



# **OFFICE OF INTERNAL AUDIT**

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## **REPORT TO THE BOARD OF SUPERVISORS**

### **GRANTS MANAGEMENT AUDIT**

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## **Executive Summary**

The Pinal County Office of Internal Audit has completed an audit of the Pinal County Grants Management process. The audit was included in the FY 2012-2013 Internal Audit Plan approved by the Pinal County Board of Supervisors.

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

To assess and evaluate Pinal County departments' procedures for administering grants, to ensure timely program development and implementation of all grant requirements.

Specific audit objectives were to:

1. Assess and evaluate departments' procedures in administering grants (financial set-up, reporting, monitoring compliance, etc.)
2. Assess the level of coordination between departments and key grant employees.
3. Assess whether the grant monitoring process is adequate to ensure compliance with all federal, state and local grant regulations.
4. Identify and research best practices in county grant management and benchmark to current county processes.

## **Overall Conclusion**

Our overall conclusion is, due to the decentralization of grant management, department grant management has been inconsistent, and there has been a lack of adequate oversight of department compliance with required grant accounting, reporting and sub-recipient monitoring. Additionally, a decentralized grant process inherently creates a need for duplicate grant functions in multiple departments; such as dedicated staff to identify grant opportunities and perform accounting and reporting duties.

Some departments, usually larger departments, have the personnel and resources needed to identify, apply for and manage grants; however, many other departments do not. As a result, departments that do not have the expertise or resources may not pursue significant grant opportunities.

Grant management may also depend on the type of grant awarded. For example, a grant may be used to purchase a specific piece of equipment and the grant accounting and reporting requirements are relatively straightforward. Other grants, involving subcontracts for numerous services over a period of years, require complex monitoring, reporting and accounting.

During the course of our audit we identified the following areas where opportunities for improved grant management may exist:

- A.** Decentralized monitoring of grant compliance
- B.** Alternative Fund Pre-Proposal Approval Form

- C. Centralized grant identification resource
- D. Tribal gaming revenue sharing grant

Our recommendations for improvement include:

1. *Internal Audit recommends Grant Policy 8.20 be revised to include requirements and assignment of responsibility for centralized grant compliance monitoring, to ensure optimum financial and administrative grant performance for all departments and special districts.*
2. *Internal Audit recommends the “Pre-Proposal Approval Form” be revised to include a signature line and area on the form to request an approval process exemption from the County Manager.*
3. *Internal Audit recommends the Pinal County Grants Coordinator consider establishing a grant website, or other resource, to assist departments with identifying beneficial grant opportunities and disseminate timely grant information.*
4. *Internal Audit recommends the Pinal County Grants Coordinator ensure County departments are aware of the availability of Tribal Gaming Funds, and the process for application submission and approval is clearly communicated to County staff.*

We would like to thank the management and staff of Pinal County departments, involved in county grant management, for their assistance and cooperation during the course of this audit. The following report provides additional details of our audit observations and recommendations.

*Lori Brooks*

Internal Audit Officer

## **Audit Scope and Methodology**

The scope of our audit was to determine if Pinal County departments have established adequate internal controls over grant management to ensure the efficiency and effectiveness of the grant process.

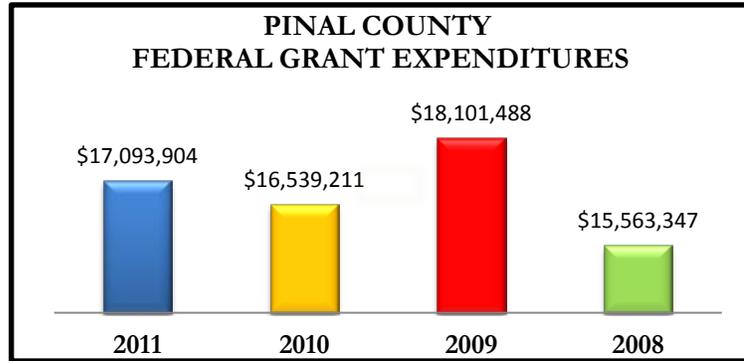
The following methodologies were used to complete our examination:

- Reviewed relevant Pinal County policies and procedures (Grant policy 8.20)
- Conducted an audit survey of selected County departments receiving grants
- Interviewed select department staff with grant responsibilities
- Conducted test work on a random sample of county grants
- Reviewed historical grant information provided by departments
- Reviewed request for proposal information for gaming grants
- Reviewed contract for certain grant services (Central Arizona Association of Governments)

**Background Section**

On September 7, 2011, the Pinal County Board of Supervisors (BOS) adopted an **Alternative Funds/Grants** policy (Policy 8.20) for the county establishing basic grant guidelines. The policy also formalized a decentralized county grant management process. In a decentralized grant management environment, every department interested in receiving a grant must assign grant duties to their own department staff. Grant duties may include identifying grant opportunities, applying for available grants, monitoring compliance with grant regulations and reporting all financial transactions for grants received.

Pinal County departments receive grants and alternative funds from various sources. Internal Audit attempted to obtain a list of all current county grants; but, due to grant decentralization, no department is responsible to maintain this information. However, the federal government requires counties to compile an annual Schedule of



Federal Awards (SEFA) for a public Consolidated Annual Financial Report (CAFR), when a county annually receives more than \$500,000 in federal grant money. Pinal County has received about \$16 million in federal grant money every year since 2008, and the Pinal County Finance department has maintained this federal grant information. We prepared the following table, showing the amount of federal awards reported for each Arizona County in fiscal year 2011.<sup>1</sup>

COUNTY	2011 FEDERAL AWARDS
MARICOPA	\$156,878,878
<b>PINAL</b>	<b>\$17,093,904</b>
MOHAVE	\$11,992,250
YAVAPAI	\$13,110,134
APACHE	\$ 5,021,500
PIMA	\$71,176,765
NAVAJO	\$8,233,195
COCHISE	\$12,410,843
COCONINO	\$20,032,413
YUMA	\$34,696,027
LAPAZ	\$ 3,666,848
GRAHAM	\$6,758,843
SANTA CRUZ	\$9,980,028
GILA	\$16,130,460
GREENLEE	\$ 3,700,422

<sup>1</sup> Federal Single Audits for July 1, 2010 to June 30, 2011. Apache, Greenlee and LaPaz County information is from 2009 or 2010 Single Audits.

## AUDIT FINDINGS AND RECOMMENDATIONS

### A. DECENTRALIZED MONITORING OF GRANT COMPLIANCE

Grant policy 2.80 (C6) requires departments to “...closely monitor their expenditures and claim reimbursement quarterly...” Internal Audit reviewed county grant fund balances and found the fund balance for an Energy Efficiency and Conservation Block Grant (EECBG), received by Pinal County in 2009, was (-\$100,046.52), and no reimbursement funds for the grant had been claimed for nine months<sup>2</sup>. We also found:

1. The fund was regularly incurring interest charges for line-of-credit (LOC) funds used to cover over drafts in the account. Interest charged for using LOC funds is not reimbursable using grant funds and must be paid by the general fund.
2. There were a number of unprocessed requests for payment for grant expenses in the grant file.
3. The grant was an American Reinvestment and Recovery Act (ARRA) grant. ARRA grants require additional federal quarterly and financial reporting. Pinal County hired the Central Arizona Association of Counties (CAAG) to file these reports. We reviewed federal filings for the grant online and determined quarterly reports had not been filed accurately or in a timely manner.
4. Internal Audit also determined the County had overpaid the CAAG contract by \$5,000.

Internal Audit discussed the above issues with appropriate county personnel, and all issues have now been corrected.

Also, the FY2011 federal grant Single Audit<sup>3</sup> report for Pinal County identified significant deficiencies in internal control over grant compliance with federal requirement and recommended;

- (1) “Pinal County establish policies and procedures to review County’s contractual relationships with recipients of Federal awards (grants)...and perform sub-recipient monitoring, including obtaining financial reports and reviewing for consistency with program requirements and allowability.”
- (2) “...reporting requirements for grants be carefully reviewed and reports be submitted in accordance with established time frames.”

We acknowledge this is only one grant among several current grants managed in Pinal County; however, the lack of centralized grant oversight allowed mismanagement of this grant to occur seemingly unnoticed for a long period of time.

#### ***Recommendation***

- 1. Internal Audit recommends Grant Policy 8.20 be revised to include requirements and assignment of responsibility for centralized grant compliance monitoring, to ensure optimum financial and administrative grant performance for all departments and special districts.***

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<sup>2</sup> October, 2011 to June 2012

<sup>3</sup> Page 15, 2011-101 Improve Reporting of Grant Expenditures; 2011-102 Improve sub-recipient monitoring

## **B. ALTERNATIVE FUND PRE-PROPOSAL APPROVAL FORM**

The past year, County Management has taken action to improve internal controls over the grant application and approval process. On September 7, 2011, the Pinal County Board of Supervisors (BOS) approved Policy 8.20 Alternative Funds/Grants. The policy is intended to provide consistent guidelines for alternative funding management, ensure optimum financial arrangements for Pinal County and to enhance Board of Supervisor acceptance of grants.

Section (C) 1 of the new policy requires, “Anyone seeking alternative funding must properly complete the Pre-Proposal Approval form for all alternative funding.” Additionally, section (B) requires Board of Supervisor approval “...before any alternative funds can be accepted.” And states, “A funding source might also require Board of Supervisor approval before an application can be submitted.”

Internal Audit reviewed compliance with these provisions and found several examples of non-compliance; specifically, a 2011 US Department of Justice (DOJ) COPS Hiring Program grant, submitted online by the Pinal County Sheriff's office (PCSO) before Policy 8.20 was issued, and a 2012 Auto-theft Authority grant, submitted by PCSO before the Pre-Proposal Approval Form was approved by the County Manager. Both grants were rejected for approval.

PCSO has applied for the Department of Justice COPS grant for the past three years. The grant, if awarded, would have provided funding for several new positions for three years; however, the grant required Pinal County to continue funding these positions for a minimum of one year after the end of the grant-funding period. To submit the 2011 application the County Manager's name was typed into a signature line, without his knowledge. The application states, “False statements or claims made in connection with COPS grant (including cooperative agreements) may result in fines, imprisonment, and disbarment from participating in federal grants or contracts, and/or any other remedy available by law.” If this grant had been awarded it would have encumbered County funds for the grant match, without County managements' knowledge or approval. Worse, if the application had been determined to be a false statement, it could disbar Pinal County from any future federal grant opportunities. In this case, the application was terminated by the funding agency, upon request.

Additionally, the Pinal County Grant Coordinator verified the pre-proposal approval form for an Auto-theft Authority grant was submitted after PCSO filed an online application for the grant without the County Manager's knowledge or approval. The grant application was rejected by the County Manager.

Internal Audit surveyed county departments concerning their awareness of Policy 8.20 and the new Pre-Proposal Approval Form process and found, while most grant personnel were aware of the new policy and the required use of the form, they were not clear on who would monitor compliance with the policy.

Also, several departments suggested the 'Pre-Proposal Approval Form for All Alternative Funding' include an area to submit a written process exemption request to the County Manager in cases where expedited grant submission is needed. Currently, the form requires the signatures, and a recommendation, from eight (8) county employees.

While this form/process effectively controls the grant application process and prevents departments from applying for grants without county management’s knowledge or approval, the review and signatures of all approving parties may not be applicable for all grants or for grants that require prompt approval.

**Recommendation:**

- 2. Internal Audit recommends the “Pre-Proposal Approval Form” be revised to include a signature line and area on the form to request an approval process exemption from the County Manager.*

**C. CENTRALIZED GRANT IDENTIFICATION RESOURCE**

At this time, the responsibilities for grant identification are decentralized and each department, if possible, must allow staff time to identify grant opportunities. Internal Audit reviewed the job description for the Pinal County Grants Coordinator position<sup>4</sup> and found the description states the Grant Coordinator shall, “Perform professional work involving grant research and identification...” And under the examples of job duties mentions, “Researches CFR (Code of Federal Regulations) and other sources to identify and determine the County’s eligibility for various grant programs.”

During our review of grant survey results, and our discussions with County departments, it was suggested a centralized, and ongoing, grant identification process might be more effective. Several department surveys mentioned grant opportunity information could be made available through a centralized resource, such as a grant website or monthly email sent to all departments.

**Recommendations**

- 3. Internal Audit recommends the Pinal County Grants Coordinator consider establishing a grant website, or other resource, to assist departments with identifying beneficial grant opportunities and disseminate timely grant information.*

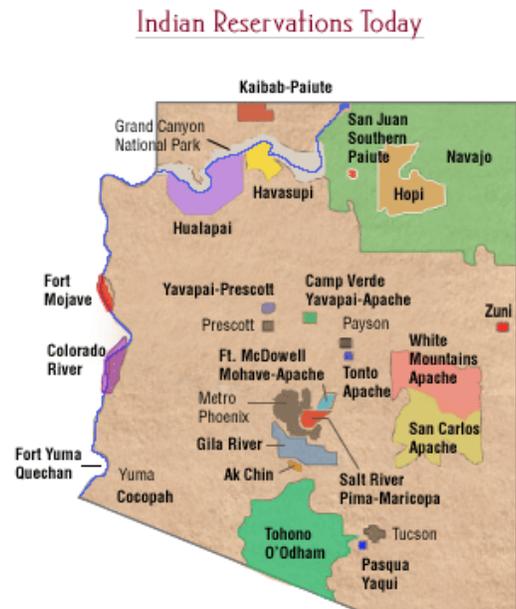
**D. TRIBAL GAMING REVENUE SHARING GRANTS**

In 2002 Arizona voters passed Proposition 202, which allowed for the continuation of limited gaming on tribal lands<sup>5</sup> and directed Arizona tribes to share a portion of gaming revenues with the State, cities, towns, and counties. School districts, special/fire districts, and non-profit organizations are not eligible to directly receive these funds and must work with local governments to qualify for available funding.

On May 20, 2009, the County Grants Coordinator conducted a work session with the Board of Supervisors (BOS) to discuss tribal gaming grants. The BOS stated they would like

<sup>4</sup> Class Code 0694

<sup>5</sup> <http://www.azindiagaming.org/aiga-history.html>



to look at a proposal for specific “Indian gaming grant screening criteria.” In response to this request, the former Pinal County Grant Coordinator developed a policy<sup>6</sup> titled ‘**Application of Tribal Gaming Funds**’; however, the policy was never adopted and, at this time there is no separate county tribal gaming fund policy.

Currently, all requests for tribal gaming funds are required to be submitted using the Pre-Proposal Approval Form for All Alternative Funding (the Form). The stated purpose of the Form is to, “...make it easy for the County Manager to determine whether a grant application should be approved for submission.” According to department surveys submitted to Internal Audit for this audit, this language led some county departments to believe the County Manager judgmentally selects grant proposals for submission; he does not. Gaming proposals are reviewed to ensure they contain all needed information and are all forwarded to the tribal gaming office.

***Recommendation:***

- 4. Internal Audit recommends the Pinal County Grants Coordinator ensure County departments are aware of the availability of Tribal Gaming Funds, and the process for application submission and approval is clearly communicated to County staff.***

**E. Pinal County Performance Management (PCPM)**

Prior to FY 2009-2010 Grant Administration within the Housing department reported, “the percentage (%) of Pinal County Grant Proposals (Alternative Funding Resources) will align to Department or Stakeholder missions.”

In year-end reporting for 2010, the Grant Coordinator stated, “(With the development of the Pre-Proposal Approval Form for All Alternative Funding) ...it appears it is no longer necessary to track alignment of a grant proposal to a departments or county mission. Within the coming year a new key result will likely be developed.” At this time there are no PCPM key results related to a grant management function.

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<sup>6</sup> Retrieved from former County Grant Coordinator files

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p>1. <i>Internal Audit recommends Grant Policy 8.20 be revised to include requirements and assignment of responsibility for centralized grant compliance monitoring, to ensure optimum financial and administrative grant performance for all departments and special districts.</i></p>	Yes	<p>We concur that some grant policy compliance monitoring might avert some grant compliance issues. The Finance Department will work on a joint solution with the IT department and the Internal Audit Officer to develop a cost efficient monitoring process, which if possible will utilize the new financial system being implemented, to assist county departments and special districts in complying with specific, significant grant requirements.</p>	12/31/13	<p>Yiannis Kalaitzidis, Finance Director. I.T. Director. Audit Officer.</p>
<p>2. <i>Internal Audit recommends the "Pre-Proposal Approval Form" be revised to include a signature line and area on the form to request an approval process exemption from the County Manager.</i></p>	Yes	<p>The pre-proposal approval form will be revised as suggested.</p>	1/31/13	<p>Kolya McCleave, Grants Coordinator</p>
<p>3. <i>Internal Audit recommends the Pinal County Grants Coordinator consider establishing a grant website, or other resource, to assist departments with identifying beneficial grant opportunities and disseminate timely grant information.</i></p>	Yes	<p>The Pinal County Grants Coordinator will work with the IT department and other county departments to develop a grant website that will assist departments with their research for grant opportunities relevant in their areas.</p>	4/30/13	<p>Kolya McCleave, Grant Coordinator.</p>

Audit Recommendation	Concur (Yes or No)	Management's Response and Action Plan	Target Date	Individual(s) Responsible
<p><i>4. Internal Audit recommends the Pinal County Grants Coordinator ensure County departments are aware of the availability of Tribal Gaming Funds, and the process for application submission and approval is clearly communicated to County staff.</i></p>	<p>Yes</p>	<p>The Assistant County Manager for Administrative Services will work with the Finance Department and the County Attorney's office to develop a presentation for the Board of Supervisors related to the County's continued participation in this process. Until that time, the Pinal County Grants Coordinator will communicate the availability of tribal gaming funds to all interested county staff. All grants will continue to be processed by the County manager's office and all requests will be forwarded to the tribal gaming offices.</p>	<p>6/30/13</p>	<p>Manny Gonzalez, Assistant County Manager, Administrative Services</p>