



American Recovery and Reinvestment Act Audit

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Authorization

We have conducted an audit of the American Recovery and Reinvestment Act ("ARRA") fund. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan, approved by the Garland City Council.

Objective

The objective of our audit was to verify existence of controls that meet ARRA requirements.

Scope

Our audit period covered Fiscal Year 2010 (FY 2010)

Methodology

To determine if the City's internal controls are relevant to the ARRA, we reviewed the Recovery Act's requirements, applicable Office of Management and Budget (OMB) compliance supplements, and the City ARRA webpage. We also attended a City Recovery Act team meeting, conducted departmental interviews and assessed the existence of internal controls under each Committee of Sponsoring Organizations' (COSO) internal control elements (**EXHIBIT 2** - Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring) related to allowable costs/activities, cash management, eligibility, equipment acquisition, earmarking, period of availability, procurement, Davis-Bacon Act, Buy American Act, reporting, sub-recipient monitoring, citizen participation, environmental reviews and rehabilitation (**EXHIBIT 3**).

We reviewed the City's top four (>\$100,000) ARRA awarded programs. Deloitte (external auditor) will be using the results of this audit and conducting effectiveness and compliance testing on all four of these grants during their next year's audit. U.S. Government Accountability Office (GAO) may also use this study to evaluate City's internal control framework related to ARRA. The GAO has strongly urged states and local governments to audit their respective programs.

We conducted this existence of controls testing audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

While we report to the Mayor and the City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line

management functions that we are auditing. Therefore, this audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

Overall Conclusion

In general, the City has made significant progress in putting internal controls in place to handle ARRA grants. Internal controls in place must be **effectively utilized** to be in compliance with the numerous requirements set forth in the legislation and in subsequent rules and executive orders. This audit provides recommendations to strengthen the City's internal control framework.

Background

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 ("ARRA" or the "Recovery Act") into law to stimulate the national economy and create jobs. The \$787 billion stimulus package contains \$288 billion in tax benefits, \$275 billion in contracts, grants and loans, and \$224 billion in entitlements. The Recovery Act requires unprecedented levels of transparency, oversight, and accountability.

The Recovery Act's stated purposes include the following:

1. To preserve and create jobs and promote economic recovery;
2. To assist those most impacted by the recession;
3. To provide investments needed to increase economic efficiency by spurring technological advances in science and health;
4. To invest in transportation, environmental protection and other infrastructure that will provide long-term economic benefits; and
5. To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

Current requirements of the Recovery Act primarily center on grant timeframes, public transparency, and reporting guidelines. The transparency envisioned to track the Recovery Act spending and results is unprecedented for the federal government. The federal administration considers achieving this degree of visibility to be an evolving process. They expect that the reporting process and information would improve over time and, if successful, could be used as a model for transparency and oversight beyond the Recovery Act.

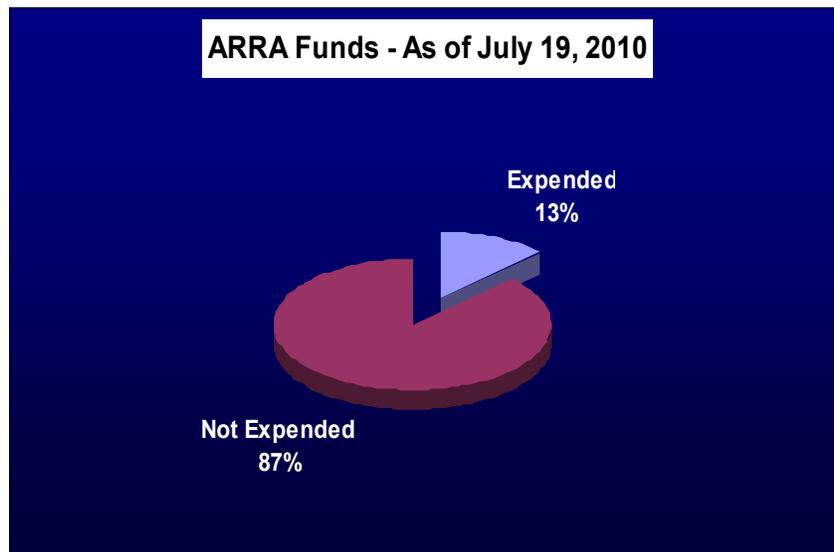
Official source of information regarding the Recovery Act can be found on the website www.recovery.gov. This website was also designed to provide transparency of information related to spending on Recovery Act programs. This one portal serves as an area where the public can find and analyze information and also report potential fraud, waste and abuse pertaining to the Recovery Act. In addition, the Recovery

Accountability and Transparency Board ("Recovery Board") has deployed a nationwide data collection system at the website www.federalreporting.gov that serves to collect quarterly data required by Section 1512 of the Jobs Accountability Act.

The Federal Office of Management and Budget ("OMB") has the primary responsibility for developing government-wide rules and procedures to ensure funds are awarded and distributed in a prompt and fair manner. They are also responsible to ensure that uses of funds are transparent to the public, and that steps are taken to mitigate fraud, waste and abuse.

The OMB has provided a guidance memorandum based on the Recovery Act, by which federal departments have to manage their activities. This guidance memorandum outlines enhancements to standard processes for awarding and overseeing funds to meet accelerated time frames and other challenges posed by the Recovery Act's accountability and transparency requirements. While the OMB's guidelines are directed toward federal agencies, the City is also subject to their rules and requirements either as a prime recipient of funds or as a sub-recipient. When obtaining federal grant awards, the City can be considered either as a prime or a sub-recipient. When grant funds are obtained directly from a federal agency, the City is considered a prime recipient. When funds are granted to the City through a non-federal entity, such as the County of Dallas, the City is considered a sub-recipient. The City of Garland has received grants as both a prime and sub-recipient.

As of July 2010, the City has been awarded \$3.88 million for six different programs. The programs include Energy Efficiency & Conservation Block Grant (EECBG), Homeless Prevention Rapid Housing (HPRP), Community Development Block Grant ARRA Entitlement Grants (CDBG-R), Edward Byrne Memorial Justice Assistance Grant (JAG) Formula Program, Clean Cities – Petrol Reduction, and Edward Byrne Memorial Justice Assistance Grant (JAG) Competitive – State (**EXHIBIT 1**). A summary of ARRA grants received is listed below:



Program Title	Award Date	# of Days since Awarded	Expiration Date	Award Amount	Funds Received (Up- Front)	Interest Earned	Total Expense	Funds Received (Reimbursement)	% Expended
EECBG	08/04/09	339	08/03/12	\$1,978,800	\$0	\$0	\$69,480	\$69,440	4%
HPRP	07/29/09	345	09/30/12	\$858,997	\$0	\$0	\$242,255	\$173,986	28%
CDBG-R	06/27/09	377	09/30/12	\$561,811	\$0	\$0	\$66,427	\$60,562	12%
JAG Formula	03/01/09	495	02/28/13	\$301,686	\$301,686	\$336	\$121,560	N/A	40%
Clean Cities - Petrol Reduction	10/02/09	280	01/29/12	\$89,813	\$0	\$0	\$0	\$0	0%
JAG Competitive	02/04/10	155	09/30/10	\$85,000	\$85,000	\$0	\$0	N/A	0%
Total:				\$3,876,107	\$386,686	\$336	\$499,722	\$303,988	

Management Accomplishments

The City of Garland has put in place a strong interdepartmental team to coordinate and troubleshoot issues related to reporting, accountability and transparency of ARRA funding. The result has been a collegial process that has operated free of “silos” in pursuit of responsible ARRA grants management.

Results for Existence of Controls Testing

During our existence of internal control testing we identified certain areas for improvement. Our testing was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the recommendations presented in this report may not be all-inclusive of areas where improvement might be needed.

The following presents the City's controls for each COSO element of the fourteen areas specified by OMB. In some cases, the controls may overlap between elements which is acceptable as long as the controls are satisfactorily applicable to each of the COSO elements. Recommendations are provided for strengthening internal controls.

A. Allowable Cost & Activities

Control Objective: To provide reasonable assurance that Federal awards are expended only for allowable activities and that the costs of goods and services charged to Federal awards are allowable and in accordance with the applicable cost principles.

COSO Element	City Internal Control	Status
Control Environment	Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.	Control Exists
Risk Assessment	Management will review all invoices submitted for payment and ensure that they are coded to the correct ARRA account.	Control Exists
Control Activities	Program Coordinator ensures that only allowable expenses are coded to the ARRA fund. All Expenses will be submitted to Management for final approval.	Control Exists
Information and Communication	Management runs reports from the Finance system to monitor funds used and remaining funds. Finance Department will also extract general ledger grant data and communicate with the Management on results.	Control Exists
Monitoring	Management reviews all invoices submitted for payment and ensure that they are allowed costs per the approved grant contract project details.	Control Exists

B. Cash Management

Control Objective: To provide reasonable assurance that the draw down of Federal cash is only for immediate needs, states comply with applicable Treasury agreements, and recipients limit payments to sub-recipients to immediate cash needs.

COSO Element	City Internal Control	Status
Control Environment	General Ledger (G/L) disbursement data to be reviewed by Management before drawdown requested; requested funds will not exceed disbursements	Control Exists

Risk Assessment	Management has identified programs that receive cash advances and is aware of cash management requirements.	Control Exists
Control Activities	GL disbursement data will be compiled by and reviewed monthly (or at a minimum quarterly) by Finance to determine drawdown amounts.	Control Exists
Information and Communication	Management will use actual cash disbursements before drawdowns are requested.	Control Exists
Monitoring	Budget Analyst over ARRA grants will periodically review actual disbursements vs. funds collected to ensure that revenues due to the City are being drawn.	Control Exists

<i>Recommendation 1 (Risk Assessment)</i>	<i>Management should review the City G/L disbursement data and actual supporting documents (example: vendor invoice) before drawdown is requested from the Federal agency.</i>	<i>Recommended</i>
<i>Management Response 1</i>	<i>Management will continue to review the City G/L disbursement data prior to drawdown from the Federal agency.</i>	<i>Concur</i>
<i>Recommendation 2 (Control Activities)</i>	<i>Management should request reimbursement (drawdown) from the grantor organization as soon as eligible expenses have occurred and invoices are paid out of city funds.</i>	<i>Recommended</i>
<i>Management Response 2</i>	<i>Management will request reimbursement on a monthly basis for eligible expenses that have been incurred by the City.</i>	<i>Concur</i>

C. Eligibility

Control Objective: To provide reasonable assurance that only eligible individuals and organizations receive assistance under Federal award programs, subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible individuals or groups of individuals were calculated in accordance with program requirements.

COSO Element	City Internal Control	Status
Control Environment	Lines of authority clear for determining eligibility of a)subrecipients and b)clients	Control Exists
Risk Assessment	a) Subrecipients are required to provide supporting documentation (By Laws, Articles of Inc., Financial Statement, Organizational Chart, Budget, etc.) of eligibility to provide services in the application process. b) Designated individuals are responsible to review and approve all eligibility forms for funds spent directly on clients.	Control Exists

Control Activities	a) Management evaluates subrecipients' track records. Verifies if they are members of "Continuum of Care" (Group of recognized service providers for the metro area) and/or affiliated with the "Metro Dallas Homeless Alliance". b) Income eligibility determinations are made using standard forms and reviewed by a member of program management.	Control Exists
Information and Communication	a) Document the eligibility of subrecipients in accordance with the program requirements b) Eligibility determinations are kept in each individual's file. Income is determined by review of documents such as pay stubs, unemployment determination, signed letters from domestic employers, documentation of SSI, Child Support, Workers Compensation, Retirement, Welfare, Veteran's and AFDC benefits, rental property income, stock dividends and alimony received.	Control Exists
Monitoring	a) City Council reviews applications for funding and assigns funding to sub-recipients. Subrecipient site visits are conducted annually or as needed basis. b) Grants Management monitors the eligibility determination in their annual review.	Control Exists

D. Equipment

Control Objective: To provide reasonable assurance that proper records are maintained for equipment acquired with Federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with Federal requirements, and the Federal awarding agency is appropriately compensated for its share of any property sold or converted to non-Federal use.

COSO Element	City Internal Control	Status
Control Environment	Management committed to providing proper stewardship for property acquired with ARRA. City staffs involved with this grant are fully aware of what the project budget allows.	Control Exists
Risk Assessment	Assigned staff will maintain physical custody of equipment purchased with grant. Equipment at/over \$5,000 value will be accounted for (as long as they are in the 9000 account) as part of fixed assets and its disposition will be monitored by Fixed Asset Accountants.	Control Exists
Control Activities	Fixed Asset accountants review asset acquisitions and dispositions periodically (the 9000 account); add capital items to fixed asset system once purchase has been made to capital expense acct.	Control Exists
Information and Communication	Fund 941 in the Finance system has been set up to account for all ARRA activity; equipment purchases with ARRA funds should be recorded to these accounts by Management.	Control Exists

Monitoring	Assigned staff will maintain physical custody of equipment purchased with grant. Equipment at/over \$5,000 value will be accounted for (as long as they are in the 9000 account) as part of fixed assets and its disposition will be monitored by Fixed Asset Accountants.	Control Exists
<i>Recommendation 3 (Control Environment)</i>	<i>Management should ensure that all expenditures that meet the Capitalization of Expenditure Directive criteria must be capitalized and monitored as part of the City's fixed assets.</i>	<i>Recommended</i>
<i>Management Response 3</i>	<i>The Capitalization of Expenditure Directive will be provided to operating depts., including instruction on the appropriate accounts to which to record capital expenses in order to be identified for capitalization.</i>	<i>Concur</i>
<i>Recommendation 4 (Control Activities)</i>	<i>Fixed Asset accountants should review all ARRA accounts (not just the 9000) to ensure that equipment purchased with ARRA funds (if they meet the criteria) are capitalized.</i>	<i>Recommended</i>
<i>Management Response 4</i>	<i>The Capitalization of Expenditure Directive will be provided to operating depts., including instruction on the appropriate accounts to which to record capital expenses in order to be identified for capitalization.</i>	<i>Concur</i>
<i>Auditor's Comment</i>	<i>In Recommendation 3 we are referring to those individuals in the departments responsible for the grants (i.e., Grant Managers). In Recommendation 4 we are referring to the Fixed Asset accountants located in Finance. The Fixed Asset accountants provide the monitoring over the department capitalization process. This facilitates the proper checks and balances for the process and ensures the proper classification and valuation over our fixed assets.</i>	

E. Earmarking

Control Objective: To provide reasonable assurance that earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.

COSO Element	City Internal Control	Status
Control Environment	Management understands the earmarking requirements and budgets to meet those.	Control Exists
Risk Assessment	The accounting system used has been in place since 1997 and management has sufficient understanding of the system to identify potential recording problems.	Control Exists
Control Activities	Prior to performing cash draws, management and the finance department reconcile expenditures to the remaining grant award.	Control Exists
Information and Communication	The City separately budgets for earmarking requirements in the City's budget system.	Control Exists

Monitoring	Management reviews earmarking requirements to ensure they are met.	Control Exists
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F. Period of Availability

Control Objective: To provide reasonable assurance that federal funds are used only during the authorized period of availability.

COSO Element	City Internal Control	Status
Control Environment	Management understands and is committed to complying with period of availability requirements.	Control Exists
Risk Assessment	ARRA Coordinator and Grants Accountant have identified the grant period of availability and have communicated it to all City staff involved with the grants	Control Exists
Control Activities	At the time that quarterly Federal Financial Status reports are compiled and filed, Grants Accountant will give e-mail status updates to operations staff to let them know where spending is at on the availability timeline. Cutoff dates will also be communicated.	Control Exists
Information and Communication	At the time that quarterly Federal Financial Status reports are compiled and filed, Grants Accountant will give e-mail status updates to operations staff to let them know where spending is at on the availability timeline	Control Exists
Monitoring	Management will conduct periodic review of expenditures before and after cut-off date to ensure compliance with period of availability requirements.	Control Exists

<i>Recommendation 5 (Control Environment)</i>	<i>ARRA funds must be quickly expended. Management should properly plan and spend ARRA funds to be in compliance with the requirement. Resources should be allocated appropriately.</i>	<i>Recommended</i>
<i>Management Response 5</i>	<i>Project Managers will make sub recipients and consultants aware of project milestones and will put in place contingency plans should those milestones not be met. For HPRP Subrecipients, Grants Management is currently in the process of re-evaluating existing contracts for non-performance and taking appropriate measures to ensure funding is being spent as required.</i>	<i>Concur</i>

G. Procurement

Control Objective: To provide reasonable assurance that procurement of goods and services are made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that no sub award, contract, or agreement for purchases of goods or services is made with any debarred or suspended party.

COSO Element	City Internal Control	Status
Control Environment	Purchasing Manager has over 30 years of procurement experience and is certified in her field. Procurement staff working with this grant is also certified.	Control Exists
Risk Assessment	Contractor status is checked against federal debarment list before bid is awarded. Debarred contractors are excluded from bids to be reviewed for acceptance.	Control Exists
Control Activities	Procurement staff and procurement responsibilities are located in the Purchasing Department; Accounts payable staff and cash disbursing responsibilities are located in the Accounting Dept.	Control Exists
Information and Communication	All COG bid documents include basis for contractor selection, justification for lack of competition (if applicable), and basis for award cost. Purchasing Dept. keeps complete bid documentation for at least four fiscal years.	Control Exists
Monitoring	Purchasing manager reviews buyer bid folders once a year. Bid folders contain all bids submitted on the projects each buyer was in charge of.	Control Exists

<i>Recommendation 6 (Control Environment)</i>	<i>City departments should utilize the Purchasing Department for all grant related procurement activities. Procurement responsibilities and documents should be located in the Purchasing department.</i>	<i>Recommended</i>
<i>Management Response 6</i>	<i>Purchasing will be utilized for ARRA purchasing and has access to each type of grant to research compliance requirements in the City's shared drive.</i>	<i>Concur</i>
<i>Recommendation 7 (Risk Assessment)</i>	<i>Purchasing should ensure that all required vendor certifications are requested and verified before contracts are awarded.</i>	<i>Recommended</i>
<i>Management Response 7</i>	<i>Purchasing is requiring proof of certifications with bids and proposals. Verified by evaluation team and maintained in contractor file. Housing has procedure for reviewing and updating annually as per HUD requirements.</i>	<i>Concur</i>
<i>Recommendation 8 (Control Activities)</i>	<i>Purchasing policies should be updated to incorporate all federal and state grant requirements.</i>	<i>Recommended</i>

<i>Management Response 8</i>	<i>Purchasing has created compliance forms for grant requirements. These forms are issued with bid/proposal documents and are mandatory.</i>	<i>Concur</i>
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H. Davis-Bacon Act

Control Objective: To provide reasonable assurance that contractors and subcontractors pay prevailing wage rates to their employees for projects covered by the Davis-Bacon Act.

COSO Element	City Internal Control	Status
Control Environment	Purchasing manager required contract language to include David-Bacon Act requirements for ARRA project. Bid specifications also included language to communicate this legal requirement, actual wage scale that must be met as well as the CDBG Construction Contract Compliance Form.	Control Exists
Risk Assessment	In addition to including actual wage scale in bid specifications, certified payrolls will be requested from the contractor by Facilities Construction Manager every time invoices are submitted for payment. Payment will not be approved by Management until both invoices and payrolls are reviewed.	Control Exists
Control Activities	Purchasing manager required contract language to include David-Bacon Act requirements for ARRA project. Bid specifications also included language to communicate this legal requirement, actual wage scale that must be met as well as the CDBG Construction Contract Compliance Form.	Control Exists
Information and Communication	Purchasing manager required contract language to include David-Bacon Act requirements for ARRA project. Bid specification also included language to communicate this legal requirement, actual wage scale that must be met as well as the CDBG Construction Contract Compliance Form.	Control Exists
Monitoring	Facilities Construction Manager will require certified payrolls to be submitted when invoices are submitted for payment, and she will review them for compliance before sending invoices to Management for review and approval.	Control Exists

I. Buy American Act

Control Objective: To provide reasonable assurance that all iron, steel and manufactured goods used in the construction, alteration, maintenance, or repair of a public building or public work project are produced in the United States.

COSO Element	City Internal Control	Status
Control Environment	Adequate knowledge and experience of key Construction Project Manager and supporting Project Management Team in light of responsibilities for construction procurement for Federal awards.	Control Exists
Risk Assessment	The Construction Project Manager and Project Management Team understand the Department of Energy guidelines for compliance with the ARRA Buy American Provisions and have written into the procurement specifications measures that address where noncompliance could likely occur.	Control Exists
Control Activities	Contractor's performance with the terms, conditions, and specifications of the contract is monitored and documented.	Control Exists
Information and Communication	Guidance on Buy American Provisions is communicated to the Project Management Team. Requirements to adhere to Buy American Provisions are written into request for proposals, contracts and vendor specifications.	Control Exists
Monitoring	Contractor's performance with the terms, conditions, and specifications of the contract is monitored and documented.	Control Exists

J. Reporting

Control Objective: To provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

COSO Element	City Internal Control	Status
Control Environment	Submission of all reports will be centralized with the ARRA Coordinator. ARRA Coordinator will be responsible for compiling performance report data provided various department managers; Grants Accountant will be responsible for compiling and providing financial report data.	Control Exists
Risk Assessment	Data to be used for reports is to be obtained from the most original, reliable source available, such as the operating department staff directly involved with managing the grant performance, the City's G/L, etc.	Control Exists
Control Activities	General ledger data for financial reports or original source data for non-financial reports will be used for required reports. "Energy Demand" performance metrics for the HVAC system reporting will be obtained from GP&L meter readings	Control Exists

Information and Communication	The City of Garland Finance system will be used to obtain the financial information. Performance data will be obtained from various resources. Example: For the HVAC project, the efficiency data will be obtained from GP&L meter readings, and jobs creation data will be obtained from the vendors.	Control Exists
Monitoring	Supporting documentation for information being reported will be attached to report workpaper file. ARRA Coordinator will retain reports filed with accompanying support.	Control Exists

<i>Recommendation 9 (Control Environment)</i>	<i>The City should ensure that reports submitted to the Federal agency are accurate and complete. ARRA reports prepared by the Program Coordinator must be reviewed by the program Manager before it is submitted to the ARRA Coordinator. Supporting documentation must be attached to the report.</i>	<i>Recommended</i>
<i>Management Response 9</i>	<i>The ARRA Coordinator will develop an ARRA Federal Reporting procedure requiring Manager sign-off. Additionally and as part of that procedure, Program Coordinators will need to keep records supporting quarterly reports on file.</i>	<i>Concur</i>
<i>Recommendation 10 (Control Activities)</i>	<i>The City should develop written procedures that identify authorities, roles and responsibilities for data integrity purposes.</i>	<i>Recommended</i>
<i>Management Response 10</i>	<i>The ARRA Coordinator will develop an ARRA Federal Reporting procedure.</i>	<i>Concur</i>
<i>Recommendation 11 (Information and Communication)</i>	<i>The City's ARRA website should be updated more often (At least quarterly). Also, the City should publish actual ARRA expenditures and reimbursements online to provide the general public sufficient spending and accountability information</i>	<i>Recommended</i>
<i>Management Response 11</i>	<i>The City's ARRA website has been updated based on what the City has reported to Federal Reporting for the most recent quarterly report.</i>	<i>Concur</i>

K. Subrecipient Monitoring

Control Objective: To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtained required audits and takes appropriate corrective action on audit findings.

COSO Element	City Internal Control	Status
Control Environment	Individuals performing subrecipient monitoring possess knowledge, skills, and abilities required.	Control Exists

Risk Assessment	Key managers have worked with subrecipients for many years on a variety of projects and are familiar with subrecipients' environment, systems and controls.	Control Exists
Control Activities	Official subrecipient monitoring policies and procedures are established. Additional transparency requirements have increased frequency of reviews. Site visits are conducted at least once a year or as needed basis.	Control Exists
Information and Communication	A recordkeeping system is in place to assure that documentation is retained for the time period required by the recipient	Control Exists
Monitoring	Program periodically reviewed by the Grants Coordinator	Control Exists

<i>Recommendation 12 (Risk Assessment)</i>	<i>ARRA funds must be quickly expended. 1) Funds should not be allocated to Subrecipients if they don't have enough resources to handle the grant. 2) When funds are allocated, management should closely monitor subrecipient activities and take appropriate actions, including termination of agreement, if they fail to spend the grant in a timely manner.</i>	<i>Recommended</i>
<i>Management Response</i>	<i>Subrecipients previously executed agreements giving the City the right to evaluate performance at the end of the fiscal year for possible non-performance. Grants Management is in the process of reviewing existing contracts and making necessary changes to allocations of funding based on performance.</i>	<i>Concur</i>

L. Citizen Participation

Control Objective: To provide reasonable assurance that the grantee has developed and implemented a citizen participation plan in accordance with grant requirements.

COSO Element	City Internal Control	Status
Control Environment	Management is aware of the requirements and prepared a 5 yr Citizen Participation Plan.	Control Exists
Risk Assessment	The results from the Citizen Participation meetings are summarized and presented to the City Council.	Control Exists
Control Activities	The Plan provides public hearing, publication, public comment, access to records, and consideration of comments.	Control Exists
Information and Communication	Neighborhood public meetings are held periodically to discuss CDGB funding, the objectives of the grant and the funding process.	Control Exists
Monitoring	Management summarizes the results and present to the City Council as they conduct allocation of fund.	Control Exists

M. Environmental Review

Control Objective: To provide reasonable assurance that the grantee is obligating and expending program funds only after HUD’s approval of the Request for Release of Funds (RROF) and whether environmental reviews are being conducted, when required.

COSO Element	City Internal Control	Status
Control Environment	Management understands and committed to comply with the Request for Release of Funds (RROF) and Environmental compliance requirements.	Control Exists
Risk Assessment	Management does not obligate or expend program funds until HUD’s approval of the RROF.	Control Exists
Control Activities	Environmental certifications are obtained prior to submitting the RROF to HUD.	Control Exists
Information and Communication	HUD’S approval of the RROF and environmental certification are kept. Documentation exists when an environmental review was not performed and ascertains if a written determination was made that the review was not required.	Control Exists
Monitoring	RROF and environmental review certifications are kept and reviewed.	Control Exists

<i>Recommendation 13 (Control Activities)</i>	<i>Environmental review forms should be signed by the Environmental Officer promptly</i>	<i>Recommended</i>
<i>Management Response</i>	<i>All environmental review forms will be submitted as they are completed for the appropriate signatures</i>	<i>Concur</i>

N. Rehabilitation

Control Objective: To provide reasonable assurance that the grantee assures rehabilitation work is properly completed.

COSO Element	City Internal Control	Status
Control Environment	Management is aware of the Rehabilitation compliance requirement. Site inspections are conducted (before, during and after) to assure rehabilitation work is properly completed.	Control Exists
Risk Assessment	Contracts require pre- and post- inspections for eligibility.	Control Exists
Control Activities	Site inspections are conducted (before, during and after) to assure rehabilitation work is properly completed. Inspector use tools such as cameras and tags to document deficiencies.	Control Exists
Information and Communication	Inspection documents are kept. Deficiencies are communicated to the Management and Contractor.	Control Exists
Monitoring	Upon correction of deficiencies, final inspection is conducted and documented.	Control Exists

EXHIBIT - 1

ARRA PROGRAM DESCRIPTION **

1. **EECBG** - Carry out three objectives: a) Install a high efficiency HVAC system for City Hall; b) Create a City-wide plan for long term energy efficiency and sustainability plan; and c) Establish a permanent Office of Environmental Quality to oversee the City's energy efficiency efforts.
2. **HPRP** - Provide homeless prevention assistance to households who would otherwise become homeless and to rapidly re-house persons who are homeless and those at risk of becoming homeless. The funding is designed to serve as a last resort for those in a shelter, on the street, in transitional housing or in imminent danger of becoming homeless. All funding will benefit households with incomes equal to or less than 50% of the area median income.
3. **CDBG-R** - Install energy efficiency retrofits into single family homes for low income households. Eligible applicants are homeowners that have incomes at or below 80% of the area median income. The goals of the program are to increase energy efficiency and reduce the burden of utility bills, improve the quality of life by improving indoor air quality, buffering exterior noise, reduce pollutants and contribute to having a cleaning environment and healthier neighborhood by reducing energy consumption. Approximately 33 homes will be retrofitted.
4. **JAG FORMULA** - Purchase Audio/Video equipment to enhance the security and surveillance capabilities to the police department lobby and police property/evidence storage facility, to upgrade the existing recording system in communications, two pursuit vehicles with accessories, equipment and training for five police officers and update the existing scheduling software.
5. **CLEAN CITIES (PETROL REDUCTION)** - Purchase of 14 hybrid-electric vehicles: 13 light-duty (Ford Escapes) and one heavy-duty bucket lift truck. If this proposal is accepted, the City will be reimbursed \$2,000 for each of the 13 Escapes and \$63,813 for the incremental (hybrid technology) cost of the heavy-duty bucket truck.
6. **JAG COMPETITIVE** - Purchase a Tactical Observation Platform

** Source: www.ci.garland.tx.us/Home/Departments/Development+Services/Planning

EXHIBIT - 2

COSO - FIVE FRAMEWORK COMPONENTS ***

1. **Control Environment** - sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
2. **Risk Assessment** - the identification and analysis of relevant risks to the achievement of objectives, forming a basis for determining how the risks should be managed.
3. **Control Activities** - the policies and procedures that help ensure management directives are carried out.
4. **Information and Communication** - Pertinent information must be identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities.
5. **Monitoring** - a process that assesses the quality of the system's performance over time.

*** Source: www.coso.org/IC-IntegratedFramework-summary.htm

EXHIBIT - 3

		<u>ARRA Compliance</u>			JAG Formula Program
#	Compliance	EECBG	HPRP	CDBG-R	
1	Allowable Cost, Activities	√	√	√	√
2	Cash Management	√	√	√	√
3	Eligibility	X	√	√	X
4	Equipment	√	X	X	√
5	Earmarking	√	√	√	X
6	Period of Availability	√	√	√	√
7	Procurement	√	X	√	√
8	Davis-Bacon Act	√	X	X	X
9	Buy American Act	√	X	X	X
10	Reporting	√	√	√	√

11	Subrecipient Monitoring	X	√	X	X
12	Citizen Participation	X	X	√	X
13	Environmental Reviews	X	X	√	X
14	Rehabilitation	X	X	√	X

√ - compliance apply

X - compliance does not apply