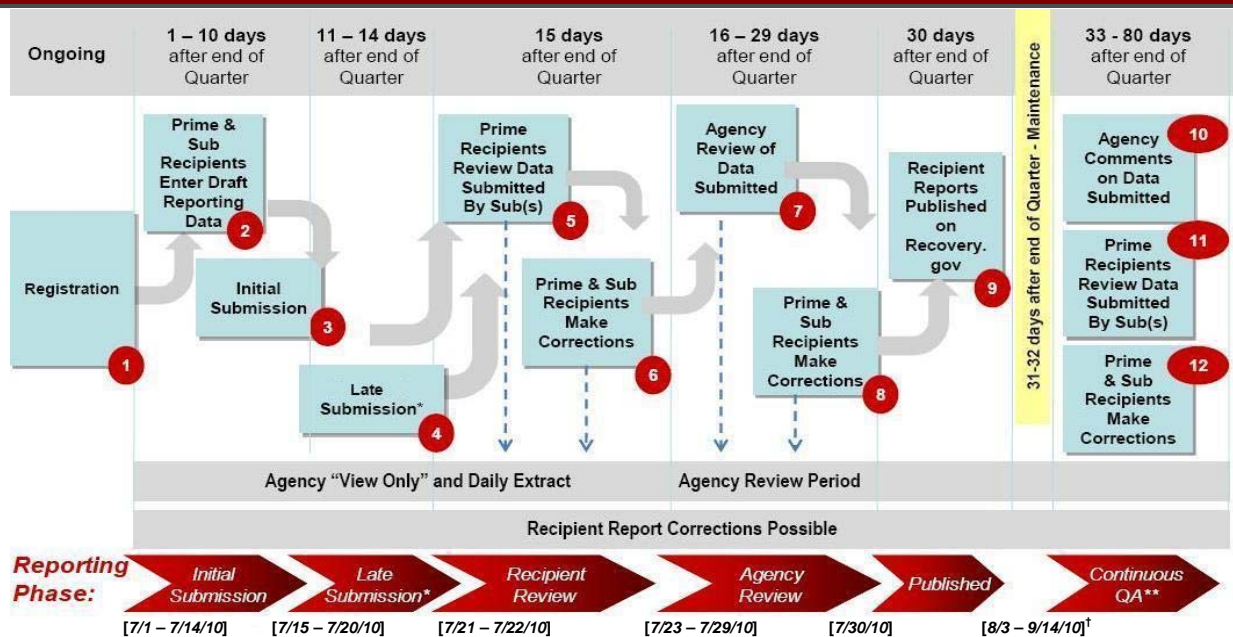
With the White House's commitment to unprecedented levels of transparency and accountability over ARRA funds, the Federal stimulus legislation established requirements and the Federal Office of Management and Budget (OMB) issued government-wide guidance for carrying out ARRA programs and activities. The requirements and guidance emphasized the need for complete, accurate, and timely report preparation and submittal.

As the prime recipient for the seven sampled grants, the City was required to submit quarterly ARRA reports no later than 10 days after the end of each quarter. OMB Memorandum M-9-21 Section 4.2 stated that "prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted." This required report information included:

- Use of ARRA funds
- Impact of the funding
- Estimated number of jobs created or retained
- Details about ARRA grants and contracts awarded by the City Administration to outside contractors, community-based organizations or other government agencies (i.e., subrecipients).

In response to the requirement for quarterly ARRA reports, the City Administration, at a minimum, needed to establish internal controls to ensure data quality, completeness, accuracy and timely reporting of all amounts funded by the Recovery Act. Specifically, the OMB guidance stated that the City “must initiate a review of the data both prior to, and following, the formal submission of data.” OMB¹⁷ further established a continuous correction period where all reports are unlocked to allow recipients to make corrections up to the start of the next reporting period. For example, from 7/15/10 – 7/22/10 and 8/3/10 – 9/14/10, recipients were able to correct data for the quarter ending 6/30/10, as illustrated in Exhibit 5. Once the next reporting period began, recipients were no longer able to make corrections to the prior quarter.

Exhibit 5: JULY 2010 RECIPIENT REPORTING TIMELINE AND ACTIVITIES



* Late Submission not applicable to every reporting period

** During the Continuous QA Period, reports may not be submitted, only corrected

Source: Federalreporting.gov and United States Department of Agriculture (USDA) Rural Development ARRA Recipient Reporting Webinar.

† The City Auditor's Office added approximate dates (based on the United States Department of Agriculture (USDA) Rural Development ARRA Recipient Reporting Webinar) to the timeline for ease of use; actual dates could be different by one to two days.

To encourage best practices, OMB recommended the following alternative approaches to ensuring data quality:¹⁸

- Establishing control totals (e.g., total number of projects subject to reporting, total dollars allocated to projects) and verify that reported information matches the established control totals;

¹⁷ OMB Memorandum M-10-08

¹⁸ OMB Memorandum M-09-21 Section 4.3

- Creating an estimated distribution of expected data along a “normal” distribution curve and identify outliers;
- Establishing a data review protocol or automated process that identifies incongruous results (e.g., total amount spent on a project or activity is equal to or greater than the previous reporting); and
- Establishing procedures and/or cross-validation of data to identify and/or eliminate potential “double counting” due to delegation of reporting responsibility to subrecipients.

Data quality review

The audit found that the CAO conducts a quarterly milestone review of each grant to ensure project progress is on schedule for the seven sampled grants. The CAO also confirms timely submission of quarterly ARRA reports and reviews key reporting fields (i.e. expenditures and jobs) for accuracy. However, the audit’s reconciliation of the reports to supporting documentation found that the CAO’s data quality review process was not always effective to ensure reporting accuracy and completeness. This weakness resulted in errors not being corrected before report submission or during the post-submission review period (from 7/15/10 through 7/22/10) or continuous correction period (from 8/3/10 through 9/14/10).

The CAO explained that it did not make corrections because:

expenditures will be caught up in the following quarterly report since expenditures are reported on a cumulative basis and that limited resources prevented across the board revisions on insignificant discrepancies not required by the Federal government to be corrected on a quarterly basis.

However, corrections should have been made to the June 2010 report when errors were detected. The CAO stated that:

no corrections were made because the report was locked and could only be edited if unlocked by the Federal agency and that limited resources were required to be focused on program delivery versus adjustments that were not material omissions or significant errors as defined by OMB guidance, that were also adjustable in the next quarterly report according to verbal guidance from the Federal agency.

The audit found that the CAO’s statement on when and how corrections can be made to submitted reports was not accurate. According to FederalReporting.gov, submitted reports are locked during agency review period (from 7/23/10 through 7/29/10). During continuous quality assurance period (from 8/3/10 through 9/14/10), all reports are unlocked for prime recipients to modify and make changes.¹⁹

We recommend that the CAO improve its data quality review process at the CAO and/or departmental level – including roles and responsibilities – to ensure that submitted reports are complete, accurate and timely as required by the OMB. The CAO should consider incorporating OMB-recommended data quality review approaches, such as establishing control totals, identifying data outliers and data anomalies, or implement viable alternatives to reach the same result. Additionally, we recommend that the City Administration formalize its review of supporting

¹⁹ FederalReporting.gov User Guide, Chapter 6

documentation on a sample or periodic basis to verify reported information. The City Administration should also make appropriate and timely corrections for material omissions and/or significant reporting errors as required by the OMB.

Consistently perform fiscal reconciliation

The Recovery Act requires recipients to establish separate funding accounts so that there is no comingling of ARRA and non-ARRA funds.²⁰ While the audit found that the City Administration established separate ARRA fund codes to comply with this requirement, recording and tracking of ARRA expenses should be improved to ensure accuracy. The audit noted that not all ARRA-related costs were completely and accurately reflected in the City's financial records.

For two of the seven sampled grants, the audit completed transaction testing on sub-award disbursements to determine whether or not sub-award disbursements were accurately reported. Exhibit 6 lists the two sampled ARRA grants and respective subrecipients.

Exhibit 6: SAMPLED ARRA GRANTS AND SUBRECIPIENTS (AS OF JUNE 30, 2010)				
Grant Name	Grant Amount*	Subrecipient	Sub-award Amount	Actual Expenditures
Homelessness Prevention and Rapid Rehousing (HPRP)	\$3,458,120	5 Subrecipients	\$3,383,450	\$619,685
		First Place for Youth	\$308,450	\$84,539
		Catholic Charities of the Diocese of Oakland	\$1,251,525	\$383,359
		Abode Services	\$1,551,850	\$94,804
		Alameda County Housing & Community Development	\$241,000	\$41,264
		Kerry Abbott	\$30,625	\$15,719
Energy Efficiency & Conservation Block Grant (EECBG)	\$3,919,200	3 Subrecipients	\$134,693	\$89,609
		California Building Officials	\$15,000	\$15,000
		Northgate Environmental Management, Inc.	\$27,893	\$9,251**
		Kimley Horn & Associates Inc.	\$91,800	\$65,358**
TOTAL	\$7,377,320		\$3,518,143	\$709,294
<i>* difference between grant amount and totals for subrecipients due to balance remaining with prime recipient</i> <i>** indicates exceptions identified by the audit, as detailed in Exhibit 7</i>				

The audit found that out of a total of 32 sub-award expenditures tested, two were not processed properly. One was not reported and subsequently was not billed to the Federal agency, while another was not correctly recorded to the designated ARRA fund account. These deficiencies are summarized in Exhibit 7.

²⁰ ARRA Section 1551 and OMB Memorandum M-09-15, section 4.3

Exhibit 7: INACCURATE TRACKING OF ARRA-RELATED ACTIVITIES

Grant	Deficiency	Amount	Effect
Energy Efficiency & Conservation Block Grant (EECBG)	ARRA vendor payment booked to non-ARRA fund	\$4,363.60	Understated City's accounting of ARRA funds
	ARRA vendor payment not reported and not billed to the funding agency	\$1,626.75	Under-billed Federal funding agency; no effect to City's accounting of ARRA funds
TOTAL		\$5,990.35	

Source: Oracle Financial System and Public Works Agency (PWA) Management

For the first vendor payment, EECBG staff stated that they discovered the payment was erroneously booked to a non-ARRA fund during its internal reconciliation process in August 2010. The audit found that corrective action had not been taken, and as a result of inquiring on its status for the audit, the correction was made in February 2011. For the second vendor payment listed above, although booked correctly, the audit found it was not reported and billed to the funding agency due to transition in PWA staff. PWA Management stated that the new staff was not aware of the established invoice review and payment process and procedures and therefore did not circulate the invoice for drawdowns to the funding agency. After this audit identified the error in December 2010, staff subsequently modified the reconciliation review process to confirm that all EECBG invoices are drawn down from the funding agency on time.

Disallowed administrative costs not removed on a timely basis

According to OMB guidelines, ARRA funds generally should not be used to pay for administrative costs. Two of the seven sampled grants – Brownfields Assessment and Community Oriented Policing Services (COPS) – specifically disallow overhead costs, but the audit found that the City Administration did not remove such costs for the Brownfields grant on a timely basis and miscoded one charge for the COPS grant. The COPS grant is discussed in greater detail in a subsequent section.

The audit found that for the Brownfields Assessment grant, \$288 in disallowed departmental overhead was inappropriately billed to the US Environmental Protection Agency (EPA) because the Brownfields grant projects were not set up correctly in the Oracle system to exclude overhead (see Exhibit 8). PWA Management identified the problem in June 2010, eight months after incurring the first overhead costs in October 2009. The correction to Oracle settings and deduction to subsequent reimbursement request was made in January 2011, six months after the error was discovered and 15 months after initial overhead costs were recorded.

Exhibit 8: DISALLOWED ADMINISTRATIVE COSTS NOT REMOVED FROM ARRA FUNDS

Grant	Deficiency	Amount	Effect
Brownfields Assessment	Disallowed overhead charges booked to ARRA fund	\$288.18	Inappropriately charged the Federal agency; overstated City's accounting of ARRA funds

Source: Oracle Financial System and PWA Management

We recommend that the City Administration consistently perform periodic reconciliation processes – at least quarterly – to ensure all costs related to the ARRA project are completely and accurately captured in the assigned ARRA funds and billed to the funding agency on a timely basis.

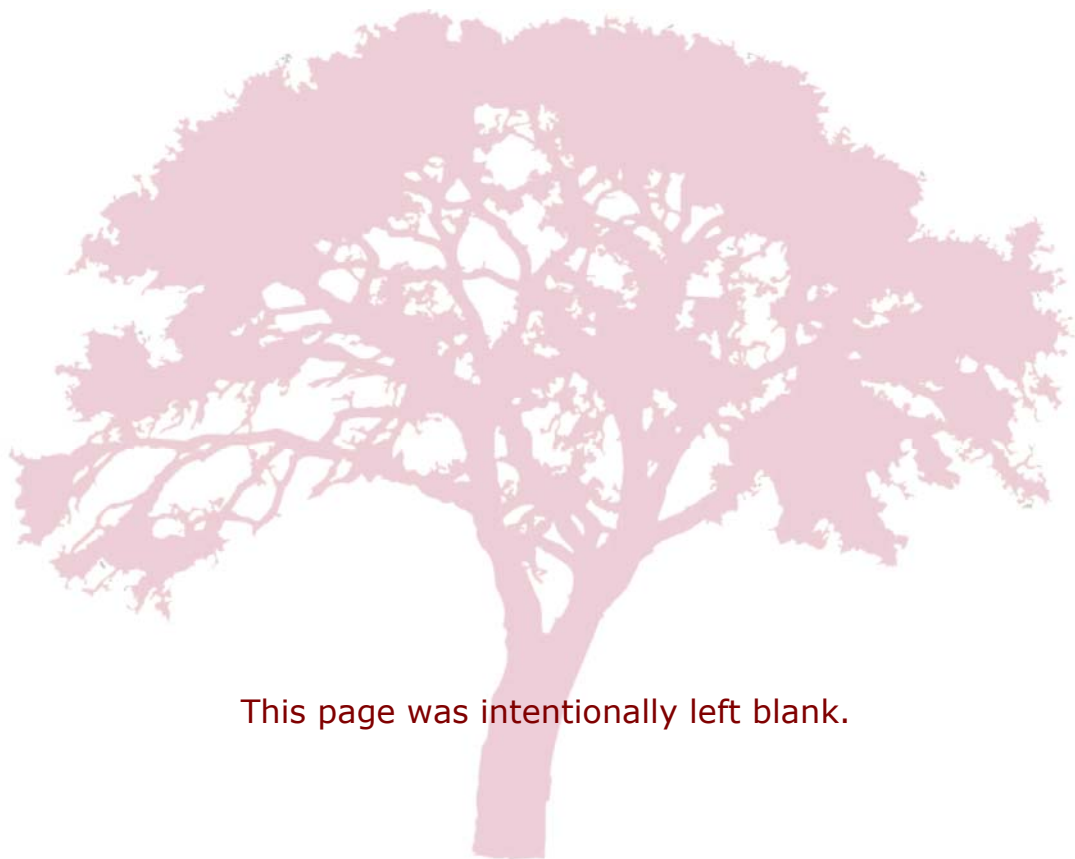
Conclusion

The audit found that six of the seven sampled grants had inaccurate ARRA reports, resulting in an understatement of \$361,000 in expenditures (5% of total expenditures) and \$329,000 in funds received (6% of total funds received). The audit conducted a follow-up review with the September 2010 quarterly reports for two grants and found that the City Administration under-reported cumulative expenditures by approximately \$104,000 for the quarter. These inaccuracies occurred because the CAO and/or departments' quality review process was not always effective to ensure accuracy and completeness. Additionally, not all ARRA-related costs were completely and accurately reflected in the City's financial records, thus inappropriately billing one Federal agency, under-billing another Federal agency, and misstating the City's accounting of ARRA funds on two instances.

RECOMMENDATIONS

We recommend that the City Administration:

Recommendation #1	<p>Improve the data quality review process at the CAO and/or departmental level to ensure that submitted reports are complete, accurate and timely, as required by the OMB. This process should include approaches such as those listed below:</p> <ul style="list-style-type: none">• Formalize the data quality review process by establishing a comprehensive policies and procedures manual that clearly defines roles, responsibilities, and procedures for the CAO and departmental staff over ARRA reporting.• Incorporate OMB-recommended data quality review approaches, such as establishing control totals, identifying data outliers and data anomalies, or implement viable alternatives to reach the same result.• Formalize the process to review supporting documentation on a sample or periodic basis to verify reported information.• Ensure appropriate and timely corrections for material omissions and/or significant reporting errors as required by the OMB.
Recommendation #2	<p>Consistently perform periodic reconciliation processes – at least quarterly - to ensure all costs are accurately captured in the assigned ARRA project funds and billed to the funding agency on a timely basis. Where possible, automate the reconciliation process for improved efficiency and accuracy.</p>



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CHAPTER 2

Inconsistent reporting methodology employed across grants led to misstatement of jobs

The City Administration did not consistently follow OMB guidance for quarterly ARRA reporting, including calculating jobs created/retained. For two of the sampled grants, staff did not follow OMB guidance to calculate jobs. Instead, the audit found that for one grant, staff followed verbal guidance from the Federal agency that diverged from OMB guidance. As a result, the City reported expenditures, revenues and jobs created/retained based on planned activities instead of actual amounts, as required by OMB guidance. For the other grant, staff simply did not adhere to the OMB guidance to calculate jobs.

These inaccuracies resulted in a net understatement of 3.74 full-time employees (FTEs) for the June 30, 2010 quarter. The City Administration also misstated jobs numbers by 0.9 to 4.7 FTEs for prior quarters, as illustrated in Exhibit 9 and shown in detail in Appendix 3.

Exhibit 9: CITY ADMINISTRATION'S MISSTATEMENT OF JOBS

Quarter Ending	Reported Jobs	Actual Jobs	Effect	Jobs Discrepancy (FTEs)	Jobs Discrepancy Rate
6/30/2010	80.55	84.29	under-reported	3.74	4.4%
3/31/2010	56.67	61.38	under-reported	4.71	7.7%
12/31/2009	44.21	48.71	under-reported	4.50	9.2%
9/30/2009	45.86	44.97	over-reported	0.89	2.0%
AVERAGE					5.8%

Source: Recovery.gov and City Administrator's Office

Although an understatement of nearly four FTEs may seem insignificant, it produced a discrepancy rate of 4.4% and highlights the risk to the City Administration's underlying reporting process and procedures. The lack of uniformity in calculating the jobs data and other reporting information limits the public's ability to compare the data across recipients and projects.

In December 2009, the OMB issued revised guidance clarifying the methodology for calculating the quarterly jobs data. The OMB stated that the update reflected important simplifications to the manner in which job estimates were to be calculated and reported. Specifically, recipients would report job estimates on a quarterly basis and would not provide cumulative jobs data as required prior to December 2009. Instead, OMB explicitly instructed recipients to report the number of hours worked and paid for with Recovery Act funds, expressed in full-time equivalent positions (FTEs). As a result of these simplifications, OMB provided the following revised methodology for calculating the jobs data:

$$\left\{ \frac{\text{Total Number of Hours Worked and Funded by Recovery Act within Reporting Quarter}}{\text{Quarterly Hours in a Full-Time Schedule}} = \text{FTE} \right\}$$

For example, if employees for one recipient worked a total of 2,080 hours in a quarter, and a full-time schedule for one quarter equals 520 hours, the jobs data calculation would be:

$$\left\{ \frac{\text{2,080 hours (worked and funded by the Recovery Act within reporting quarter)}}{\text{520 hours (quarterly hours in a full-time schedule)}} = 4 \text{ FTEs} \right\}$$

Although the OMB issued explicit guidance on calculating the jobs data, two of the seven sampled grants — the Early Head Start (EHS) Formula grant and Brownfields Assessment grant — did not follow this guidance. Moreover, the CAO was unaware of the inconsistent reporting methodologies until this audit. For the EHS Formula grant, staff used hours in one-month period as the denominator to calculate jobs created at the City and hours in two-month period as the denominator to calculate jobs created at the subrecipients, thus over-stating first reporting quarter jobs by 0.89 total FTEs. Additionally, for the second reporting quarter ending December 31, 2009, staff understated the number of City jobs by 1.1 FTE because staff did not use the prescribed formula instructed by the OMB to calculate jobs.

DHS Management explained that the process for generating payroll information and allocating ARRA funds is a cumbersome process. Limited resources and tight reporting timelines, coupled with changes in OMB reporting guidance right before the reporting deadline, influenced staff's decision in using alternative FTE calculation methods for the second reporting quarter and also resulted in errors calculating FTEs. The audit verified that the jobs calculation methodology for the third and fourth reporting quarters followed OMB guidance.

For the Brownfields Assessment grant, while adopting an alternative jobs calculation methodology approved by the funding agency, staff incorrectly included non-labor and disallowed costs in the jobs calculation instead of using only allowed labor costs to calculate jobs. Although the calculation error had no impact to the actual jobs numbers, staff did not report jobs and financials accurately. Specifically, Exhibit 10 shows the City Administration's over-reported \$28,000 in expenditures, \$32,000 in funds received, and 0.36 FTEs in jobs created for the quarter ending June 30, 2010.

Exhibit 10: BROWNFIELDS ASSESSMENT GRANTS' ARRA REPORTING DIFFERENCES			
Quarter Ending	12/31/09	3/31/10	6/30/10
Expenditures			
Actual*	\$ 13,429	\$ 14,323	\$ 19,822
Reported	\$ 11,559	\$ 23,093	\$ 47,989
Discrepancy	\$ (1,870)	\$ 8,770	\$ 28,167
Funds received			
Actual	\$ 15,593	\$ 15,593	\$ 15,593
Reported	\$ 11,559	\$ 23,093	\$ 47,989
Discrepancy	\$ (4,034)	\$ 7,500	\$ 32,396
Jobs created/retained			
Actual jobs	0.27	0.02	0.11
Reported jobs	0.22	-	0.47
Discrepancy	(0.05)	(0.02)	0.36
* provided by PWA staff, unaudited			

The CAO stated that the staff responsible for reporting was relying on guidance received by funding agency program officers, who specifically instructed staff and Management to report encumbered funds as expenditures for the quarter during which they were encumbered. However, the audit found that the program officer's instruction was not consistent with OMB's reporting requirements. This deficiency led to the audit's conclusion that the City Administration did not have appropriate oversight to ensure staff consistently followed OMB reporting requirements and procedures for all grants where the City was the prime recipient and responsible for ensuring accurate and complete quarterly ARRA reports were submitted.

We recommend for grants that rely on alternative methodology, the City Administration should clearly document it (including written confirmation from funding agency prior to implementation), ensure staff's understanding of reporting requirements, review supporting documentation, and certify the alternative methodology is reasonable and consistent with Federal guidelines.

Conclusion

The City Administration did not consistently follow OMB guidance on quarterly ARRA reporting, including job calculation formulas. For one of the sampled grants, staff reported financials and jobs based on planned instead of actual amounts because the staff relied on specific guidance provided by the funding agency. For the other grant, staff simply did not adhere to the OMB guidance to calculate jobs. This weakness resulted in a net misstatement of 0.9 to 4.7 FTEs per quarter, or a 5.8% average misstatement of jobs.

RECOMMENDATION	
We recommend that the City Administration:	
Recommendation #3	If alternative methodologies are used, clearly document it (including written confirmation from funding agency prior to implementation), ensure staff’s understanding of reporting requirements, review supporting documentation, and certify the alternative methodology is reasonable and consistent with Federal guidelines.

CHAPTER 3

Subrecipient monitoring over reporting requirements were not always effective in ensuring their accuracy and timeliness

The audit found that subrecipients did not always submit timely or accurate jobs data to the City Administration. As a result, the City Administration misstated between 0.2 to 3.4 subrecipient FTEs per quarter. Additionally, for one grant, the training provided to subrecipients on ARRA reporting occurred only two days before the internal reporting deadline, which was only one day before the Federal ARRA reporting deadline.

OMB guidelines state that recipients must include an estimate of jobs created or retained on projects and activities managed by the subrecipients.²¹ The California Recovery Task Force recommends recipients implement procedures such as those listed in Exhibit 11 to effectively monitor subrecipient reporting.²² The CAO stated that the City Administration is using existing City processes to monitor subrecipients that received ARRA funds and designated City staff are responsible for monitoring contracts, reviewing subrecipient invoices, and ensuring project goals are met. However, the audit found that the City Administration did not consistently perform these data quality assurance best practices as recommended by the California Recovery Task Force (see Exhibit 11).

Exhibit 11: ASSESSMENT OF CITY'S IMPLEMENTATION OF ARRA SUBRECIPIENTS REPORTING BEST PRACTICES

ARRA Subrecipients Reporting Best Practices	City Auditor's Assessment of City Administration's Implementation
Provide training to subrecipients regarding appropriate job calculation methods that conform to OMB's recommended methodology during the project kickoff meeting.	Partially Implemented
Review the subrecipients job calculation and methodology for accuracy.	Partially Implemented
Perform a review of the reported numbers to determine reasonableness. Factors such as the type of project or program, expected duration of the activity, cumulative amount expended by the subrecipient and a comparison with other subrecipients reporting may be useful in the analysis.	Implemented
Review subrecipient supporting documentation. This can be done on a sample or periodic basis.	Partially Implemented

Source: California Recovery Act Bulletin 09-27 and the California Energy Commission ARRA Reporting Process Reference Guide for Subrecipients, 2/1/10

²¹ M-09-21, section 5.4

²² California Recovery Act Bulletin 09-27

Training to subrecipients

The Department of Human Services (DHS) Management, which manages the majority of the City's community-based organization subrecipients, provided trainings to subrecipients on ARRA reporting requirements. Per the training materials, subrecipients are required to report number of jobs created/retained, job calculation support, job narratives, and top compensated officers to DHS Management no later than the 5th day after end of quarter. However, training was not provided to EHS Formula subrecipients until October 7, 2009, only two days before the first internal DHS report deadline of October 9, 2009. Furthermore, the internal DHS reporting deadline was only one day before the Federal ARRA reporting deadline of October 10, 2009.

Review the subrecipients job calculation

The audit found that for two of the seven sampled grants, subrecipients did not submit timely or accurate jobs data to the City Administration. As a result, the City Administration misstated between 0.2 to 3.4 subrecipient FTEs per quarter. Specifically, for the EHS Formula grant, one subrecipient did not submit September labor hours in time for the October 10, 2009, report deadline. Similarly for the quarter ending December 31, 2009, the same subrecipient did not submit its labor hours for the quarter. For the following two quarters, subrecipient job numbers were incorrectly reported, resulting in an understatement of subrecipient jobs. Additionally, for the EHS Expansion grant, the City Administration underreported 0.30 subrecipient FTEs for the quarter ending June 30, 2010. Exhibit 12 provides specific jobs reporting differences.

Exhibit 12: CITY ADMINISTRATION'S MISSTATEMENT ON SUBRECIPIENT JOBS

Reporting quarter	Reported subrecipient jobs	Actual subrecipient jobs	Discrepancy
Early Head Start and Head Start (COLA & Quality Improvement) Grant			
6/30/2010	0.60	3.40	(2.80)
3/31/2010	4.11	4.30	(0.19)
12/31/2009	0.00	3.42	(3.42)
9/30/2009	1.55	1.03	0.52
Early Head Start Expansion Grant			
6/30/2010	10.46	10.76	(0.30)
Source: DHS Management			

Review subrecipient supporting documentation

DHS Management stated that it was in the process of implementing a site visit monitoring process (including both ARRA and non-ARRA subrecipients) for subrecipients. Without this site visit monitoring, DHS Management stated that subrecipient jobs data is taken at face value and that supporting documentation is reviewed only if needed.

For the ARRA grants that include subrecipients, subrecipient data comprise a substantial portion of the activity covered in the City's quarterly ARRA reports. Accordingly, subrecipient data have a greater risk of data quality issues since additional procedures are required for data collection and compilation. To ensure subrecipient reporting is reliable and timely, the City Administration should implement best practices to improve oversight of subrecipients.

We recommend that the City Administration implement the best practices identified by the audit to ensure the accuracy of subrecipients' jobs data:

- Provide training to subrecipients regarding ARRA reporting requirements upon project kickoff
- Review the subrecipients job calculation and methodology for accuracy and appropriateness
- Review subrecipient supporting documentation on a sample or periodic basis

Conclusion

While the City Administration has existing process and procedures over subrecipient monitoring, they do not directly address ARRA reporting requirements, particularly the jobs reporting requirement. The audit found that subrecipients did not always receive timely training regarding ARRA reporting requirements, and that the City Administration did not consistently review the subrecipients job calculations or the supporting documentation. As a result, the City Administration misstated between 0.2 to 3.4 subrecipient FTEs per quarter. Additionally, for one grant, the training provided to subrecipients on ARRA reporting occurred only two days before the internal reporting deadline.

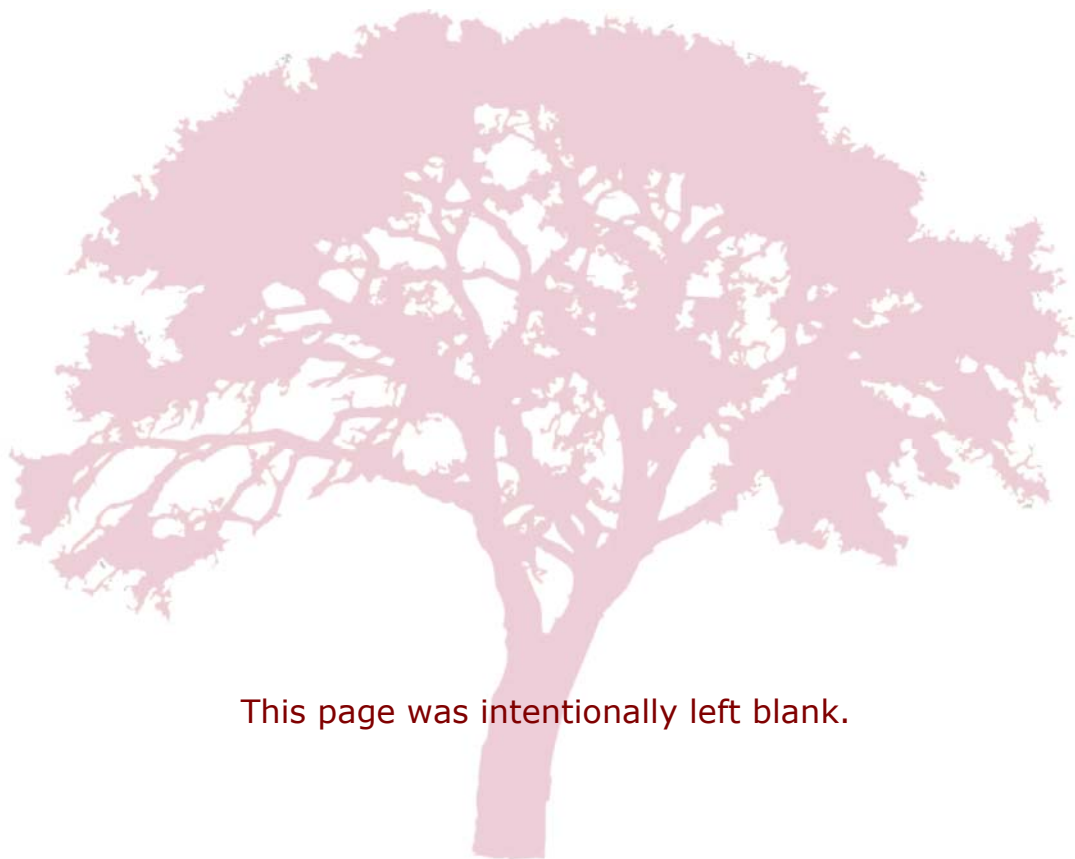
RECOMMENDATION

We recommend that the City Administration:

Recommendation #4

Implement best practices to ensure monitoring of and reporting by subrecipients:

- Provide training to subrecipients regarding ARRA reporting requirements upon project kickoff
- Review the subrecipients job calculation and methodology for accuracy and appropriateness
- Review subrecipient supporting documentation on a sample or periodic basis

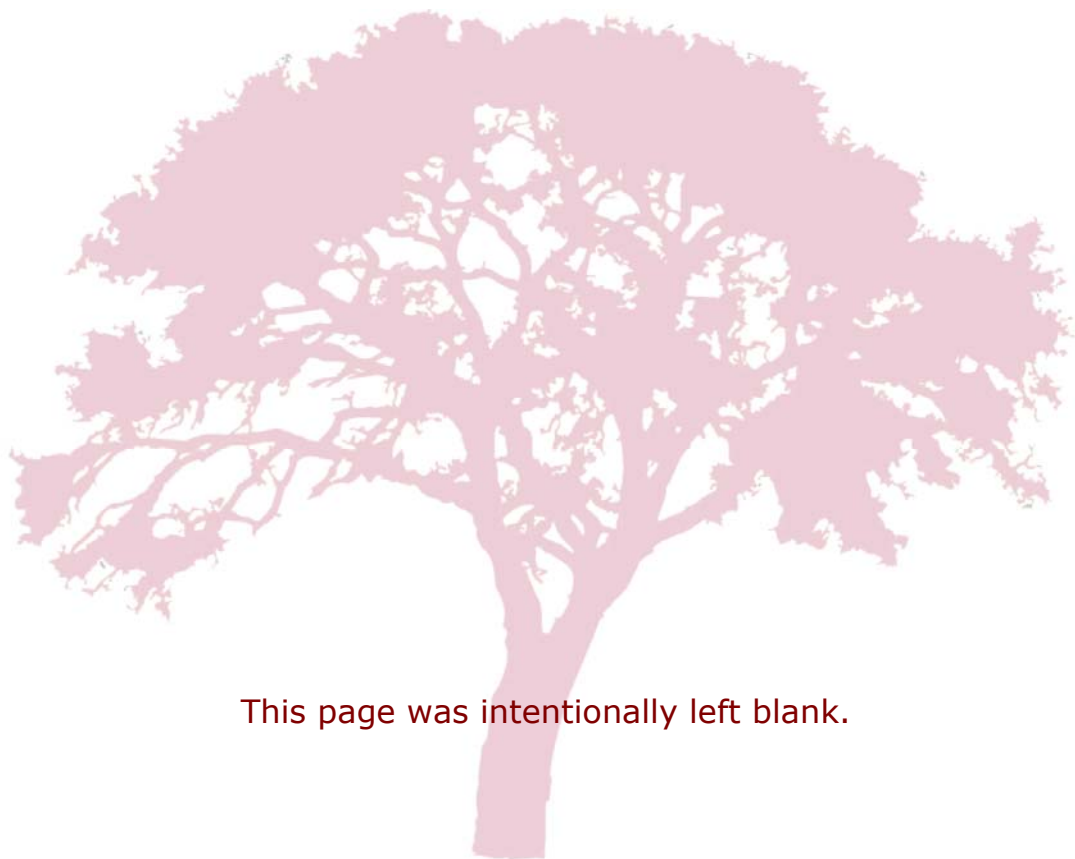


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SECTION TWO

IMPROVING INTERNAL CONTROLS



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CHAPTER 4

For the Community Oriented Policing Services (COPS) grant, drawdowns were not always completed on a timely basis, the labor-intensive accounting process was inefficient, and inconsistent reporting methodology was used between reporting quarters

The audit found that the COPS grant had the following deficiencies: (a) lack of timely Federal grant drawdowns to reimburse the City for upfront expenses, (b) an inefficient grant accounting process involving manual rather than automated reconciliation of allowed and disallowed administrative costs, and (c) inconsistent reporting methodology that did not ensure accurate and timely quarterly ARRA reports.

The City was awarded \$19.747 million from the U.S. Department of Justice's Community Oriented Policing Services (COPS) program in 2009. The grant award funds 41 police officers for three years and constituted the largest ARRA COPS grant award given in the nation for that grant year.²³ Given the size and visibility of the grant, the audit scrutinized internal controls over the COPS grant to determine whether or not Oakland Police Department (OPD) Management's establishment and implementation of systems to comply with ARRA and OMB requirements were efficient, effective, reliable and properly safeguarded assets.

More timely Federal grant drawdowns

For the seven direct ARRA grants that the audit reviewed, the City must incur costs upfront and later apply for reimbursement by requesting a drawdown of Federal funds to receive the awarded grant funds.

Reports from the City's financial system showed that the upfront COPS grant expenditures ranged between \$1.2 million to \$1.4 million each quarter. The audit found that OPD Management completed the drawdown requests on a quarterly basis. As a result, each drawdown of over \$1 million created significant fluctuation in OPD's cash position. On average, the audit found that the City incurs upfront expenditures 61 days before receiving the funds. The CAO stated that it directed OPD Management to shift from quarterly to monthly drawdowns. The audit found that this recommendation by the CAO was both positive and appropriate guidance to improve the cashflow position of OPD. However, the audit found this shift occurred only after a full year of quarterly drawdowns (as shown in Exhibit 13).

²³ Letter from Mayor Dellums on Oakland's receipt of COPS grant, 8/5/2009

Exhibit 13: COPS GRANT DRAWDOWNS

Reporting quarter	Drawdown date	Funds received date	No. of Days to receive funds*	Amount
7/1-9/30/09	11/10/2009	11/17/2009	48 – 108	\$1,322,417
10/1-12/31/09	1/19/2010	2/1/2010	32 – 92	\$1,258,565
1/1-3/31/10	4/27/2010	5/5/2010	35 – 93	\$1,382,164
4/1-6/30/10	8/4/2010	8/9/2010	40 – 99	\$1,182,155
7/1-9/30/10	9/28/2010	10/5/2010	5 – 65	\$674,636
7/1-9/30/10	10/20/2010	10/25/2010	25 – 85	\$390,047
Average [†]			61 Days	
* number of days for the City to receive funds after expenditure occurs				
† Average is computed by averaging the midpoint of the number of days to receive funds				
Source: Oracle Financial System and OPD Management				

Given the City's acknowledged cashflow issues that were central to the City's budget planning process over the last several fiscal years, the City Administration should protect the City's cashflow position by drawing down funds on a timely basis.

We recommend the City Administration review the frequency of drawdowns and grant reimbursements for the seven direct ARRA grants. This review should determine the appropriate frequency of drawdowns and reimbursements that will maximize the City's cashflow position.

Inefficient accounting practices

As discussed in the previous section, OMB guidelines state that ARRA funds generally should not pay for administrative costs. The COPS grant specifically disallows overhead costs to be charged to the Federal agency. The audit found that one disallowed overhead charge was booked to OPD's ARRA COPS fund in March 2010. While the costs were not charged to the Department of Justice and the Controller's Office identified the miscoded amount, the audit found that all departments involved with removing disallowed administrative costs deemed the process inefficient.

Specifically, the CAO, Controller's Office, and OPD Management stated that the process to remove disallowed overhead was a manual process that resulted in grant accounting process inefficiencies. OPD Management further stated that the labor intensive process to remove disallowed charges was prone to errors. While OPD Management stated that it was working on a modification to better align allowable expenditures with the City's current categories of expenses, no process improvements had been implemented at the time of this audit.

According to the Controller's Office, the City's payroll system does not automatically separate disallowed administrative costs. Therefore, all costs – allowed and disallowed – are initially booked to the ARRA COPS grant. OPD staff must then manually identify disallowed costs and manually transfer those costs out. As a result of this audit, OPD Management, the Controller's Office and the CAO are working to review and streamline the accounting process for better efficiency.

We recommend that the City Administration modify the COPS accounting process to ensure only allowed costs related to the ARRA project are captured in the assigned ARRA fund and to ensure greater staff time efficiency. Where possible, the City Administration should consider automating the process for improved efficiency and accuracy.

Inconsistent quarterly ARRA reporting methodology

The OMB updated guidance M-10-34 (dated September 24, 2010) that clarified ARRA grant recipients should determine whether to report financials on a cash or accrual basis, based upon their record keeping system, and report expenditures accordingly.

For the seven sampled grants the audit found that one grant – CDBG – reported expenditures based on funds received. Five grants reported expenditures based on actual funds spent. For the COPS grant, the audit found that the City Administration relied on inconsistent methodology to prepare quarterly ARRA reports. Specifically, for three quarters, OPD Management based the report on actual expenditures; while for one quarter, it based the report on funds received. This inconsistent methodology resulted in a \$1.2 million discrepancy between actual and reported expenditures (see Exhibit 14) – the City expended \$5.1 million but only reported \$3.9 million.

The CAO stated that OPD Management reported the financials for the one quarter because expenditures were reported on a funds received basis, in accordance with OMB guidance.²⁴ While recognizing that OPD Management was compliant with OMB guidance for reporting expenditures based on funds received for the 6/30/10 quarterly report, the audit noted the inconsistent reporting methodology used by OPD Management between quarters.

As Exhibit 14 shows, for the other three quarters (12/31/09, 3/31/10 and 9/30/10 quarterly reports), OPD reported expenditures based on actual expenditures (or funds expended), not funds received. However, for the 6/30/10 quarter, OPD reported based on funds received instead of actual expenditures. For example, for the 12/31/09 quarter, OPD reported \$2.6 million for both funds received and expenditures when only \$1.3 million was received. If OPD reported based on actual expenditures for all four quarters, it would have reported an additional \$1.2 million in expenditures for the 6/30/10 quarterly report.

²⁴ Recipient Reporting data Model V3.0, supplemental to OMB M-09-21, Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, 6/22/2009

Exhibit 14: SELECTED FINANCIALS FOR THE COPS GRANT

Quarter ending	12/31/09	3/31/10	6/30/10	9/30/10
Actual expenditures	\$2,580,982	\$3,963,146	\$5,145,301	\$5,951,094*
Reported expenditures	\$2,580,982	\$3,963,146	\$3,963,146	\$5,819,937
Actual funds received	\$1,322,417	\$2,580,982	\$3,963,146	\$5,145,301
Reported funds received	\$2,580,982	\$3,963,146	\$3,963,146	\$5,819,937
* according to Oracle records, unaudited				
Source: Oracle Financial System, Recovery.gov, and OPD Management				

When using different reporting methods between quarters results in significant differences (i.e. \$1.2 million), the public cannot effectively compare expenditure amounts reported by the City Administration.

We recommend that the City Administration ensure the COPS grant reporting methodology is consistent with the accrual basis and expenditures are reported when incurred. The methodologies employed by the City Administration for COPS reporting were in compliance with OMB guidelines, but the same methodology should be consistently used to enable clear tracking of the City's activities across reporting periods.

Conclusion

For the COPS grant, the audit found Federal grant drawdowns were not done on a timely basis, inefficient accounting practices existed, and inconsistent reporting methodology was utilized and should be corrected. As a result, the audit concluded that the City Administration should review the frequency of drawdowns and grant reimbursements, modify the COPS grant accounting process, and establish and consistently implement the COPS grant reporting methodology.

RECOMMENDATIONS

We recommend that the City Administration:

Recommendation #5	Review the frequency of drawdowns and grant reimbursements for the City's seven direct ARRA grants. This review should determine the appropriate frequency of drawdowns and reimbursements that will maximize the City's cashflow position.
Recommendation #6	Modify the COPS grant accounting process to ensure only allowed costs related to the ARRA project are captured in the assigned ARRA fund and to ensure greater staff time efficiency. Where possible, the City Administration should consider automating the process for improved efficiency and accuracy.
Recommendation #7	Ensure the COPS grant reporting methodology is consistent with the accrual basis and expenditures are reported when incurred. This methodology should be followed consistently across reporting periods.

CHAPTER 5

Communication and posting of Federal whistleblower protections and the City's Fraud, Waste + Abuse Program should be implemented for all grants to achieve best practices

The audit found that the CAO communicated to subrecipients about Federal whistleblower protections as required by Section 1553 of the ARRA. However, the audit found no posting of either the Federal whistleblower protections or the Fraud, Waste + Abuse hotline information at sampled ARRA project sites. As a result, the subrecipients or the general public may not have full access to information on the whistleblower protections required by the Recovery Act.

Section 1553 of the ARRA requires whistleblower protections for non-Federal employees who report concerns about possible misuse of funds made available under the Act. The section specifically states:

An employee of any non-Federal employer receiving covered funds may not be discharged, demoted, or otherwise discriminated against as a reprisal for disclosing information that the employee reasonably believes is evidence of:

- (1) Gross mismanagement of an agency contract or grant relating to covered funds;
- (2) Gross waste of covered funds;
- (3) Substantial and specific danger to public health or safety related to the implementation or use of covered funds;
- (4) Abuse of authority related to the implementation or use of covered funds; or
- (5) Violation of law, rule, or regulation related to an agency contract (including the competition for or negotiation of a contract) or grant, awarded or issued relating to covered funds.

Section 1553 (e) requires "any employer receiving covered funds²⁵ shall post notice of the rights and remedies provided under this section."

The CAO stated that the Office of the City Auditor's Fraud, Waste + Abuse hotline number is posted on all project site posters where required by grant specifications. For example, the Department of Energy requires that subrecipients of EECBG funds post whistleblower protection information. The City includes this requirement in contracts with subrecipients. The CAO further stated that non-Federal employees concerned about possible fraud, waste or abuse are expected to access hotline information on the City's relevant websites, the Federal Recovery website, and different Federal agency websites.

²⁵ Per the Recovery Act, covered funds refer to "any contract, grant, or other payment received by any non-Federal employer if (a) the Federal Government provides any portion of the money or property that is provided, requested or demanded; and (b) at least some of the funds are appropriated or otherwise made available by the Act."

However, the Recovery Act requires any employer – the City as well as the City’s subrecipients, with the exception of subgrantees²⁶ – receiving ARRA funds to post notice of the rights and remedies provided under whistleblower protections. During subrecipient site visits, the audit found that none of the three reviewed subrecipients displayed the Fraud, Waste + Abuse hotline program number or poster on site, as summarized in Exhibit 15. The CAO stated that only one of the three sampled subrecipients was required to post whistleblower protections and the whistleblower requirement does not apply to the other two organizations because they are subgrantees. However, the City Administration should do more than meet minimum legal requirements to safeguard ARRA funds from fraud, waste and abuse. Instead, the City Administration should follow best practices to ensure all ARRA-funded non-Federal employees are aware of the Fraud, Waste + Abuse hotline and existing whistleblower protections.

Exhibit 15: NO FRAUD, WASTE + ABUSE HOTLINE POSTED ON ARRA PROJECT SITES

Grant Name	Subrecipient	Reported Expenses as of 6/30/10	Hotline Number or Poster Displayed on Site?
Early Head Start and Head Start (COLA & Quality Improvement)	Unity Council	\$193,602	No
Early Head Start Expansion	Brighter Beginnings	\$265,945	No
Homelessness Prevention and Rapid Rehousing (HPRP)*	Catholic Charities of the Diocese of Oakland	\$383,359	No
* Required by the funding agency to post whistleblower protections			

We recommend that the City Administration implement the best practices identified by the audit to ensure optimal whistleblower protection for non-Federal employees:

- Provide training to subrecipients before disbursing funds regarding whistleblower protections for non-Federal employees, including the City’s Fraud, Waste + Abuse hotline program
- Post whistleblower protection information at all ARRA-funded project sites

²⁶ Per guidance from the Department of Housing and Urban Development (HUD), funding agency for the HPRP grant, Section 1553 of the Recovery Act on whistleblower protections do not apply to any private nonprofit organization, unless that organization receives HPRP funds as a contractor or subcontractor (i.e. was procured). If a private nonprofit organization only receives HPRP funds as a subgrantee, it is not subject to the requirements under Section 1553.

Conclusion

While the audit found that the City Administration informed subrecipients of Federal whistleblower protections, the audit found no posted information of either the Federal protections or the City’s Fraud, Waste + Abuse hotline program at sampled subrecipients. The City Administration should ensure all ARRA-funded non-Federal employees are aware of whistleblower protections to achieve best practices.

RECOMMENDATION	
We recommend that the City Administration:	
Recommendation #8	Provide training to subrecipients before disbursing funds regarding Federal whistleblower protections and the City’s Fraud, Waste + Abuse hotline program. Ensure posting of Federal protections and the City’s hotline program at all ARRA-funded project sites to achieve best practices.

Appendix 1: LIST OF CITY STIMULUS PARTNERING ORGANIZATIONS

- | | |
|--|---|
| <ul style="list-style-type: none"> • African American Chamber of Commerce • Akonadi Foundation • Alameda-Contra Costa (AC) Transit • Alameda County Public Health Department, Social Services Agency • Alameda County Sheriff's Office • Alameda County Workforce Investment Board • Allen Temple • Alliance for West Oakland Development • Association of Bay Area Governments • Bay Area Air Quality Management District • Bay Area Rapid Transit District (BART) • Building & Trades Council • Cal State East Bay • California Statewide Communities Development Agency • Chinatown Chamber of Commerce • City of Berkeley • Civicorps Schools • Cypress Mandela Training Center • East Bay Alliance for a Sustainable Economy • East Bay Community Foundation • East Bay Green Corridor Partnership • East Bay Human Trafficking Task Force • Ecology Action • Emerald Cities Initiative • Energy Solutions • Evelyn & Walter Haas, Jr. Fund • Green for All • Hispanic Chamber of Commerce • Kapor Capital • Laney College • Men of Valor • Motorola Solutions • Oakland Chamber of Commerce | <ul style="list-style-type: none"> • Oakland Citizens Committee for Urban Renewal (OCCUR) • Oakland Community Organizations (OCO) • Oakland Housing Authority • Oakland Technology Exchange (OTX) West • Oakland Unified School District • Office of Alameda County Supervisor Carson • Office of Assemblyperson Swanson • Office of Congresswoman Lee • Office of Senator Hancock • Pacific Gas and Electric (PG&E) Company • Peralta Community College District • Policy Link • Port of Oakland • Quantum Energy Services and Technologies, Inc. • Ramsell Foundation • Regional Technical Training Center • Renewable Funding, LLC • Rising Sun Energy Center • S.H. Cowell Foundation • San Francisco Foundation • San Francisco Mayor's Office of Housing • SEE Green • SEIU 1021, City of Oakland chapter • Spanish Speaking Citizens Foundation • Stopwaste.org • Swinerton Builders • The California Endowment • Unity Council • Urban Strategies Council • Vietnamese Chamber of Commerce • Walter & Elise Haas Fund • Winning Strategies • Youth Movement Records • Youth Uprising Center |
|--|---|

Source: City Administrator's Office

Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS (AS OF JUNE 30, 2010)

Compliance Requirement	City Auditor's Office Assessment of the Implementation of the City Administration's Internal Control	Status
A. Key Recovery Act Accountability and Transparency Requirements for Recipients		
1. Mayor/Chief Executive certification, accepting responsibility for the appropriateness of infrastructure investment projects, shall be posted on City's Recovery Act website	The City has no infrastructure investment project which the City was the prime recipient; therefore, Section 1511 certification by City Mayor/ chief executive does not exist. The City's surface transportation projects, under the prime recipient State of California Department of Transportation (DOT), were the only ARRA-funded infrastructure investment projects. Section 1511 certifications by the State DOT, Governor Schwarzenegger and the Metropolitan Transportation Commission have been posted on the City's stimulus website.	Established
2. City website linked to the Federal Recovery.gov website	The CAO has the responsibility of updating City's stimulus website that is linked to Recovery.gov in compliance with requirements.	Established
3. Reporting within 10 days of quarter end for recipients, including: <ul style="list-style-type: none"> Amount of funds received and expended or obligated; Descriptions of projects and evaluations of each project's completion status; Estimate of number of jobs created or retained; Information on subcontracts or subgrants; and Additional detail for infrastructure investments. 	The City established a centralized ARRA Interdepartmental Stimulus Planning Committee - made up of senior staff, City Administrator, Mayor's office, Council representatives, budget, finance and personnel - to oversee citywide planning, monitoring, and fiscal management requirements. The Committee held 27 meetings between March 2009 and March 2010 with approximately an average of 1-2 meetings each month. After March 2010, the Committee's function shifted from coordination to monitoring and communications. The CAO assumed the responsibility of having one-on-one meetings with individual grant managers while the Committee members were notified of updates and concerns via listserv communications.	Established
	The CAO developed a centralized shared drive on the City's server for staff to upload ARRA documents and reports to facilitate timely reporting and transparency.	Established
	The CAO and program staff receive communications directly from funding agencies about reporting procedures. Program staff is notified of reporting requirement changes directly by funding agency. However, the audit revealed inconsistent reporting methodology used in some ARRA grants. For one grant, staff followed verbal guidance from Federal agency that diverged from OMB guidance.	Established but needs improvements
	The City has established a reporting oversight process through the CAO to help ensure timely submission of quarterly reports. While the City was compliant with timely submission of quarterly reports, its controls over data quality and reporting methodology need improvements.	Established but needs improvements

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(Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS (AS OF JUNE 30, 2010))

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Compliance Requirement	City Auditor's Office Assessment of the Implementation of the City Administration's Internal Control	Status
	All subrecipients are required to provide the City with reporting information; however, subrecipient submission is not always accurate or timely to meet ARRA reporting requirements.	Established but needs improvements
4. Central Contractor Registration (CCR) and Dun and Bradstreet Data Universal Numbering System (DUNS) number.	The City is registered with CCR and has a DUNS number.	Established
5. Whistleblower protections for non-Federal employees.	The City's Recovery website has links to Whistleblower Ordinance and the City Auditor's Fraud, Waste + Abuse hotline.	Established
	The CAO relies on specific Federal agency guidance regarding the posting of whistleblower protections for subrecipients. Although the audit found that the City Administration had adequate internal controls by following up with the subrecipient regarding posting the information, subrecipient site visits found the information was not posted.	Established
6. To the extent possible, contracts shall be fixed-price through the use of competitive procedures. A summary of any contract awarded that is not fixed-price and not awarded using competitive procedures shall be posted in a special section of the Federal Recovery.gov website.	Competitive procedures for the procurement of goods and services and public works improvement projects are covered in the City's Municipal Code and the Standard Specifications for Public Works Construction. When contract cost exceeds \$50,000, the City calls for formal bids and contracts will be awarded to the lowest responsible bidder and will be fixed-price. The audit reviewed a total of 8 contracts for 2 sampled grants and confirmed that all 8 contractors had fixed-price contracts in place.	Established
B. General Provisions of the Recovery Act for Recipients		
7. Preference for "quick-start" activities.	The CAO provided department staff with a synopsis of ARRA grants, and staff submitted ideas for shovel-ready projects based on specific grant criteria.	Established
8. Funds available for obligation until September 30, 2010	Staff leads were designated to ensure on-time delivery of project and that awarded funds will be obligated to meet the deadline. Timely completion of projects is monitored by funding agency program officers, who communicate on a regular basis with City staff on project status and sometimes conduct site visits.	Established
9. Funds may not be used for any casino or gambling establishment, aquarium, zoo, golf course or swimming pool.	The City Administrator's approval is required for all grant applications to ensure no department submits a prohibited project.	Established

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(Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS (AS OF JUNE 30, 2010))

Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS (AS OF JUNE 30, 2010)

Compliance Requirement	City Auditor's Office Assessment of the Implementation of the City Administration's Internal Control	Status
10. "Buy American" provisions - All iron, steel and manufactured goods used for a public building or public work must be produced in the United States, with limited exceptions which require a waiver from the Federal agency providing the funding.	Standard Buy American requirements are included in contracts for all ARRA-funded projects. For applicable grants, program staff obtains letters or documentation from contractors stating or documenting that all applicable materials covered by the Buy American provisions comply thereto.	Established
11. Prevailing wage rate requirements.	City's Prevailing Wage Policy.	Established
	ARRA legal wage requirements are embedded in contracts. Department of Contracting and Purchasing (DCP) monitors compliance with ARRA prevailing wage requirements per specific grant specifications.	Established
C. Relevant Accountability and Transparency Requirements of the Recovery Act for Federal Agencies		
12. All funds appropriated shall be established in separate funding (Treasury) accounts (i.e. as indicated in OMB guidance, there should be no comingling of Recovery Act and non-Recovery Act funds to ensure separate tracking and reporting on the use of Recovery Act funds).	The City Administrator issued a memo on 7/23/09 to all departments stating that they need to create separate funds to track ARRA receipts, spending and reimbursements/drawdowns in a central Citywide database to prevent comingling of ARRA and non-ARRA funds. The audit verified that separate funds have been established to track ARRA funds. However, the audit found that the City's recordkeeping process needs improvement to ensure accurate tracking of ARRA activities.	Established but needs improvements
D. Relevant Governance and Risk Management Guidance from the Office of Management and Budget for Federal Agencies		
13. Establish a senior management council to oversee Recovery Act performance.	The City established an Interdepartmental Stimulus Planning Committee -- made up of senior staff, City Administrator, Mayor's office, Council representatives, budget, finance and personnel -- to oversee citywide Stimulus planning, monitoring, and fiscal management requirements. The Committee held 27 meetings between March 2009 and March 2010 with approximately an average of 1-2 meetings each month. After March 2010, the Committee's function shifted from coordination to monitoring & communications. The CAO assumed the responsibility of having one-on-one meetings with individual grant managers while the Committee members were notified of updates and concerns via listserv communications.	Established

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(Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS (AS OF JUNE 30, 2010))

Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS (AS OF JUNE 30, 2010)

Compliance Requirement	City Auditor's Office Assessment of the Implementation of the City Administration's Internal Control	Status
14. Mitigate instances of fraud, waste and abuse.	The City has a number of policies on mitigating fraud, waste and abuse, including: <ul style="list-style-type: none"> • AI-112 on Acceptance of Gifts, dated 10/10/75 • AI-1052 on City Administrator Acceptance and Appropriation of Restricted Grant Funds, Gifts and Donations of \$50,000 or Less, dated 2/14/08 • AI-595 on Employee Conflicts of Interest/Incompatible Activities, dated 7/1/07 • AI-140 on Electronic Media Policy, dated 4/12/07 • City Charter sections 907 (Nepotism) • City Charter 1201 (Incompatible Employment) • City Charter 1202 (Conflict in Office) • Oakland Municipal Code Chapter 2.40 (Prohibition on Nepotism in City Employment) • AI-596 on Citywide Code of Conduct, dated 10/20/10 	Established
	The City Auditor's Office has established a Fraud, Waste + Abuse Prevention Program for people to report fraud, waste and abuse anonymously.	Established
	The Fraud, Waste + Abuse Hotline is displayed on the City's Recovery Act website.	Established
E. Relevant Budget Guidance from Office Management and Budget for Federal Agencies		
15. Appropriate and allowable administrative cost allocations. In general, Recovery Act funds should not be used for telecommunications services or IT desktop support, or for incidental administrative costs (e.g. paper for copy machines).	The City prepares an annual Grant Cost Allocation Plan in accordance with Federal cost allocation rules. Some Federal agencies' funding notices for recipients have specific administrative cost percentage caps and limitations. The City's recordkeeping process did not remove disallowed administrative costs from grants in a timely manner.	Established but needs improvements
F. Relevant Grant Guidance from Office of Management and Budget for Federal Agencies		
16. Consider weighting selection criteria to favor grant applicants with demonstrated ability to deliver programmatic results and accountability objectives in the Recovery Act.	Of the three RFP's reviewed, three demonstrated that selection criteria were weighted to favor applicants demonstrating prior performance and ability to deliver results.	Established
17. Use internal control assessments to assess the risk of program waste, fraud and abuse in grants.	Single Audit [Note: The Single Audit requires that recipients maintain internal control over Federally-funded programs that provide reasonable assurance that the recipient is managing Federal awards in compliance with laws, regulations, and the provisions or contracts or grant agreements. Also, the GAO has recommended that OMB adjust the Single Audit process to provide for review of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010.]	Established

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(Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND
INTERNAL CONTROLS (AS OF JUNE 30, 2010))

Appendix 2: KEY RECOVERY ACT TRANSPARENCY AND ACCOUNTABILITY REQUIREMENTS AND RELATED CITY OF OAKLAND INTERNAL CONTROLS (AS OF JUNE 30, 2010)

Compliance Requirement	City Auditor's Office Assessment of the Implementation of the City Administration's Internal Control	Status
G. Relevant Contract Guidance of Office of Management and Budget for Federal Agencies		
18. Give special attention to contractor responsibility determinations in awarding contracts. ¹	Competitive procedures for public works and improvement projects are guided by the City's Municipal Code, the City's Standard Specifications for Public Works Construction and local, state and Federal laws. The City requires that contractors carry a bond, which will protect the City in the event the contractor cannot meet their obligations in the contract.	Established
19. Monitor contracts to ensure that performance, cost and schedule goals are met. Maintain strong internal controls over Recovery Act funds.	Project staff is responsible for monitoring contracts, reviewing contractor invoices, and ensuring project goals are met. For construction projects, project management staff utilizes City's in-house project tracking (PT) /monitoring software to update their project information monthly.	Established
	DCP monitors construction contracts for prevailing wage compliance through Labor Compliance Program (LCP tracker), a web-based automated certified payroll system, and site visits.	Established
	The CAO makes quarterly status calls to funding agency program officers and holds quarterly check-in meeting with City program staff to monitor milestones and performance.	Established

¹ Per OMB, general standards for responsibility include that a prospective contractor have (1) adequate financial resources to perform the contract or the ability to obtain them; (2) the ability to comply with the required or proposed delivery or performance schedule; (3) a satisfactory record of past performance, integrity and business ethics, (4) the necessary organization, experience, accounting and operational controls and technical skills or the ability to obtain them; and (5) the necessary production, construction and technical equipment and facilities or the ability to obtain them.

Appendix 3: INACCURATE QUARTERLY ARRA REPORTING DETAILS

Grant Name	Required Data Element	Quarter Ending	Reported Amount	Actual Amount	Reporting Difference
Expenditure and sub-awards misstated for the 6/30/10 quarterly ARRA report:					
Brownfields Assessment	Expenditure amount	6/30/10	\$47,989	\$19,822	\$28,167
Early Head Start Expansion	Expenditure amount	6/30/10	\$1,028,796	\$1,028,530	\$266
Energy Efficiency & Conservation Block Grant (EECBG)	Expenditure amount	6/30/10	\$386,428	\$388,055	(\$1,627)
Homelessness Prevention and Rapid Rehousing (HPRP)	Sub-awards disbursed, First Place for Youth	6/30/10	\$22,681	\$84,028	(\$61,347)
	Sub-awards disbursed, Catholic Charities of the Diocese of Oakland	6/30/10	\$128,654	\$346,548	(\$217,894)
	Sub-awards disbursed, Abode Services	6/30/10	\$0	\$94,804	(\$94,804)
	Sub-awards disbursed, Kerry Abbott	6/30/10	\$1,500	\$15,719	(\$14,219)
Total expenditures and sub-awards under-reported for the quarter ending June 2010					(\$361,458)
Funds invoiced/received misstated for the 6/30/10 quarterly ARRA report:					
Brownfields Assessment	Funds invoiced/received	6/30/10	\$47,989	\$15,593	\$32,396
Early Head Start and Head Start (COLA & Quality Improvement)	Funds invoiced/received	6/30/10	\$0	\$179,043	(\$179,043)
Early Head Start Expansion	Funds invoiced/received	6/30/10	\$0	\$182,758	(\$182,758)
Total funds received under-reported for the quarter ending June 2010					(\$329,405)
Jobs created/retained misstated for the 6/30/10 quarterly ARRA report:					
Community Development Block Grant (CDBG)	Jobs created/retained	6/30/10	4.0	5.0	(1.00)
Early Head Start and Head Start (COLA & Quality Improvement)	Jobs created/retained	6/30/10	2.42	5.22	(2.80)
Early Head Start Expansion	Jobs created/retained	6/30/10	25.19	25.49	(0.30)
Brownfields Assessment	Jobs created/retained	6/30/10	0.47	0.11	0.36
Total jobs under-reported for the quarter ending June 2010					(3.74)

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(Appendix 3: INACCURATE QUARTERLY ARRA REPORTING DETAILS)

Appendix 3: INACCURATE QUARTERLY ARRA REPORTING DETAILS

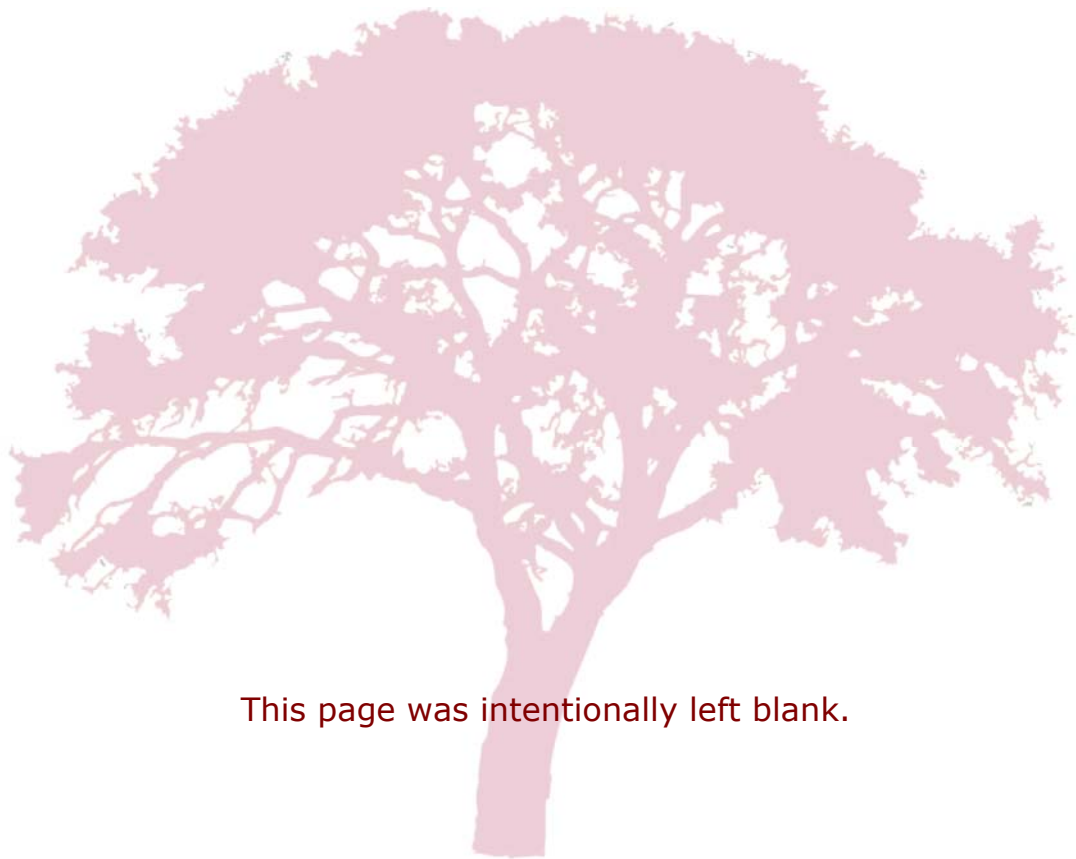
Grant Name	Required Data Element	Quarter Ending	Reported Amount	Actual Amount	Reporting Difference
Reporting inaccuracies for other quarters:					
Community Development Block Grant (CDBG)	Expenditure amount	9/30/10	\$0	\$103,905	(\$103,905)
	Jobs created/retained	3/31/10	4.0	4.6	(0.60)
Early Head Start and Head Start (COLA & Quality Improvement)	Jobs created/retained	3/31/10	4.11	8.2	(4.09)
	Jobs created/retained	12/31/09	0.49	5.01	(4.52)
	Jobs created/retained	9/30/09	3.88	2.99	0.89
Brownfields Assessment	Jobs created/retained	3/31/10	0	0.02	(0.02)
	Jobs created/retained	12/31/09	0.22	0.2	0.02
Total expenditures under-reported for the quarter ending Sept 2010					(\$103,905)
Total jobs under-reported for the quarter ending March 2010					(4.71)
Total jobs under-reported for the quarter ending Dec 2009					(4.50)
Total jobs over-reported for the quarter ending Sept 2009					0.89
Source: Recovery.gov, City's financial system (Oracle), and City Administrator's Office					

RECOMMENDATIONS

We recommend that the City Administration:

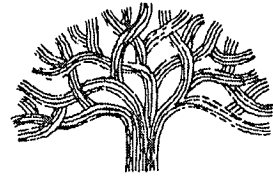
Recommendation #1	<p>Improve the data quality review process at the City Administrator's Office and/or departmental level to ensure that submitted reports are complete, accurate and timely as required by the OMB. This process should include approaches such as those listed below:</p> <ul style="list-style-type: none"> • Formalize the data quality review process by establishing a comprehensive policies and procedures manual that clearly defines roles, responsibilities, and procedures for the CAO and departmental staff over ARRA reporting. • Incorporate OMB-recommended data quality review approaches, such as establishing control totals, identifying data outliers and anomalies, or implement viable alternatives to reach the same result. • Formalize the process to review supporting documentation on a sample or periodic basis to verify reported information. • Ensure appropriate and timely corrections for material omissions and/or significant reporting errors as required by the OMB.
Recommendation #2	<p>Consistently perform periodic reconciliation processes – at least quarterly – to ensure only ARRA-related allowed costs are completely and accurately captured in the assigned ARRA funds and billed to the funding agency on a timely basis. Where possible, automate the reconciliation process for improved efficiency and accuracy.</p>
Recommendation #3	<p>If alternative methodologies are used, clearly document it (including written confirmation from funding agency prior to implementation), ensure staff's understanding of reporting requirements, review supporting documentation, and certify the alternative methodology is reasonable and consistent with Federal guidelines.</p>
Recommendation #4	<p>Implement best practices to ensure monitoring of reporting by subrecipients:</p> <ul style="list-style-type: none"> • Provide training to subrecipients regarding ARRA reporting requirements upon project kickoff. • Review the subrecipients job calculation methodology for accuracy and appropriateness. • Review subrecipient supporting documentation on a periodic basis.
Recommendation #5	<p>Review the frequency of drawdowns and grant reimbursements for the City's seven direct ARRA grants. This review should determine the appropriate frequency of drawdowns and reimbursements that will maximize the City's cashflow position.</p>

Recommendation #6	Modify the COPS grant accounting process to ensure only allowed costs related to the ARRA project are captured in the assigned ARRA fund and to achieve greater staff time efficiency. Where possible, the City Administration should automate the process for improved efficiency and accuracy.
Recommendation #7	Ensure the COPS grant reporting methodology is consistent with the accrual basis and expenditures are reported when incurred. The methodology employed by City Administration for COPS reporting should be consistent to enable clear tracking of the City's activities across reporting periods.
Recommendation #8	Provide training to subrecipients before disbursing funds regarding Federal whistleblower protections and the City's Fraud, Waste + Abuse hotline program. Ensure posting of Federal protections and the City's hotline program at all ARRA-funded project sites to achieve best practices.



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CITY OF OAKLAND



CITY HALL • 1 FRANK H. OGAWA PLAZA • OAKLAND, CALIFORNIA 94612

Office of the City Administrator
P. Lamont Ewell
Interim City Administrator

(510) 238-3301

May 17, 2011

Courtney Ruby
City Auditor
City of Oakland
1 Frank Ogawa Plaza, 4th Floor
Oakland, CA 94612

Dear City Auditor Ruby:

I am pleased to provide to you the City administration's response to the American Reinvestment and Recovery Act (ARRA) Internal Controls Compliance Audit. Staff reviewed the May 10, 2011 report and their comments are provided in the attached documents.

The audit's conclusion that "the City Administration has established and implemented 19 of 19 ARRA OMB internal control compliance requirements" is a testament to the diligence and care that City staff has applied to managing the ARRA funds. Internal controls, systems, procedures, and communications were established citywide and at departmental levels to ensure effective performance of fiduciary duties, timely implementation of critical programs and services, and public accountability and transparency. In addition, City administration engaged in regular communications with federal officials, including agency program officers, to ensure that the City's delivery of programs and services was timely, effective, and compliant with federal requirements.

The Auditor's office has provided several recommendations that are not federal compliance requirements. Nonetheless, the City administration concurs with several of these recommendations. We are happy to state that some recommendations were already implemented by City staff prior to this audit. Discussion of each recommendation is provided in the attached documents.

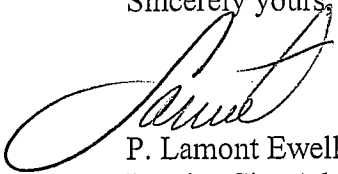
While there remains disagreement with the use of some language in the report, I want to thank you and your staff for working collaboratively with the City administration. Effective working relations and communications are essential to upholding the integrity of the audit process.

Note: The reference numbers in the left margin correspond to the reference numbers in the next section of the audit report: City Auditor's Response and Summary of Actions Necessary to Close the Report.

I also want to take this opportunity to acknowledge the City staff who worked on this audit. The same dedicated City staff who worked tirelessly to bring in new funds and resources to Oakland in a time of great need are also the ones who are implementing the delivery of services, engaging in fiscal oversight, and meeting new and onerous federal compliance requirements. Their devotion to providing quality public services is an example of what is working well in the City of Oakland.

I look forward to the continuation of our mutual efforts to provide the best public service possible to Oakland.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'P. Ewell', written in a cursive style.

P. Lamont Ewell
Interim City Administrator

Attachments

- ❖ Memo from Deputy City Administrator Margaretta Lin
- ❖ Response to Specific Findings and Recommendations

CITY OF OAKLAND



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May 17, 2011

To: P. Lamont Ewell, Interim City Administrator

Fr: Margaretta Lin, Deputy City Administrator

Cc: Dan Lindheim, Lin Chin, Osborn Solitei

Re: Response to City Auditor's Audit of ARRA Internal Controls Compliance Audit

I have reviewed the May 10, 2011 final draft of the City Auditor's report on the American Reinvestment and Recovery Act (ARRA) Internal Controls Compliance Audit which concludes that "the City Administration has established and implemented 19 of 19 ARRA OMB internal control compliance requirements." I offer the following summary comments and clarifications below. A more detailed response to the audit's findings and recommendations is provided in Attachment A.

1. The substantive conclusion of this audit is that the City has met federal compliance requirements and all internal controls required by the federal government are in place. We believe that this main conclusion warrants more prominent treatment than what exists in the audit report.
2. The audit's findings, from the perspective of federal compliance requirements, address minor issues. However, some of the audit language, especially in the first two pages, may lead the public to believe differently.
3. In terms of the audit's recommendations, it is important to note that they are not based upon specific federal compliance requirements. However, in the interest of continuous improvement, the City administration concurs with implementing 3 of the audit's

recommendations. The other recommendations were already implemented by the City administration, separate from the audit. This information was provided to the Auditor's office but is not reflected in the report.

4. The audit only focuses on internal controls, reporting, and compliance procedures. It did not address the City's successful efforts in obtaining ARRA monies nor its effective implementation of these programs. As such, the significance of the City's efforts is not adequately presented in the audit report. This represents a lost opportunity for the public to fully understand and appreciate the level of public service, accountability, and dedication demonstrated by the City workforce.

OVERVIEW OF THE CITY AUDITOR'S REPORT

The audit of the ARRA Internal Controls began in June 2010 and is concluding now in May 2011. The audit review involved considerable time and effort from the City Auditor's office, the City Administrator's office, the Controller, and City staff responsible for monitoring ARRA grants. The audit focused on citywide internal controls of the ARRA grants, as well as the internal controls provided on the 7 ARRA grants where the City serves as the "prime recipient" of federal funds. These grants are: 1) Brownfields Assessment, 2) Community Development Block Grant (CDBG), 3) Community Oriented Policing Services (COPS), 4) Energy Efficiency Conservation Block Grant (EECBG), 5) Early Head Start and Head Start COLA and Quality Improvement, 6) Early Head Start Expansion, and 7) Homeless Prevention and Rapid Rehousing (HPRP).

We share here our three main responses to the audit report.

A. THE CITY HAS FULLY COMPLIED WITH ALL FEDERAL ARRA REQUIREMENTS

- 1 The audit concluded that the City has met federal compliance requirements and internal controls are effectively in place for the management of the ARRA grants. The audit found that the City has established 19 of 19 internal controls based upon federal compliance requirements. A summary of these 19 internal controls and the City administration's implementation is provided in Attachment A, page 1.

In many areas, the City has gone above and beyond compliance requirements in managing the ARRA funds, including engaging in the following efforts: ensuring that City contractors were aware of new ARRA requirements and had relevant certifications and registration information necessary to access ARRA funding; creating a centralized inter-departmental structure and system to effectively communicate, monitor, train, and oversee citywide ARRA planning, implementation, and compliance efforts; developing a special website devoted to

stimulus information and funding opportunities; engaging in quarterly reviews of each ARRA grant program, including follow-up communications with federal program officers; establishing separate funds for each ARRA grant to provide for separate fiscal tracking prior to the receipt of funds; and leveraging additional funds to provide critical programs and services to the Oakland community.

The significance of the City's effective efforts is not adequately presented in the audit report. This represents a lost opportunity for the public to fully understand and appreciate the level of public service, accountability, and dedication demonstrated by the City workforce.

2 B. THE AUDIT'S FINDINGS ADDRESS MINOR ISSUES THAT HAVE BEEN CORRECTED

The actual findings from the audit are minor. However, certain language and framing used in the audit report could result in public misperception about the actual status of the City's ARRA controls and compliance. Most findings concern reporting issues. No federal noncompliance was identified. There are 3 areas of concern regarding the audit's potentially misleading information: 1) ARRA reporting; 2) fiscal tracking; and 3) accounting issues with the COPS grant.

1. All City ARRA Reports Meet Federal Compliance Standards

2 While the audit identified a few minor mistakes in some quarterly reports, none were significant or noncompliant with federal requirements. None addressed substantive issues of program implementation or mis-spending; most dealt with reporting. In addition, most of the report data is reported cumulatively and was corrected in subsequent quarterly reports.

The major "error" identified by the audit was in calculating the number of jobs created by the various programs. Initially, some other jurisdictions wildly over-reported the number of jobs created. As such, federal guidance on calculating jobs shifted in order to address exaggerated claims. The audit found that City staff conservatively *under-reported* jobs in 3 quarters by a range of 3.74 FTE to 4.71 FTE, which represents a 4.4% to 9.2% misstatement of jobs. In 1 quarter, staff over-reported jobs by .89 FTE (a 2.0% discrepancy).

3 In addition, as evidenced by both applicable OMB guidelines and federal agency information, inaccurate reporting in the fields of expenditures and funds received are not significant since these are both quarterly AND cumulative fields.¹ Expenditures and funds received are cumulative information fields provided on a quarterly basis--updated information was provided in subsequent reports. Inaccurate reporting in

¹ OMB M-10-08, section 3.

expenditures occurred in one reporting quarter for one grant due to staff clerical error. This information was corrected in subsequent reports. Inaccurate reporting in funds received occurred in the same reporting quarter for two grants due to staff clerical error. This information was also corrected in subsequent reports.

The reporting errors were insignificant and based upon human errors made in a few reporting quarters. They do not reflect any failings in the City's internal controls.

2. The City's Fiscal Tracking and Internal Controls Are Working Effectively

4 The results of this audit actually demonstrate that the City's internal controls and fiscal tracking are highly effective. However, the audit report's language and presentation of information may not fully represent that information.

Out of the multitudes of financial transactions reviewed by this audit, there were only 4 transactions identified by the City Auditor's office as issues. Out of these 4 transactions,

- ❖ Three transactions had been previously identified by staff and were being corrected, separate from this audit. These included a \$100 transaction that had never been charged to the federal government, caught by staff, and corrected; a \$288 charge that was caught by staff and corrected; and a \$4,300 invoice that was mis-booked, caught by staff, and corrected.
- ❖ One transaction was pending an internal reconciliation process and was actually not even charged to the ARRA grant. An invoice for \$1,600 had been mis-booked to a non-ARRA account and was pending the next fiscal review and reconciliation process, which occurs periodically as part of the City's internal controls.

3. Accounting for COPS Grant

5 We are concerned that the audit language regarding the finding on the COPS grant may mislead the public to believe that any disallowed costs were charged to the COPS grant. This was not the case. Out of the multitude of financial transactions on the COPS grant reviewed by the City Auditor's office, the audit found that a \$100 charge was mis-booked to the \$19.747 million COPS grant. This \$100 charge was actually never billed to the federal government AND was caught by staff prior to the audit review AND corrected.

**C. THE CITY ADMINISTRATION HAS IMPLEMENTED MOST OF THE AUDIT
RECOMMENDATIONS SEPARATE FROM THE AUDIT**

4

The Audit report contains several recommendations. None of these recommendations are federal compliance requirements. Some of the recommendations are good practices that the City should implement, as part of efforts to continuously improve public service.

We concur with the City Auditor's following specific recommendation to improve the data quality review process on the ARRA reports:

1. To compile all established policies and procedures regarding ARRA reporting into one comprehensive manual, rather than the current practice of maintaining separate documents and communications in a shared folder accessible by all ARRA program and fiscal staff.
2. To review the sub-recipients job calculation methodology for accuracy and appropriateness and supporting documentation on a periodic basis, which was partially implemented during the beginning of the ARRA reporting and has been fully implemented starting for the quarter ending September 30, 2010.
3. To post the City's Fraud, Waste, and Abuse poster at sites receiving City ARRA funds, regardless of whether federal guidelines require such posting.

6

The following recommendations are areas that the City had already implemented; separate from the audit process.

1. Incorporate OMB-recommended data quality review approaches.
2. Perform periodic review of reported information.
3. Ensure appropriate and timely corrections for material omissions and/or significant reporting errors as required by the OMB.
4. Clearly document any alternative methodologies and certify that they are reasonable and consistent with federal guidelines.
5. Provide training to subrecipients regarding ARRA reporting requirements upon project kickoff.
6. Review the frequency of drawdowns and grant reimbursements for the City's seven direct ARRA grants.
7. Modify the COPS grant accounting process to ensure only allowed costs are captured in the assigned ARRA fund.

8. Ensure the COPS grant reporting methodology is consistent with the accrual basis and expenditures are reported when incurred. Employ a consistent methodology for COPS reporting to enable clear tracking of the City's activities across reporting periods.

More information about the recommendations and the City's implementation of these measures is included in Attachment A.

The following provides summary information on the City's ARRA efforts as context for the audit report.

OVERVIEW OF THE CITY'S ARRA EFFORTS

Shortly after the ARRA passed in February 2008, the City of Oakland formed an inter-departmental committee to engage in citywide planning efforts and establish the systems necessary for effective fiscal controls and implementation of the new grants and programs. The ARRA efforts have been a top priority for the City. While facing enormous time pressures and new requirements without additional staffing resources, City staff has exercised high degrees of care and diligence to provide critical services to the Oakland community, transparency in public information and accountability, and fiscal controls. The following are highlights of the City's efforts to date:

- ❖ Through a collaborative approach, worked to bring in \$284.9 million of ARRA funds for the Oakland community as well as the region and state, providing new resources to meet pressing community needs in public safety, economic development, infrastructure, and human services. The City of Oakland has served as the direct recipient of \$76.2 million of these funds. The Oakland team included over 100 City staff from every City agency and office, and 40 different public agencies, private foundations, and community-based, faith, business, and civic organizations.
- ❖ The City-administered grants have generated an average of 117 quarterly FTE jobs and 2,520 short-term jobs to date, with additional jobs forthcoming. A combination of the City's and collaborative grants are estimated to generate at approximately 10,222 jobs through the entire grant period.² About half-way into the ARRA grants program period, the City has expended about \$31.4 million (about 49% of the total grant awards).
- ❖ Kept 1,000 Port of Oakland truck drivers working through funds provided for truck retrofits and replacements required by new state environmental regulations. An

² The majority of ARRA grants are due to expire on 9/30/12.

additional 764 truck drivers retained work through additional funds leveraged by the City.

- ❖ Provided summer employment opportunities to more than 1,000 Oakland youth.
- ❖ Retained 41 Oakland police officers as community policing officers.
- ❖ Will serve more than 8,000 Oakland residents and households through housing and support services to prevent homelessness; childcare for infants and toddlers to enable low-income families to work or go to school; assistance for disabled residents and seniors; and training programs to prepare residents for jobs in growing industries in Oakland such as energy efficiency, healthcare, and trade and logistics.
- ❖ Provided infrastructure and service enhancements including street improvements, water pollution clean-up, municipal building retrofits, public safety services and equipment upgrades in a time of City budgetary constraints.
- ❖ Generated innovative initiatives fostering the growth of the energy efficiency sector and applicable job training programs, including the *Oakland Shines* program, which provides incentives for commercial energy retrofits for downtown businesses and generates new employment opportunities.

The same City staff working to implement the ARRA funded programs and services are also the ones responsible for reporting, oversight, and monitoring requirements.

We would like to acknowledge the efforts of all staff involved in working together to ensure the highest level of integrity with this audit. We take this opportunity to acknowledge and thank the diligent efforts of City staff who dedicated enormous time and effort to responding to audit questions and issues, while continuing to provide the highest level of service in implementing the ARRA funded programs.³ While there are disagreements with the Auditor's office in terms of report language and framing, we greatly appreciate the extra care and process taken by the City Auditor's office in recognition of the importance of the ARRA efforts to the City of Oakland.

³ The City ARRA team for this audit included the following key staff: Lin Chin, City Administrator's office; Neil Valle, Department of Human Services (DHS); Andrea Youngdahl, DHS; Osborn Solitei, Finance and Management Agency; Felicia Silva, Oakland Police Department (OPD); Gilbert Garcia, OPD; Scott Wentworth, Public Works Agency (PWA); Pete Fong, PWA; Susan Kattchee, PWA; Gopal Nair, PWA; Mark Gomez, PWA; Michele Byrd, Community and Economic Development Agency (CEDA); Loyd Ware (CEDA).

Finding 1: The City Administration established and implemented 19 of 19 ARRA OMB internal control compliance requirements.

No recommendations from the City Auditor.

City staff has worked diligently to establish citywide and departmental internal controls, procedures, and practices to effectively manage the ARRA funds, meeting all federal compliance requirements. The following table provides information of the 19 internal control areas and summary information of what the City has put into place.

Compliance Requirement	City Administrator's Office Assessment of the Implementation of the City Administration's Internal Control
A. Key Recovery Act Accountability and Transparency Requirements for Recipients	
1. Mayor/Chief Executive certification, accepting responsibility for the appropriateness of infrastructure investment projects, shall be posted on City's Recovery Act website	The City has no infrastructure investment project which the City was the prime recipient; therefore, Section 1511 certification by the Mayor/chief executive does not exist. The City's Surface transportation projects, under the prime recipient State of California Department of Transportation (DOT), were the only ARRA-funded infrastructure investment projects. Section 1511 certifications by the State DOT, Governor Schwarzenegger and the Metropolitan Transportation commission have been posted on the City's stimulus website.
2. City website linked to the federal Recovery.gov website	The CAO established and updates the City's stimulus website that is linked to Recovery.gov in compliance with requirements.
3. Reporting within 10 days of quarter end for recipients, including: <ul style="list-style-type: none"> • Amount of funds received and expended or obligated; • Descriptions of projects and evaluations of each project's completion status; • Estimate of number of jobs created or retained; • Information on subcontracts or subgrants; and • Additional detail for infrastructure investments. 	<p>The City established a centralized ARRA Interdepartmental Stimulus Planning Committee – made up of senior staff, City Administrator, Mayor's office, Council representative, budget, finance and personnel – to oversee citywide planning, monitoring, and fiscal management requirements. The Committee held 27 meetings between March 2009 and March 2010 with approximately an average of 1-2 meetings each month. After March 2010, the Committee's function shifted from coordination to monitoring and communications. The CAO assumed the responsibility of having one-on-one meetings with individual grant managers while the Committee members were notified of updates and concerns via listserv communications.</p> <p>The CAO developed a centralized shared drive on the City's server for staff to upload ARRA documents and reports to facilitate timely reporting and transparency.</p>

ATTACHMENT A: RESPONSE TO SPECIFIC FINDINGS AND RECOMMENDATIONS ON ARRA AUDIT

	The CAO and program staff receive communications directly from funding agencies about reporting procedures. Program staff is notified of reporting requirement changes directly by funding agency.
	The City has established a reporting oversight process through the CAO to help ensure timely submission of quarterly reports.
	All subrecipients are required to provide the City with reporting information.
4. Central Contractor Registration (CCR) and Dun and Bradstreet Data Universal Numbering System (DUNS) number.	The City is registered with CCR and has a DUNS number. The City provided outreach to City contractors notifying them in advance of new requirement for DUNS numbers as part of funding requirements.
5. Whistleblower protections for non-federal employees.	The City's Recovery website has link to Whistleblower Ordinance and the City Auditor's Fraud, Waste + Abuse hotline.
	The CAO relies on specific federal agency guidance regarding the posting of whistleblower protections for subrecipients. The City includes federal requirements in contracts with subcontractors and reviews requirements as part of site monitoring visits.
6. To the extent possible, contracts shall be fixed-price through the use of competitive procedures. A summary of any contract awarded that is not fixed-price and not awarded using competitive procedures shall be posted in a special section of the federal Recovery.gov website.	Competitive procedures for the procurement of goods and services and public works improvement projects are covered in the City's Municipal Code and the Standard Specifications for Public Works Construction. When contract cost exceeds \$50,000, the City calls for formal bids and contracts will be awarded to the lowest responsible bidder and will be fixed-price. The audit reviewed a total of 8 contracts for 2 sampled grants and confirmed that all 8 contractors had fixed-price contracts in place.
B. General Provisions of the Recovery Act for Recipients	
7. Preference for "quick-start" activities.	The CAO provided department staff with a synopsis of ARRA grants, and staff submitted ideas for shovel-ready projects based on specific grant criteria.
8. Funds available for obligation until September 30, 2010	Staff leads were designated to ensure on-time delivery of project and that awarded funds will be obligated to meet the deadline. Timely completion of projects is monitored by funding agency program officers, who communicate on a regular basis with City staff on project status and sometimes conduct site visits.
9. Funds may not be used for any casino or gambling establishment, aquarium, zoo, golf course or swimming pool.	The City Administrator's approval is required for all grant applications to ensure no department submits a prohibited project.
10. "Buy American" provisions - All iron, steel and manufactured goods used for a public building or public work must be produced in the United States, with limited exceptions which require a	Standard buy American requirements are included in contracts for all ARRA-funded projects. For applicable grants, program staff obtains letters or documentation from contractors stating or documenting that all applicable material covered by the Buy American provisions comply thereto.

ATTACHMENT A: RESPONSE TO SPECIFIC FINDINGS AND RECOMMENDATIONS ON ARRA AUDIT

waiver from the federal agency providing the funding.	
11. Prevailing wage rate requirements.	<p>City's Prevailing Wage Policy.</p> <p>ARRA legal wage requirements are embedded in contracts. Department of Contracting and Purchasing (DCP) monitors compliance with ARRA prevailing wage requirements per specific grant specifications.</p>
C. Relevant Accountability and Transparency Requirements of the Recovery Act for Federal Agencies	
12. All funds appropriated shall be established in separate funding (Treasury) accounts (i.e. as indicated in OMB guidance, there should be no commingling of Recovery Act and non-Recovery Act funds the ensure separate tracking and reporting on the use of Recovery Act funds).	The City Administrator issued a memo on 7/23/09 to all departments stating that they need to create separate funds to track ARRA receipts, spending and reimbursements/drawdowns in a central Citywide database to prevent comingling of ARRA and non-ARRA funds. The audit verified that separate funds have been established to track ARRA funds.
D. Relevant Governance and Risk Management Guidance from the Office of Management and Budget for Federal Agencies	
13. Establish a senior management council to oversee Recovery Act performance.	The City established an Interdepartmental Stimulus Planning Committee - made up of senior staff, City Administrator, Mayor's office, Council representative, budget, finance and personnel - to oversee citywide planning, monitoring, and fiscal management requirements. The Committee held 27 meetings between March 2009 and March 2010 with approximately an average of 1-2 meetings each month. After March 2010, the Committee's function shifted from coordination to monitoring and communications. The CAO assumed the responsibility of having one-on-one meetings with individual grant managers while the Committee members were notified of updates and concerns via listserv communications.
14. Mitigate instances of fraud, waste and abuse.	<p>The City has a number of policies on mitigating fraud, waste and abuse, including:</p> <ul style="list-style-type: none"> • AI-112 on Acceptance of Gifts, dated 10/10/75 • AI-1052 on City Administrator Acceptance and Appropriation of Restricted Grant Funds, Gifts and Donations of \$50,000 or Less, dated 2/14/08 • AI-595 on Employee Conflicts of Interest/Incompatible Activities, dated 7/1/07 • AI-140 on Electronic Media Policy, dated 4/12/07 • City Charter sections 907 (Nepotism) • City Charter 1201 (Incompatible Employment) • City Charter 1202 (Conflict in Office) • Municipal Code Chapter 2.40 (Prohibition on Nepotism in City Employment). • AI-596 on Citywide Code of Conduct, dated 10/20/10

ATTACHMENT A: RESPONSE TO SPECIFIC FINDINGS AND RECOMMENDATIONS ON ARRA AUDIT

	<p>The City Auditor's Office has established a Fraud Waste + Abuse Prevention Program for people to report fraud, waste and abuse anonymously.</p> <p>The Fraud, Waste + Abuse Hotline is displayed on the City's Recovery Act website</p>
E. Relevant Budget Guidance from Office Management and Budget for Federal Agencies	
15. Appropriate and allowable administrative cost allocations. In general, Recovery Act funds should not be used for telecommunications services or IT desktop support, or for incidental administrative costs (e.g. paper for copy machines).	The City prepares an annual Grant Cost Allocation Plan in accordance with Federal cost allocation rules. Some Federal agencies' funding notices for recipients have specific administrative cost percentage caps and limitations.
F. Relevant Grant Guidance from Office Management and Budget for Federal Agencies	
16. Consider weighting selection criteria to favor grant applicants with demonstrated ability to deliver programmatic results and accountability objectives in the Recovery Act.	Of the three RFP's reviewed, three demonstrated that selection criteria were weighted to favor applicants demonstrating prior performance and ability to deliver results.
17. Use internal control assessments to assess the risk of program waste, fraud and abuse in grants.	Single Audit [Note: The Single Audit requires that recipients maintain internal control over federally-funded programs that provide reasonable assurance that the recipient is managing federal awards in compliance with laws, regulations, and the provisions or contracts or grant agreements. Also, the GAO has recommended that OMB adjust the Single Audit process to provide for review of internal controls during 2009 over programs to receive Recovery Act funding, before significant expenditures in 2010.]
G. Relevant Contract Guidance of Office of Management and Budget for Federal Agencies	
18. Give special attention to contractor responsibility determinations in awarding contracts. ¹	Competitive procedures for public works and improvement projects are guided by the City's Municipal Code, the City's Standard Specifications for Public Works Construction and local, state and federal laws. The City requires that contractors carry a bond, which will protect the City in the event the contractor cannot meet their obligations in the contract.
19. Monitor contracts to ensure that performance, cost and schedule goals are met. Maintain strong internal controls over Recovery Act funds.	Project staff is responsible for monitoring contracts, reviewing contractor invoices, and ensuring project goals are met. For construction projects, project management staff utilizes City's in-house project tracking (PT)/monitoring software to update their project information monthly.
	DCP monitors construction contracts for prevailing wage compliance through Labor Compliance Program (LCP Tracker), a web-based automated certified payroll system, and site visits.
	The CAO makes quarterly status calls to funding agency program officers and holds quarterly check-in meeting with City program staff to monitor milestones and performance.

Finding 2: 6 of the 7 sampled grants had inaccurate ARRA reports, resulting in an understatement of \$361,000 in expenditures (5% of total expenditures) and \$329,000 in funds received (6% of total funds received). The CAO stated that updated information was provided in subsequent quarterly reports, but the audit did not verify whether subsequent reports reflected updated information.

Recommendation 1:

Improve the data quality review process at the City Administrator's Office and/or departmental level to ensure that submitted reports are complete, accurate and timely as required by the OMB. This process should include approaches such as those listed below:

- *Formalize the data quality review process by establishing a comprehensive policies and procedures manual that clearly defines roles, responsibilities, and procedures for the CAO and departmental staff over ARRA reporting.*
- *Incorporate OMB-recommended data quality review approaches, such as establishing control totals, identifying data outliers and anomalies, or implement viable alternatives to reach the same result.*
- *Formalize the process to review supporting documentation on a sample or periodic basis to verify reported information.*
- *Ensure appropriate and timely corrections for material omissions and/or significant reporting errors as required by the OMB.*

Inaccuracies in ARRA reporting were minor and corrected in subsequent reports, and the City has complied with all ARRA reporting requirements. There have been no material omissions and/or significant reporting errors as defined by OMB.

The City of Oakland has met all federal compliance reporting requirements and timely submitted all required reports on all ARRA awards. While the audit found some staff errors in reporting, most of these were minor discrepancies resulting from clerical errors and none constitute noncompliance, significant errors or material omissions from a federal perspective. In addition, several of the Auditor's specific recommendations are already in place and were implemented separate from this audit.

The federal government has established compliance standards for the ARRA reports, which includes timely submission of ARRA reports.¹ The City has submitted all ARRA grant reports on time for every reporting quarter.

Federal agencies are responsible for reviewing recipient data for significant errors and material omissions and requesting that recipients correct such errors and omissions as identified by the

¹ See: President's memorandum dated April 6, 2010, re: "Combating Noncompliance With Recovery Act Reporting Requirements," OMB memorandum M-10-17.

federal agency.² Federal guidance defines what constitutes significant errors and material omissions³—none of which apply to City reports. Federal agencies are also tasked by the OMB with encouraging recipients to make corrections that ensure accurate data reporting. The City has not received a request from any federal funding agency to make corrections to any ARRA report.

The following provides information on the internal controls already established and clarifies issues raised by the City Auditor.

4

1. **The City's Internal Controls Are Extensive and Adequate to Ensure Compliance with Federal Requirements.**

The City administration has adequate controls in place to ensure compliance with federal requirements. The City centralizes monitoring of ARRA activities through the City Administrator's Office, which has set up internal controls to ensure a high degree of **accountability** (through communications directly from the Mayor and City Administrator regarding the high degree of importance and prioritization attributed to ARRA efforts by the City; involvement of the Controller in creating internal controls; oversight of grants by the Deputy City Administrator; communications with department directors regarding reporting and other requirements; access to reports by the City Administrator's Office and other staff, etc.); **transparency** (access to reports by the City Administrator's Office and other staff; regular reports to public at Council meetings and on designated website); and **information and communications** (regular meetings, email communications, shared network folder with relevant materials for all designated grants management staff to provide information on federal requirements and City processes).

In addition, the City Administrator's office provides ongoing **monitoring of grant performance and reporting** by conducting quarterly milestone reviews of each grant to ensure project progress is on schedule. The City Administrator's Office always reviews quarterly reports for accuracy and completeness. The CAO's internal controls include: checking for federalreporting.gov and OMB updates and forwarding to staff (who will also have received applicable updates or guidance directly from the relevant funding agency); reminding staff of approaching internal and federal reporting deadlines; following up with staff to ensure timely submission of quarterly reports and confirming such timely submission; reviewing quarterly reports; tracking information about expenditures and jobs created for quarter-by-quarter

² According to the OMB, federal funding agencies "continuously evaluate recipient efforts to meet Section 1512 requirements as well as the requirements of OMB implementing guidance and any relevant Federal program regulations." OMB Memorandum M-09-21, Section 4.6 Federal agencies are responsible for identifying and remediating instances of recipient noncompliance with reporting requirements. Noncompliant recipients are notified of noncompliance and given an opportunity to remedy the noncompliance. See, e.g.: Department of Health & Human Services memorandum dated May 28, 2010, re: "Guidance for Noncompliance with Recipient Reporting Requirements Under Section 1512 of the American Recovery and Reinvestment Act."

³ According to the OMB, the data fields that are of major concern for significant errors are: federal amount of the award; number of jobs retained or created; federal award number; and recipient name. OMB M-10-08.

comparison of progress; obtaining review and verification of cumulative expenditures and job creation by staff and department heads; meeting quarterly with staff and managers to discuss grant performance and progress; communicating with funding agency program officers for feedback on reporting and grant performance; spot-checking publicly available reporting information on recovery.gov for accuracy and alignment with City's records, and providing periodic mid-quarter updates to Council when requested.

7

Additionally, the City has adequate controls over employee supervision and training to ensure staff fully understands reporting requirements and procedures. Information was centralized as well as flowed from city departments with their own federal agency relations and communications. There has also been continuity within the City administration of staff working on ARRA planning and development to current efforts on implementation, monitoring, and reporting responsibilities. From the passage of the federal stimulus legislation, the City Administrator and Mayor designated the current Deputy City Administrator as the City's point-person on stimulus efforts. Through the Mayor's relationship with the White House, there were substantial communications with top federal officials, including the office of the White House's stimulus czar and the Recovery Act manager at key federal agencies, which provided the City with a deep understanding of the federal intentions regarding the stimulus programs.

The City Administrator's office conducted multiple inter-departmental committee meetings to ensure that City grants management staff understood the new federal reporting requirements. The City set benchmarks for expeditious use of the funds, direct benefits to Oakland residents, and additional reporting requirements, as well as new expedited City processes. In addition, the City Administrator's office held regular, at least quarterly, meetings, with each grants team, to address specific issues with each grant. Part of the City's internal controls was ensuring that program staff was in direct communication with federal program officers and receiving appropriate federal information and trainings.

At the departmental level, reports are prepared by grants management staff, who use the City's financial management system, Oracle, to run reports and queries to gather and check information for ARRA reports. Data captured in Oracle is subject to the City's normal data quality internal controls, including periodic reconciliation and detailed review of supporting documentation by fiscal staff to process invoices. The reports are then reviewed by supervisors prior to submission to the City Administrator's Office. Departments managing grants with subrecipients merge the payment process with the reported data quality review process, ensuring that back-up documentation from subrecipients is reviewed to simultaneously substantiate both invoice payments and reported data. In addition, as part of federal grant management procedures, City staff are in regular communications with their federal program officers, attend required trainings and grants compliance webinars or seminars.

The City administration concurs with the City Auditor's recommendation to compile all established policies and procedures regarding ARRA reporting into one comprehensive manual that clearly defines roles, responsibilities, and procedures, including those regarding data quality review, subrecipient supporting documentation, and corrections of reported information.

2. **Expenditures and Funds Received are cumulative fields that are updated every quarter. Correcting insignificant errors in cumulative fields is neither a compliance requirement nor a responsible use of limited City staff resources.**

The two data fields of “expenditures” and “funds received” are cumulative, so the information is updated in every quarter. Payroll information for the quarter is typically unavailable by the quarterly reporting deadline, so reported expenditures often lag by one quarter. In one instance, City staff contacted the funding agency to request permission to update a cumulative field to reflect new information obtained after the reporting deadline, and the funding agency declined to permit the update, stating that the field should just be updated in the next report, as it is every quarter.

3

ARRA reporting requirements are onerous, and while the City has complied with all ARRA reporting requirements to date and will continue to do so, the City lacks the staff resources to update cumulative fields after the quarterly reporting deadline. Such a practice is not a federal requirement and would effectively require City staff to submit two reports each quarter. As described above, such corrections are not considered necessary or even desirable by the City’s federal funding agencies, and would not be an efficient use of limited City staff resources.

None of the reporting errors identified by the City Auditor constitute material omissions or significant errors as defined by OMB guidance.⁴ The City will continue to comply with OMB guidance by correcting any material omission or significant error discovered prior to or during the correction period.

3. **The City has already implemented data quality approaches such as those described by the OMB that are designed to identify and remediate significant errors and material omissions.**

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The OMB does not mandate a specific methodology for conducting data quality reviews and further states that the relevant party must “use its discretion in determining the optimal method for detecting and correcting material omissions or significant report errors.”⁵ The City has followed OMB guidance by developing and enacting the extensive internal controls described above, which allow the City administration to track the progress of reported expenditures, job creation and program deliverables under each stimulus grant on a quarterly basis. In fact, the City’s data quality tracking system goes beyond “establishing control totals” and “identifying data outliers and anomalies” by tracking expenditures, jobs created/retained and project progress in every quarter for every ARRA grant. For stimulus grants that fund multiple projects, the status of each project is reviewed from a project management perspective on a quarterly basis and such status is specifically discussed amongst the City Administrator’s office, grants management staff and departmental management. The City administration agrees that the data quality review approach employed by the City could be improved by also including the “Funds

⁴ OMB Memorandum M-10-08.

⁵ OMB Memorandum M-09-21.

Received” in addition to expenditures and jobs created/retained, and this practice has been incorporated into the City’s data quality review process.

Recommendation 2:

Consistently perform periodic reconciliation processes – at least quarterly – to ensure only ARRA-related allowed costs are completely and accurately captured in the assigned ARRA funds and billed to the funding agency on a timely basis. Where possible, automate the reconciliation process for improved efficiency and accuracy.

The City administration already performs periodic reconciliations, which are effective at ensuring that funds are appropriately booked and billed to the funding agency.

9

Out of 32 sub-awards tested by the City Auditor totaling over \$3.5 million, the Audit only identified two errors (amounting to .002% of the total sub-awards), only one of which had not yet been caught by City staff. The first error was a mis-booking of approximately \$4,000, which was (1) caught by staff prior to the audit as a result of effective internal controls, (2) subsequently remedied and (3) never billed to the funding agency, thus having no negative effect whatsoever. The second error, an invoice for \$1,600 that was mis-booked, but neither reported nor billed to the funding agency, had not been identified by staff at the time of the audit but would have been caught during the City’s periodic reconciliation process.

The only instance of mis-billing a funding agency for disallowed charges was an amount of \$288, or .07% of the total grant award, and had been caught by staff prior to the audit as a result of effective internal controls.

The errors identified by the City Auditor are minor and the result of human errors. While it is impossible for any system of internal controls to completely prevent human errors, the City’s internal controls proved effective at catching and remedying such errors in the rare instances they occurred.

The City administration has already improved the timeliness of corrections identified by periodic reconciliations.

In determining the appropriate frequency of performing periodic reconciliation, the City administration balances financial activities against limited staff resources. For large grants with a significant number of financial transactions, such as COPS, reconciliations are performed more frequently. Limited staff resources have resulted in increased delays between identification of errors by staff and the completion of corrections, and the City Administrator’s Office has worked with grants management staff and the Budget Office to ensure more timely corrections.

<p>Finding 3: Inconsistent reporting methodology employed for some grants led to a 5.8% average misstatement of jobs that ranged from over-reporting 0.89 jobs to under-reporting 4.71 jobs.</p>

Recommendation 3:

If alternative methodologies are used, clearly document it (including obtain written confirmation from funding agency prior to implementation), review supporting documentation, and certify the alternative methodology is reasonable and consistent with federal guidelines.

The conservative approach taken by City staff resulting in minor under-reporting of jobs is consistent with the OMB's focus on limiting the over-reporting of jobs.

3

The federal government's primary concern with jobs reporting is over-reporting. In December 2009, the OMB updated the prescribed jobs reporting methodology to limit over-reporting of stimulus-created jobs following criticism regarding other jurisdictions that reported job creation under the first quarter of the stimulus was "wildly exaggerated."⁶ News coverage of the over-reporting of job creation included examples such as a Texas recipient reporting the creation of 450 jobs under a \$26,000 roofing contract rather than the actual six jobs and a Massachusetts college in reporting the creation of 160 new jobs, when the actual number was "almost nothing."⁷ The City's minor errors primarily resulted in under-reporting. The one quarter in which job creation was over-reported was the first quarter of ARRA reporting and the discrepancy was less than 1 FTE job.

The City has and will continue to follow OMB and federal agency guidance regarding reporting requirements.

8

For the seven sampled grants, all seven grants followed OMB or funding agency guidance to calculate jobs with the exception of a single report immediately following a change in OMB guidance issued close to the reporting deadline. The result was a 1.1 FTE discrepancy in job reporting. Other minor job discrepancies were the result of human errors, not failure to follow federal guidance.

As the City Auditor states, the City followed the specific instructions of the federal funding agency in reporting expenditures for one grant. The City's practice of following guidance from federal funding agencies is consistent with best practices of federal grant management. Pursuant to Title 2 of the Code of Federal Regulations, federal funding agencies are responsible for implementing OMB guidance regarding grants and ensuring that the agency's components and subcomponents comply with the agency's implementation of the guidance.⁸ According to OMB guidance, federal agencies are both permitted and expected to issue and distribute to grantees their own clarifying guidance regarding recipient reporting under ARRA.⁹

10

The audit report faults the City administration with the perceived inconsistency between OMB guidance and the specific reporting instructions prescribed by a federal funding agency. It is not reasonable to attribute an inconsistency between two sources of federal reporting guidance to

⁶ OMB Memorandum M-10-08.

⁷ See, e.g., "Obama Stimulus Job Count Under New Criticism" (November 13, 2009), available at <http://abcnews.go.com/Business/scrutiny-obama-stimulus-jobs-mounting/story?id=9075257>, last visited May 17, 2011.

⁸ 2 C.F.R., Subtitle A, Part 1, Subpart C, §1.305.

⁹ OMB Memorandum M-10-14, OMB Memorandum 10-09-21

some deficiency on the part of the City. City staff followed the specific instructions issued by a federal funding agency, which confirmed the issuance of such instructions in writing. City administration agrees that a best practice is to obtain such written instructions *prior* to implementation, but the suggestion that the City as a recipient of a federal grant should challenge a federal agency's reasonable interpretation of general OMB guidance does not align with federal grant-making procedures.

8

The single instance of not following federal guidance to calculate jobs was an isolated situation resulting from a dramatic change in OMB jobs guidance issued shortly before the December holidays.

In one quarter on one report, staff was unable to use the new OMB jobs formula because the OMB guidance prescribing the new formula was issued a few days before the December holidays and required the development of a new, time-intensive process to calculate jobs. As widely reported in the media, the new formula was near-impossible to comply with for many stimulus recipients because the guidance was poorly noticed, dramatically different from the first quarter's jobs formula, and released shortly before the winter holidays, which encompassed the end of the quarter.¹⁰ Use of the new formula would have resulted in a failure to timely report, which is considered noncompliance by the federal government. To remain in compliance with the requirement to timely report, staff used an alternative formula that most closely approximated the FTE job creation for that quarter. As stated in the audit report, the jobs calculation methodology for following reporting quarters followed OMB guidance.

Finding 4: The City Administration's existing process and procedures for subrecipient monitoring were not always effective in ensuring the accuracy and timeliness of subrecipients' jobs data.

Recommendation 4:

Implement best practices to ensure monitoring of reporting by subrecipients:

- *Provide training to subrecipients regarding ARRA reporting requirements upon project kickoff.*
- *Review the subrecipients job calculation methodology for accuracy and appropriateness.*
- *Review subrecipient supporting documentation on a periodic basis.*

The City Auditor's recommendations regarding best practices have been fully implemented since the quarter ending September 30, 2010.

The practice of providing training to subrecipients regarding ARRA reporting requirements was fully implemented at the start of ARRA programs. The practice of reviewing subrecipient job

¹⁰ See, e.g.: "ARRA Reporting Change Hits 'Raw Nerve'" (January 13, 2013), available at www.thompson.com/public/newsbrief.jsp?id=2578, last visited May 17, 2011.

calculations and supporting documentation was partially implemented during the first year of ARRA reporting, and has been fully implemented starting for the quarter ending September 30, 2010.

The City built upon existing City processes for subrecipient monitoring to implement more intensive training and monitoring. Prior to reporting deadlines, department management held trainings with ARRA-funded subrecipients to communicate ARRA reporting requirements. The trainings covered ARRA reporting requirements, including background and purpose, the consequences of noncompliance, data required, timeline, and procedures. The City administration asked and regularly reminded subrecipients to report jobs created/retained to the City no later than the 5th after end of quarter. Subrecipient data is reviewed by the fiscal manager and confirmed or challenged whenever such data appears inconsistent with expectations.

For the first four quarters of Recovery Act reporting, the City administration reviewed supporting documentation as necessary where reported data seemed unreasonable or inconsistent with City expectations. Starting for the quarter ending September 30, 2010, the City requires all subrecipients to submit supporting documentation substantiating job hours for both the subrecipient and the subrecipient's vendors. City procedures now integrate subrecipient payment processing with Recovery Act reporting so department management **always**, not just periodically, reviews invoice supporting documents in order to calculate subrecipient job creation/retention.

Finding 5: For the Community Oriented Policing Services (COPS) grant, drawdowns were not always completed on a timely basis, the labor-intensive accounting process was inefficient, and inconsistent reporting methodology was used between reporting quarters.

Recommendation 5:

Review the frequency of drawdowns and grant reimbursements for the City's seven direct ARRA grants. This review should determine the appropriate frequency of drawdowns and reimbursements that will maximize the City's cashflow position.

The City administration has already reviewed the frequency of drawdowns and determined that more frequent drawdowns have no significant effect on the City's cashflow position.

5

More frequent drawdowns place an increased burden on limited staff resources, make almost no difference in earned interest due to historically low interest rates,¹¹ and are often discouraged by federal funding agencies who must expend their own limited staff resources to process the

¹¹According to the City Controller, quarterly rather than monthly drawdowns on the COPS award resulted in a loss of approximately \$1,300 over a two year period.

drawdowns. The City Administrator's Office has already directed departments to drawdown on at least a quarterly basis to keep the City's stimulus accounts current and consistent with federal reporting expectations.

Recommendation 6:

Modify the COPS grant accounting process to ensure only allowed costs related to the ARRA project are captured in the assigned ARRA fund and to achieve greater staff time efficiency. Where possible, the City Administration should automate the process for improved efficiency and accuracy.

The COPS grant accounting process was completely effective at accurately tracking ARRA costs and the City has made modifications to decrease the staff time involved in the accounting process, separate from this audit.

5

The COPS grant accounting process was highly effective in tracking ARRA funds. The audit identified one instance of a disallowed overhead charge of \$100 that was booked to the COPS fund. This \$100 charge was never billed to the COPS grant and it was caught by the City's internal controls prior to the audit and since corrected. As a contextual reminder, the City's COPS award is for \$19.747 million.

Upon the receipt of the COPS grant, the City Administrator's office, Oakland Police Department fiscal staff, and the Controller developed an initial accounting procedure designed to fulfill the documentation requirements of the auditing process. Because of concerns regarding the staff time involved in maintaining this accounting procedure, it was decided to re-assess the procedure at a later point. While the accounting procedure initially in place was effective at accurately tracking ARRA funds, it also proved to be time-consuming. Pursuant to ongoing discussions amongst the CAO, OPD fiscal staff and the Controller, and separate from the findings of the City Auditor's office, modifications were made to improve the efficiency of the COPS accounting procedure.

Recommendation 7:

Ensure the COPS grant reporting methodology is consistent with the accrual basis and expenditures are reported when incurred. The methodology employed by City Administration for COPS reporting should be consistent to enable clear tracking of the City's activities across reporting periods.

As stated in the Audit Report, the COPS grant reporting methodology used by the City in every quarter met federal compliance requirements.

5

Like all ARRA quarterly reports, the City's COPS reports are reviewed by the funding agency, which has not identified any reporting issues nor provided any negative feedback regarding the City's reports. The City Administration applied consistent methodology for the COPS reporting, except for one quarter, when staffing conditions impacted the reporting. Staff chose to timely

submit a quarterly report utilizing federally approved methodology rather than risk being in noncompliance with federal requirements.

Finding 6: Communication and posting of federal whistleblower protections and the City's Fraud, Waste + Abuse Program should be implemented for all grants to achieve best practices of providing the highest level of protection for non-federal employees.

Recommendation 8:

Provide training to subrecipients before disbursing funds regarding federal whistleblower protections and the City's Fraud, Waste + Abuse hotline program. Ensure posting of federal protections and the City's hotline program at all ARRA-funded project sites to achieve best practices.

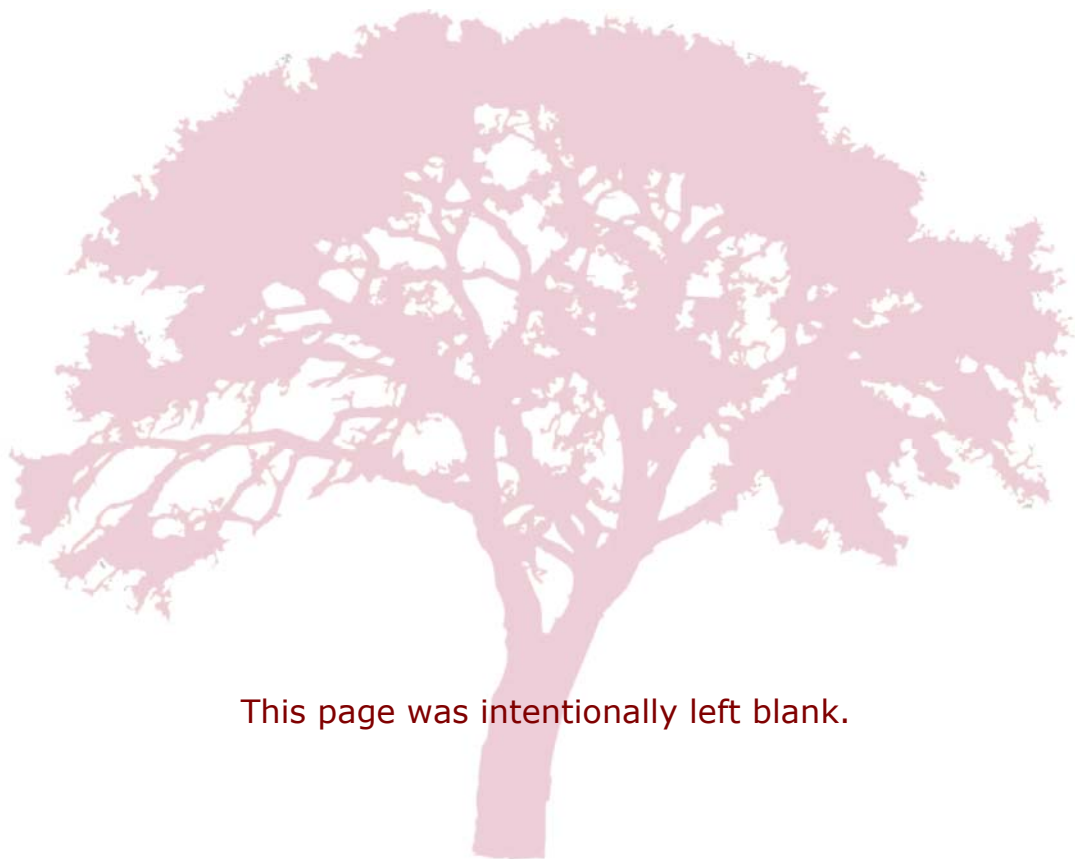
The City's internal controls regarding federal whistleblower protection requirements were effective.

11

The City complied with federal guidelines regarding whistleblower protections by including the posting requirement in contracts with subrecipients, reminding subrecipients to comply with the requirement, conducting site monitoring visits that included checking for the required posting, and following up with subs if necessary to ensure that the protections were posted after the site visit.

As stated in the Audit Report, two of the three sites visited by the City Auditor's office are not required to post whistleblower protection requirements. The third site was reminded of the requirement to post protections, and the City followed up by checking for the posting during a site monitoring visit, notifying the subgrantee that the required posting was not observed and following up until the protections were posted. The City Auditor's surprise visit happened immediately prior to the previously scheduled site visit by department staff, so the Auditor observed the absence of posted protections hours before the City staff made the same observation and followed up to ensure proper posting of the protections.

While not a federal requirement, the City administration agrees with the City Auditor's recommendation to post information regarding federal whistleblower protections and the City's Fraud, Waste + Abuse Program at all grant sites.



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RESPONSE & SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

We provided a draft audit report to the City Administration (Administration) for review and comment in compliance with Generally Accepted Government Auditing Standards (GAGAS). The Administration's comments and details regarding the actions it has taken or plans to implement in response to the audit's recommendations have been included in the previous section of the report. Their comments comprise responses from the City Administrator's Office (CAO).

This section of the report provides clarification on the status of the report recommendations, including the follow-up actions needed to be completed to close the report. The reference numbers in the left margin below correspond directly to the reference numbers in the Administration's response.

Eleven areas highlighted in the Administration's response require clarification. The areas needing further clarification are:

- (1) Implemented Federal ARRA Requirements but Controls not Fully Effective
- (2) Audit Scope and Findings
- (3) Relevance of Reporting Errors
- (4) Improvements Needed in Internal Controls
- (5) Improving COPS Grant Administration
- (6) Recommendation Implementation

- (7) Understanding Reporting Requirements
- (8) Multiple Errors in Jobs Reporting Across Grants
- (9) Sampling
- (10) Obtain Written Confirmation Prior to Implementation
- (11) Whistleblower Protections

The remaining balance of the Office of the City Auditor's (Office) comments focuses on the disposition of each recommendation.

1 Implemented Federal ARRA Requirements but Controls Not Fully Effective

In its response, the Administration stated that the City has "met Federal compliance requirements and internal controls are effectively in place" for the management of the ARRA grants. However, while the Office acknowledges the Administration has implemented 19 of the 19 ARRA internal control compliance requirements, not all of the internal controls operated effectively. The results of the audit illustrated the following flaws in the internal control system:

- Inaccurate reporting: six of the seven sampled grants had inaccurate ARRA reports, resulting in \$361,000 misstated expenditures, \$329,000 misstated fund received and 5.8% misstated jobs
- Inaccurate tracking: not all sampled transactions were processed correctly, including disallowed overhead costs not removed timely
- Ineffective subrecipient monitoring: one subrecipient failed to report jobs data to meet ARRA requirement for two quarters in a row. Training to subrecipients occurred only days before the ARRA reporting deadline.

Internal controls should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

The audit found internal control deficiencies in two of the three categories.

	<p>In conclusion, the intent of the audit is to provide the Administration with recommendations to strengthen its internal controls over ARRA funds. The audit does not diminish the Administration's efforts in establishing these controls; however, it makes recommendations to address the weaknesses in the internal control system.</p>
Audit Scope and Findings	<p>The objectives of the audit, as communicated during the ARRA audit entrance conference on Monday, August 2, 2010, were to:</p> <ul style="list-style-type: none"> • Assess whether or not the Administration's internal controls were in compliance with the funding and reporting requirements as stipulated by ARRA and the White House Office of Management and Budget (OMB) guidelines. • Report on the status of implementation of the Administration's internal controls over ARRA funding. <p>The audit sampled \$36 million in direct grants with reported activities because these grants are received by the City directly from Federal agencies, where the City is the prime recipient. Per OMB, prime recipients are required to submit quarterly ARRA reports to the Federal government, and have the principal responsibility for the information submitted.</p> <p>Therefore, the audit reviewed the City's ARRA internal controls, including controls over quarterly ARRA reports for the City's direct grants. The audit identified the following internal control weaknesses:</p> <ul style="list-style-type: none"> • Inaccurate reporting: 6 of the 7 sampled grants had inaccurate ARRA reports, resulting in \$361,000 misstated expenditures, \$329,000 misstated fund received and 5.8% misstated jobs • Inaccurate tracking: not all sampled transactions were processed correctly, including disallowed overhead costs not removed timely • Ineffective subrecipient monitoring: one subrecipient failed to report jobs data to meet ARRA requirement for two quarters in a row. Training to subrecipients occurred only days before the reporting deadline. <p>These deficiencies identified in the audit indicated that the controls the City relied upon in managing the ARRA funds were not fully effective. When 6 of the 7 sampled grants had inaccurate ARRA reports for the one sampled reporting quarter, the Administration should maximize the opportunity to re-examine its internal controls over ARRA funds and not characterize the findings "minor," as stated in its response.</p>

Relevance of Reporting Errors

In its response, the Administration relies on OMB citations that do not support its position. OMB Memorandum M-9-21 Section 4.2 states that “prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted.... Prime recipients should perform data quality reviews for material omissions and/or significant errors, making appropriate and timely corrections to prime recipient data and working with the designated subrecipient to address any data quality issues.” Section 4.4 further states that “recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data.”

In its response, the Administration stated “such a practice (i.e. updating cumulative fields after the quarterly reporting deadline) is not a Federal requirement.... Such corrections are not considered necessary or desirable by the City’s Federal funding agencies.” However, the Administration’s statement is not factual as the OMB guidance requires recipients to perform data quality reviews and to make appropriate and timely corrections. The audit found that CAO’s data quality review process was not fully effective to ensure reporting accuracy and completeness. This weakness resulted in errors not being corrected before report submission or during the post-submission review or continuous correction period, as shown in Exhibit 5 in the report.

In its response, the Administration also stated that “inaccurate reporting in the fields of expenditures and funds received are not significant since these are both quarterly and cumulative fields.” The Administration’s statement is not factual because the OMB does not exclude the two fields (i.e. expenditures and funds received) from its definition of significant errors and material omissions.

The OMB guidance M-10-34 defines material as:

“if its omission or misstatement in the prior period report could mislead the public on how the Recovery Act funding is being expended.”

The audit found omission of the funds received field for two of the seven sampled grants for the 6/30/10 quarterly report. When the City omitted funds received totaling approximately \$362,000 (see Appendix 3), such omissions could result in “significant risk that the public is not fully informed as to the status of a Recovery Act project,” as defined by OMB Memorandum M-09-21 Section 4.1.

OMB guidance M-09-21 defines significant reporting errors as:

“Those instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question... Significant reporting errors may be intentional or accidental.”

When the Administration misstated its expenditures by approximately \$361,000 (see Appendix 3), such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.

In conclusion, the quarterly reporting requirement established by the Recovery Act is designed to reflect the Act’s accountability and transparency objectives by making publicly available how the Administration managed ARRA funds. As a result of the audit identifying reporting errors, the Administration should improve its ARRA reporting and review processes to ensure the accuracy of its ARRA reports.

4

Improvements Needed in Internal Controls

In its response, the Administration stated that “the City’s internal controls are extensive and adequate to ensure compliance with Federal requirements” and “none of the recommendations are Federal compliance requirements.” The Administration’s statement is not accurate because the audit found the City’s internal controls were not fully effective to meet the Federal compliance requirements.

First, the audit found:

- Inaccurate reporting indicated weaknesses in the Administration’s ARRA reporting and data quality review process.
- Inaccurate tracking revealed that fiscal controls were not fully effectively to ensure accurate ARRA recordkeeping and billing.
- Inaccurate subrecipient jobs information indicated ineffective subrecipient monitoring.

These controls were implemented by the City to meet Federal compliance requirements but were not operating effectively as shown by the audit findings.

Additionally, audit findings were based on sample testing. As previously stated, the audit sampled one quarterly report for the seven direct grants. Given the audit’s findings, there could be errors with other quarterly reports and errors with the City’s indirect grants not sampled in the audit.

Furthermore, the errors previously identified by City staff were not corrected in a timely manner. In one instance, the error was not corrected for 15 months after initial disallowed overhead costs were recorded and billed to the funding agency. This example further illustrates the City’s ineffective control procedures at a transactional level.

In its response, the Administration stated that the \$1,600 invoice error that was identified by the audit would have been caught during the City’s reconciliation process. The Administration’s statement was not accurate. PWA Management acknowledged that:

“Our reconciliation review did not identify that the \$1,626.75 vendor invoice that was not drawn down from the Department of Energy, the funding agency... Since the audit, the reconciliation review process is modified to confirm that all EECBG invoices are drawn down from the Department of Energy on time.”

Given the audit’s objectives, the assessment of the Administration’s internal controls concluded the City’s internal controls over ARRA funds were not fully effective to meet Federal compliance requirements and the Administration should improve its internal controls to achieve full effectiveness.

5

Improving COPS Grant Administration

The COPS grant award funds 41 police officers for three years and constituted the largest ARRA COPS grant award given in the nation for that grant year. Given the size and visibility of the grant, the audit scrutinized internal controls over the COPS grant to determine whether or not Oakland Police Department (OPD) Management’s establishment and implementation of systems to comply with ARRA and OMB requirements were efficient, effective and reliable and properly safeguarded assets.

	<p>The Office acknowledges the Administration understands the importance of the COPS award and the audit found three areas for improvement in the administration of the COPS grant:</p> <ul style="list-style-type: none"> • More timely drawdowns: the City took one year to shift from quarterly to monthly drawdowns, which resulted in the City receiving reimbursement of its upfront \$1.2 to \$1.4 million expenditures at a later date. • Redesign of inefficient accounting process: the City relied on manual reconciliation to separate its disallowed costs from allowed costs. • Commitment to consistency in reporting: The City employed inconsistent reporting methodology that understated the COPS financials by \$1.2 million. <p>First, the audit found that COPS drawdowns were completed on a quarterly basis. As a result, each COPS drawdown of over \$1 million created significant fluctuation in the City's cash position. Given the City's acknowledged cashflow issues that were central to the City's budget planning process over the last several fiscal years, drawdowns should be conducted on a more timely basis across all ARRA grants.</p> <p>Second, the COPS grant disallows overhead costs to be charged to the Federal agency. The City needs to establish a system that can effectively and efficiently address allowed and disallowed costs in the COPS grant. If the City continues to rely on a manual process that is "labor intensive and prone to errors" as stated by the OPD Management, it increases the risk of errors and prevents the Administration to effectively monitor its COPS grant.</p> <p>Third, inconsistent reporting methodology used by the COPS grant resulted in \$1.2 million discrepancy between actual and reported expenditures – the City expended \$5.1 million but only reported \$3.9 million. Significant discrepancy limits the public's ability to effectively compare COPS financials reported by the Administration.</p> <p>In conclusion, the Administration should re-examine its overall COPS grant management process and improve on identified deficiencies to ensure the City has the ability to effectively manage large ARRA grants such as the COPS grant.</p>
<p>Recommendation Implementation</p>	<p>In its response, the Administration stated that it already implemented five of the eight recommendations identified in the audit.</p> <p>The Office acknowledges the Administration's responsiveness and proactive measures in implementing all of the audit's specific recommendations. However, this statement is not accurate as no evidence was provided during the audit supporting that recommendations were implemented and corrective action was taken. The following section of this report describes the steps required by the Administration to close the report's recommendations.</p>

7

Understanding Reporting Requirements

In its response, the Administration stated that the City has adequate controls to ensure staff fully understands reporting requirements and procedures. However, the audit found that staff did not understand reporting requirements as identified by inaccurate reporting in two grants of the seven sampled grants. For the Brownfields Assessment grant, staff did not report jobs and financials accurately. For the Early Head Start Formula grant, staff did not use the prescribed jobs formula instructed by the OMB to calculate jobs.

OMB issues revised guidance which requires that staff track changing standards and/or requirements. This involves both providing formal training and appropriate supervision and review by the CAO. The reporting errors identified by the audit indicate improvements should be made to ensure staff's understanding of reporting criteria that is also clearly documented if it differs from OMB guidance.

8

Multiple Errors in Job Reporting Across Grants

In its response, the Administration stated "the single instance of not following Federal guidance to calculate jobs was an isolated situation." The Administration's statement is not accurate as the audit findings show errors in more than one grant and across multiple reporting periods.

The audit selected the 7 direct grants with reported activities as a sample and found 2 of the 7 sampled grants did not use OMB prescribed formula to calculate jobs. For the Brownfields Assessment grant, staff incorrectly included non-labor and disallowed costs in the jobs calculation instead of using only allowed labor costs to calculate jobs for three quarters. For the Early Head Start Formula grant, staff did not use the prescribed formula for the first two reporting quarters.

9

Sampling

The audit sampled one quarterly report for the \$36 million in direct grants with reported activities, as previously illustrated in Exhibit 1. Given the audit's findings, there could be errors with other quarterly reports and errors with the City's indirect grants not sampled in the audit. The recommendations are designed to address control weaknesses to prevent such errors from occurring.

The audit sampled 100% of the City's seven direct grants to review ARRA reports for the June, 30, 2010 quarter. The audit chose to sample the City's direct grants because the City, as the prime recipient, is required to submit quarterly ARRA reports to the Federal government and has the principal responsibility for the quality of the information submitted. Based on the testing results from the June 2010 quarterly reports, the audit conducted a follow-up review with the September 2010 quarterly reports for two grants. Reporting errors were identified in both the June and September 2010 quarterly reports.

In its response, the Administration quantified the impact of the findings by comparing the finding amount to the total award amount. However, for two of the seven direct grants, the audit tested 32 subrecipient transactions totaling approximately \$709,000 in actual expenditures as of June 2010 (see Exhibit 6), whereas the Administration extrapolated the sample amount over the entire grant amount of \$3.5 million. As previously stated, the audit found that out of a total of 32 sub-award expenditures tested, two were not processed properly.

10

Obtain Written Confirmation Prior to Implementation

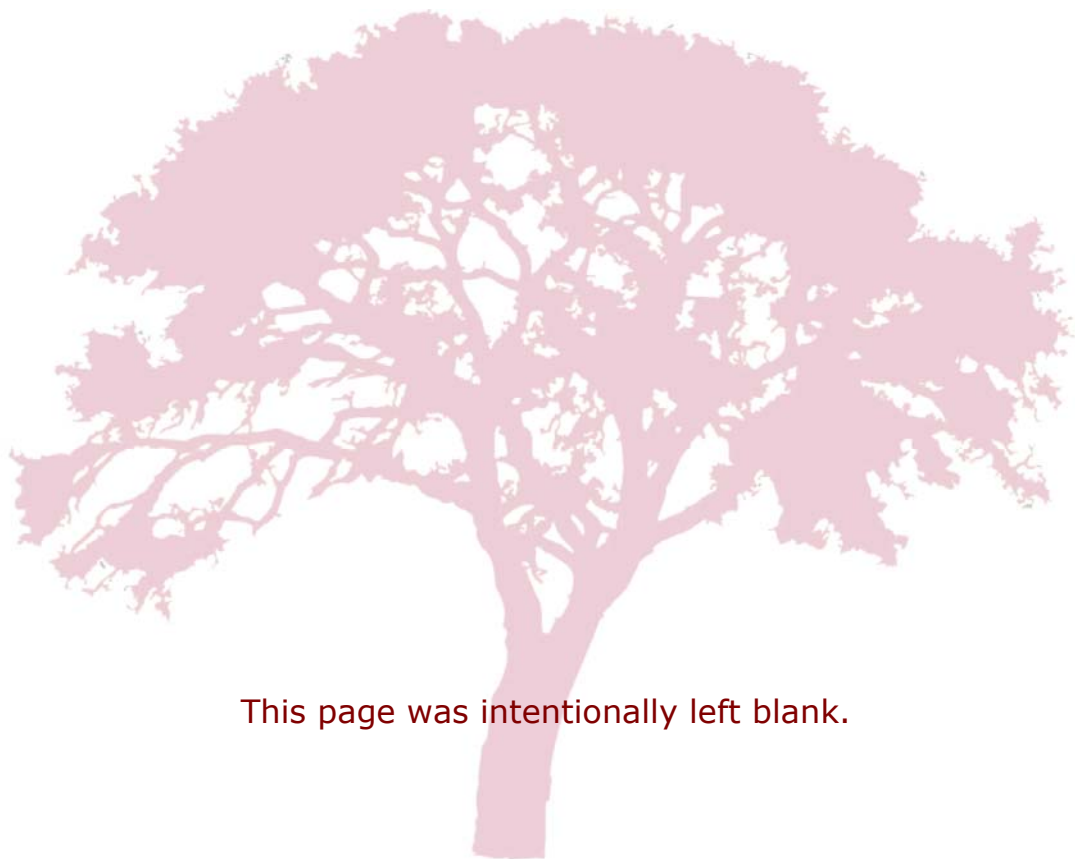
In its response, the Administration stated that the audit suggested the City as a recipient of a Federal grant should challenge a Federal agency's interpretation of OMB guidance. However, the audit recommendation did not suggest or imply such a statement. As previously stated, the staff was relying on the funding agency's verbal guidance that was not consistent with OMB's reporting requirements. It is important to receive written confirmation of any alternative methodologies from the Federal agency prior to implementation.

11

Whistleblower Protections

Whistleblower protections are a key component to ARRA accountability requirements. The audit procedures involved (a) determining whether the Administration has established a whistleblower hotline program, (b) reviewing hotline program policies, procedures and recent hotline reports, and (c) conducting ARRA subrecipient site visits to determine posting of hotline posters. At our surprise site visits, the audit found no whistleblower protections posters at all three of the sampled subrecipients sites. Upon further analysis, the Office understands that only one of the sampled subrecipients was required to have a poster.

However, given its importance, the Administration agreed to do more than meet minimum legal requirements to safeguard ARRA funds from fraud, waste and abuse by implementing best practices going forward for all ARRA-funded project sites.



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SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT

The "Analysis and Summary of Actions Necessary to Close the Report" provides our analysis of the City Administrator's Office's comments and proposed actions required to close the report. The status of each of the 8 recommendations at the time of publication for this report is resolved. The Administration agrees with the audit report findings and has stated it either already implemented or agreed to implement 100% of the recommendations that were provided in the report.

Recommendation #1

Resolved – The Administration agrees with this recommendation and stated that data quality review could be improved by (a) establishing a comprehensive policies and procedures manual and (b) including additional reporting fields into its current data quality review approach.

To close this recommendation, the City Administrator's Office should provide a copy of the comprehensive policies and procedures manual and the additional data quality review approaches. The City Administrator's Office should provide this information to the Office of the City Auditor by August 31, 2011.

Recommendation #2

Resolved – The Administration agrees with this recommendation and stated that the Administration already performs periodic reconciliations and has already improved the timeliness of corrections identified by periodic reconciliations. For large grants such as COPS, reconciliations are performed more frequently.

To close this recommendation, the City Administrator's Office should provide documentation to show that (a) the frequency of periodic reconciliation is at an appropriate level, at least quarterly, and (b) the City Administrator's Office has worked with staff to ensure more timely corrections. The City Administrator's Office should provide this information to the Office of the City Auditor by August 31, 2011.

Resolved status indicates agreement on the recommendation and the proposed corrective action. Implementation of the proposed corrective action forthcoming from the auditee.

Recommendation #3	<p>Resolved – The Administration agrees with this recommendation to obtain funding agency’s written instructions prior to implementation.</p> <p>To close this recommendation the City Administrator’s Office should reflect this in the comprehensive ARRA policies and procedures manual. The City Administrator’s Office should provide this information to the Office of the City Auditor by August 31, 2011.</p>
Recommendation #4	<p>Resolved – The Administration agrees with this recommendation and stated that this recommendation has been implemented since the quarter ending September 30, 2010. In its response, the Administration stated the improved procedures now integrate subrecipient payment process with ARRA reporting so department management always, not just periodically, reviews invoice supporting documents in order to calculate subrecipient job figures. The Office acknowledges the Administration’s diligence and proactive measures in implementing subrecipient monitoring best practices.</p> <p>To close this recommendation the City Administrator’s Office should provide documentation that the recommended subrecipient monitoring best practices have been fully implemented since the quarter ending September 30, 2010. The City Administrator’s Office should provide this information to the Office of the City Auditor by August 31, 2011.</p>
Recommendation #5	<p>Resolved – The Administration agrees with this recommendation and stated that the Administration has reviewed the frequency of drawdowns and the CAO has directed departments to drawdown on at least a quarterly basis.</p> <p>To close this recommendation the City Administrator’s Office should provide documentation to show that the review of drawdowns has occurred to determine an appropriate frequency in order to maximize the City’s cashflow position. The City Administrator’s Office should provide this information to the Office of the City Auditor by August 31, 2011.</p>

Recommendation #6	<p>Resolved – The Administration agrees with this recommendation and stated that the Administration has made modifications to decrease the staff time involved in the COPS accounting process during the audit.</p> <p>To close this recommendation the City Administrator’s Office should provide documentation that the COPS accounting process has been modified to improve efficiency and accuracy. The City Administrator’s Office should provide this information to the Office of the City Auditor by August 31, 2011.</p>
Recommendation #7	<p>Resolved – The Administration agrees with this recommendation to apply consistent reporting methodology across quarters.</p> <p>To close this recommendation the City Administrator’s Office should reflect consistent reporting methodology employed across reporting periods in the comprehensive ARRA policies and procedures manual. The City Administrator’s Office should provide this information to the Office of the City Auditor by August 31, 2011.</p>
Recommendation #8	<p>Resolved – The Administration agrees with this recommendation to post information regarding Federal whistleblower protections and the City’s Fraud, Waste + Abuse Program at all grant sites.</p> <p>To close this recommendation, the City Administrator’s Office should provide evidence that Federal whistleblower protections and the City’s Fraud, Waste + Abuse Program information have been posted at all ARRA grant sites. The City Administrator’s Office should provide this information to the Office of the City Auditor by August 31, 2011.</p>