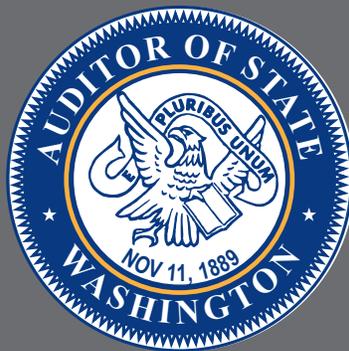




STATE OF WASHINGTON STATE GRANTS



REPORT NO. 1006575

OCTOBER 10, 2011

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AUDIT RESULTS

As detailed later in this report, our audit found the state provides no centralized guidance to agencies on how to manage and monitor grants.

Our audit found significant differences in four agencies' grant management. Two agencies' practices led to questionable payments while other agencies were using best practices.

For most programs we reviewed at these agencies, we found payments to grant recipients were allowable and supported. However, we found some questionable payments that we detail later in this report.

RECOMMENDATIONS

We recommend the Office of Financial Management:

- Develop a clear definition of state grants.
- Refine coding in the state's accounting system so it can identify and quantify state grant expenditures.
- Update the State Administrative and Accounting Manual or Internal Controls Resources website to include guidance on grants management to help ensure consistency.

During the audit the Administrative Office of the Courts, the Recreation and Conservation Office and the Department of Commerce's Affordable Housing Operation and Maintenance program began to implement new policies and procedures to address internal control weaknesses. In accordance with these new policies and procedures, we recommend these agencies request documentation from grant recipients or perform on-site visits to ensure grant reimbursement requests are adequately supported.

WHY WE DID THIS AUDIT

Our prior audits identified concerns regarding how state agencies manage grant programs; how recipients spend grant funds; and the adequacy of documentation to support those expenditures. Based on these issues and the risks they create for unallowable payments, we focused a portion of our 2010 audit work on grants.

In this audit, we focused on two objectives: In the absence of centralized guidance and criteria, are state agencies effectively managing state grants and are state agencies reimbursing grant recipients for unallowable or unsupported costs.

I N T R O D U C T I O N

AUDIT AUTHORITY, OBJECTIVES AND SCOPE

We performed this audit under the authority of state law (RCW 43.09.310), which requires the State Auditor to perform post-audits of state agencies. These audits are designed to assess whether agencies have systems in place to ensure accountability over state funds and comply with state laws and regulations.

The scope of this audit included state grant expenditures by four agencies between July 1, 2009 and December 31, 2010.

We defined a state grant as a legally binding agreement between the grantor and the recipient that states what services are to be provided and what costs are allowable.

Our audit objectives were:

- In the absence of centralized guidance and criteria, are state agencies effectively managing state grants?
- Are state agencies reimbursing grant recipients for unallowable or unsupported costs?

The state's accounting system does not specifically identify state grant expenditures. Instead, it includes them in an expenditure category entitled "other grants and benefits." This category also includes expenditures for client service contracts and taxable employee recognition and productivity awards, which were outside the scope of this audit. The state also does not provide agencies with centralized grant management guidance.

We identified the state agencies with the largest amount of potential state grant expenditures or where we had previously raised audit issues relating to state grants. Four state agencies were selected for this audit, which in total had awarded \$1.15 billion in grants between July 1, 2009 and December 31, 2010.

- Office of the Superintendent of Public Instruction, \$516 million.
- Department of Commerce, \$495 million.
- Recreation & Conservation Office, \$110 million.
- Administrative Office of the Courts, \$28 million.

A U D I T O B J E C T I V E S A N D R E S U L T S

OBJECTIVE 1

In the absence of centralized guidance and criteria, are state agencies effectively managing state grants?

AUDIT RESULTS

Our audit found significant differences in the four agencies' management of state grants. Two agencies' practices led to questionable payments, while others were using best practices.

For instance, the Administrative Office of the Courts and the Recreation and Conservation Office did not have policies or procedures in place to provide adequate controls to effectively manage its state grant programs. Based on our prior audit recommendations, in fiscal year 2011 both agencies are implementing new state grant monitoring policies and procedures.

However, our review of five state grant programs within the Department of Commerce identified significant differences in the monitoring tools and methods used to manage its programs. We observed management tools that ranged from reviewing all supporting documentation for state grant expenditures, to performing desk or on-site reviews or performing an annual risk assessment to determine which grantees need to be reviewed.

Additionally, we found that the Office of Superintendent of Public Instruction requires Capital Programs grant recipients to submit copies of all documentation to support grant expenditures before a reimbursement is made instead of performing periodic monitoring of grant expenditures.

Administrative Office of the Courts

We selected the BECCA Truancy program and the Court Appointed Special Advocate program for audit because they account for 52 percent of the agency's \$28.3 million state grant expenditures and due to a prior audit finding on inadequate monitoring of state grants.

The Court-Appointed Special Advocate program supports volunteers that advocate for abused and neglected children in dependency court. Parents of at-risk teen-agers use the BECCA program to help get court orders for dependency and other treatment. The Office awarded counties approximately \$35.4 million in state grants for these programs in fiscal years 2007 through 2009.

A U D I T O B J E C T I V E S A N D R E S U L T S

Effective March 1, 2011 the Office began using a new monitoring policy to manage these programs. Based on our review, it appears the new policy will improve controls over expenditures to ensure they are appropriate and will address prior audit concerns. At the time of this audit in March, April and May of 2011, the Office was not yet reviewing supporting documentation with payment requests. It stated it began these reviews in June 2011.

Department of Commerce

To determine which of the Department's programs to include in this audit, we generated a report identifying those with payment activity in the "other grants and benefits" category and summarized expenditures and the types of recipients. We also reviewed prior audits to identify potentially high-risk programs. The fiscal year 2010 accountability audit recommended the Department improve monitoring over the Community Mobilization Program and the Operating and Maintenance Fund Program.

We selected five programs for this audit. Three provide funding for capital projects, two provide funding to subsidize low-income housing or emergency shelter costs, and one pays for community counseling services.

Affordable Housing Operating and Maintenance

This grant provided \$5.9 million to nonprofits and local government housing authorities to help cover the gap between eligible operating and maintenance costs and program income for low-income housing. The program provided three types of grants:

- Program funding for operating costs for up to 20 years.
- A one-time reserve payment that grantees are to deposit in their operation or replacement reserve accounts.
- A five-year rental assistance funding grant that supplements rent paid by low-income tenants. This type of grant no longer is available to new grant recipients.)

In May 2010, we reported to Department management that the program was not verifying the accuracy and allowability of all reimbursement requests. This audit reviewed the Department's progress in improving controls in this area.

Program staff stated the Department began using a new monitoring policy in September 2010 that requires grant recipients to maintain complete back-up documentation for all reimbursement requests. The policy describes new procedures that include the Department performing on-site audits or desk audits for each grant recipient.

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Beginning in July 2011, Department policy required all grants to be “performance based.” This increases the documentation to be submitted with reimbursement requests. The policy also states the Department will request detailed supporting documentation for at least one randomly selected quarter. The policy requires grant recipients that maintain reserve accounts to report on the balances quarterly and to keep detailed account records showing all activity and backup documentation for withdrawals and reserve additions. Previously, the Department did not consistently monitor reserve account funds.

The Department stated it selected 17 grantees for review during October 2010 and April 2011. We selected a file for each of the program’s five staff to observe the level of documentation retained for each review. We found the Department did not identify any issues during the five reviews. However, we were unable to determine if the reviewer verified all costs claimed for reimbursement were tied to original supporting documentation or if the grantee’s cost allocation method was reviewed and determined to be reasonable. We also noted the expenditures included in these review were not clearly documented.

Community Mobilization

The Legislature established the Community Mobilization Program in 1989 to help communities address substance abuse and violence. The program pays for these efforts in all 39 counties in the state. During July 2009 and December 2010 the program spent \$2.1 million.

During fiscal year 2011, the Department’s Community Services and Housing Division worked on standardizing monitoring policies and procedures, changed its risk assessment tool and the monitoring checklist used during visits to grantees. The Department had conducted 14 on-site visits and 10 desk reviews as of June 30, 2011. These include an assessment of the grantee’s internal controls over the program and review of supporting documentation for reimbursement requests.

Community Schools

Community Schools Program funding totals \$5.1 million. It is to be used to purchase property as specified by the Legislature. The program provides money to organizations to purchase surplus school buildings to renovate for community service purposes. Department staff review all grant activity in detail before making reimbursements.

A U D I T O B J E C T I V E S A N D R E S U L T S

Emergency Shelter

The state paid \$4.2 million in state grant money to nonprofit and other organizations through its Emergency Shelter Assistance and Homeless Prevention program. These grants are awarded for a two-year period.

Every two years the Program Manager either conducts on-site monitoring or reviews documentation from the grant recipient. The Department uses a risk assessment tool to determine which grantees will receive an on-site visit. The Program Manager uses a monitoring tool that includes checking enrollment criteria and detailed instructions for monitoring of payment support documentation.

Taxable Bonds General Pool and Housing Non-Taxable Bonds

These programs provide financial assistance to nonprofits and local governments to develop and build low-income housing. The Legislature appropriates money for the programs. During July 2009 and December 2010 the programs spent \$77.5 million.

The grant contracts require recipients to coordinate with other funding sources, including federal agencies, local governments and non-profits. The Department assigns a portfolio manager to each project and contracts with a consultant with expertise in construction to review and approve documentation prior to reimbursement. The consultant checks this information and makes recommendations to the Department portfolio manager on whether payment should be made.

Recreation & Conservation Office

We reported an audit finding for fiscal years 2007-09 regarding the agency paying grant recipients without ensuring they had provided all services required by the grant agreement.

We reviewed the Agency's monitoring of more than \$41.3 million of state grant expenditures in the following six programs.

- Firearms and Archery Range Recreation Program
- Family Forest Fish Passage Program
- Salmon State Project
- Estuary and Salmon Restoration, Puget Sound
- Salmon Puget Sound
- Youth Athletic Facilities

A U D I T O B J E C T I V E S A N D R E S U L T S

We found the Agency began using a new grant monitoring program in June 2010 that scores and places all grant recipients into three risk categories with varying levels of documentation requirements.

Office of the Superintendent of Public Instruction

The Office of Superintendent of Public Instruction works with the state's 295 school districts and nine Educational Service Districts to administer K-12 education programs for more than one million public school students. Based on an expenditure report from the Agency, we found more than 90 percent of its \$515 million in state grants were for construction.

We focused our audit on School Construction Assistance grants totaling more than \$485 million. The Office outlines each project being funded in a letter to the school, including allowable expenditures and the effective date of the grant.

The Office requires grantees to submit copies of all documentation supporting expenditures claimed for reimbursement. The Agency does a thorough review of this documentation.

A U D I T O B J E C T I V E S A N D R E S U L T S

OBJECTIVE 2

Are state agencies reimbursing grant recipients for unallowable or unsupported costs?

AUDIT RESULTS

Overall for the agencies we reviewed we found payments to grant recipients were allowable and supported. However we found some questionable payments, which we describe below.

We judgmentally selected 83 transactions totaling \$49 million for review. We identified 23 exceptions totaling \$570,921, or 1.2 percent of the total. Based on documentation provided by the grant recipients, we were unable to determine if 11 payments totaling \$181,722 were for allowable costs and identified 12 payments totaling \$389,199 were not adequately supported.

Agency	Number of Exceptions	Allowable Costs Exceptions	Supporting Documentation Exception
Administrative Office of the Courts	18	\$159,443	\$372,532
Department of Commerce	5	\$22,279	\$16,667
Recreation and Conservation Office	0	\$0	\$0
Office of the Superintendent of Public Instruction	0	\$0	\$0
Totals	23	\$181,722	\$389,199

A U D I T O B J E C T I V E S A N D R E S U L T S

Administrative Office of the Courts

Program	Total Grant Expenditures	Expenditures Examined	Transactions Reviewed
Court Appointed Special Advocate (CASA) Grant	\$4.02 million	\$261,000	8
BECCA Truancy Grant	\$10.5 million	\$1.5 million	25

The Office’s grant recipients are 35 county juvenile courts located in Washington state. The Office reimburses recipients for costs associated with providing services under either the Court Appointed Special Advocate Program or the BECCA Truancy program. The grant agreements require recipients to maintain documentation to support reimbursement requests and states they are subject to inspection and audit.

We judgmentally selected reimbursements to 24 counties. We reviewed eight from the CASA program totaling \$261,000 and 17 from the BECCA program totaling \$1.5 million. We requested grant recipients to submit documentation to support reimbursement claims. We found 28 percent of the transactions were reimbursements for unallowable costs and 44 percent were not adequately supported. We also noted:

- Six counties performed an analysis to determine the cost of taking a truancy petition through court. We were informed that four of the analyses were completed 10 or more years ago and that no documentation was available to support how costs were determined. Juvenile courts apply the expenditure rate to each petition processed during the month. Since we had no documentation to support the rates, we could not determine if the \$225,145 reimbursed to the counties was for allowable expenditures.
- One county did not have adequate documentation to support the \$14,713 claimed for reimbursement. We were provided only written notes about payroll calculations.
- Five counties used an allocation method for administrative costs. We were unable to determine if the \$292,117 claimed for reimbursement was supported since allocation models used were more than 10 years old and the counties had no documentation on how they determined the rate.

A U D I T O B J E C T I V E S A N D R E S U L T S

Department of Commerce

Program	Total Grant Expenditures	Expenditures Examined	Transactions Reviewed
Community Schools	\$5.1 million	\$5.1 million	7
Affordable Housing, Operation & Maintenance	\$5.9 million	\$427,448	25
Emergency Shelter	\$4.2 million	\$61,436	4
Taxable Bonds General	\$40 million	\$2.4 million	1
Housing Non-Taxable Bonds	\$37.5 million	\$389,100	1
Community Mobilization	\$2.1 million	\$54,598	4

The Agency reimburses grant recipients for expenditures as outlined in the grant agreement. These agreements require grant recipients to maintain documentation sufficient to support reimbursement requests. Grant recipients agree to be subject to inspection and audit.

We asked the 42 grant recipients to submit documentation to support expenditures in the reimbursement claim. Overall we found adequate documentation to support expenditures claimed for reimbursement.

Affordable Housing - Operating and Maintenance

The Agency reimbursed \$5.9 million to 84 grant recipients for operating and maintenance expenditures during July 2009 and December 2010. We used auditor judgment, including considering the amount of reimbursements and vendor type, to select 25 payments for review. We found that overall, grant recipients had adequate documentation to support reimbursement claims. However, we noted:

- Program personnel do not consistently verify all costs included in a reimbursement to the documentation provided by the grant recipient. Based on our review of the documentation, we identified 16 percent or \$63,294 in costs that were not adequately supported.

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- The Department does not consistently review the grant recipient's cost allocation method to determine if costs charged to the grant are reasonable. We reviewed a \$16,667 reimbursement that consisted of costs allocated to the Department's affordable housing program and found no documentation to show how the Department determined the allocation.
- Program personnel do not consistently require the grant recipient to provide documentation to show the expenditure is for a specific project.
- We found a reimbursement for which the grant recipient charged \$999 to various line expenditures so it would be below the Agency's \$1,000 threshold requiring documentation.

Community Mobilization

The Agency reimbursed \$2.1 million to 45 grant recipients in the Community Mobilization Program. We analyzed reimbursements to grant recipients during fiscal years 2010 and 2011, including grant recipients included in our prior audit. We selected four grantees that received the largest amount of grant reimbursements during 2011. The expenditures selected for review totaled \$55,000. We asked grant recipients to provide documentation to support reimbursement requests. We reviewed the material and concluded the expenditures reimbursed were allowable.

Community Schools

The Agency reimbursed \$5.1 million to seven recipients during the audit period for the Community Schools program. Since so few transactions occurred in this program, we reviewed payment files for all seven recipients. The files contained documentation such as real estate purchase documents that provided positive identification of the property purchased and proof of purchase. We determined reimbursements were for allowable costs that were adequately supported.

Emergency Shelter

During the audit period, 39 recipients received more than \$4.2 million in Emergency Shelter grant money. We judgmentally selected \$61,436 of expenditures from four grant recipients to examine. We asked recipients to submit documentation to support that the expenditures claimed for reimbursement were allowable. We determined the reimbursement requests were allowable and adequately supported.

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Housing Non-Taxable Bonds

During the audit period the Department reimbursed 61 grant recipients \$37.5 million for the Housing Non-Taxable Bonds Program. Our review found the Department is effectively managing this grant program so we limited our testing to one \$389,111 reimbursement paid to a grant recipient for land acquisition and preparation costs. We verified that the costs reimbursed were allowable and adequately supported.

Taxable Bonds General Pool

The Department reimbursed 50 grant recipients \$40 million in the Taxable Bonds General Pool program. We requested supporting documentation from the recipient who received the largest single reimbursement from the Department during July 2009 and December 2010. The grant recipient received \$2.4 million for land acquisition and pre-construction expenses. We verified that the costs reimbursed by the Agency were allowable and adequately supported.

Recreation & Conservation Office

Program	Total Grant Expenditures	Expenditures examined	Transactions Reviewed
Estuary and Salmon Restoration Puget Sound	\$1.7 million	\$1.1 million	1
Family Forest Fish Passage Program	\$3.0 million	\$75,000	1
Firearms & Archery Range Recreation Program	\$153,000	\$14,545	1
Salmon State Project	\$11.3 million	\$954,000	2
Salmon Puget Sound	\$24.3 million	\$1.9 million	6
Youth Athletic Facilities	\$842,000	\$100,000	1

We judgmentally selected grant recipients for review and asked them to submit documentation to support expenditures included in reimbursement requests. We found expenditures reimbursed were allowable per the grant agreements and were adequately supported.

A U D I T O B J E C T I V E S A N D R E S U L T S

Office of the Superintendent of Public Instruction

Program	Total Grant Expenditures	Expenditures Tested	Transactions Reviewed
Capital Programs, School Construction Assistance Grant	\$485 million	\$34.5 million	4

We selected four payments for skills centers projects, totaling \$34 million from the Capital Programs School Construction Assistance Skills Centers for review. We examined the payment files at the Office and found school districts are required to submit copies of all expenditure documentation to support reimbursement claims. We found evidence the Agency reviewed documentation submitted by the school districts. We concluded the expenditures reimbursed were allowable and adequately supported.

BEST PRACTICES

We identified several best practices agencies are using to ensure they effectively manage state grant programs and use state grant money properly.

- The Community Mobilization Program at the Department of Commerce completes an annual risk assessment of all grant recipients to determine whether on-site monitoring or a desk audit is needed. On-site visits include a review of original documentation to support reimbursement requests. The Program also assesses grant recipients' allocation methods for overhead and administration costs to ensure the amount charged to the grant is reasonable. Desk audits require the grantee to submit copies of all of the documents to support the reimbursement request selected for testing. The Program uses the same questionnaire for both types of audits.
- The Recreation and Conservation Office has developed a grant monitoring program. It does not require all grant recipients to provide receipts for expenditures, but targets recipients based on a review of risk factors. Based on the review, the grant recipients will be categorized into one of three groups from which different levels of documentation is required with reimbursement requests They are:
 1. The grant recipient submits itemized requests monthly, quarterly or twice a year. Supporting documentation is kept at the recipient's location.

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2. The recipient submits back-up documentation for two reimbursement requests each year for each project. The Office assigns the specific months for each project. The recipient must attach supporting documentation to the reimbursement request.
 3. The grant recipient submits supporting documentation for every reimbursement request for every project.
- The Office of Superintendent of Public Instruction is developing best practices and has new rules and documentation requirements for skill center projects. The Office also provides regular on-site training to school districts.

APPENDIX A: AUDIT CRITERIA

We reviewed the Revised Code of Washington, the Washington Administrative Code and the Office of Financial Management's State Administrative and Accounting Manual to for criteria of how agencies should manage and monitor their state grants. We did identify agency specific criteria for monitoring and managing grant programs but no statewide guidance.

The Office of Financial Management's State Administrative Accounting Manual, Section 75.70.10 indicates that sub-object code NZ should be used for other grants and benefits. However, this sub-object code is used for state, federal and local grant expenditures.

APPENDIX B : AGENCY RESPONSE



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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September 8, 2011

The Honorable Brian Sonntag
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Sonntag:

Thank you for the opportunity to respond to the state grants audit. We support the use of sound management practices to ensure accountability for the use of state resources. We were pleased to note that your audit found that overall payments to grant recipients were allowable and supported and that some agencies were using best practices. We offer the following responses to the audit recommendations.

We recommend that the Office of Financial Management develop a clear definition of state grants.

There are a number of definitions for “grant” available in professional literature, any of which could be combined with a source of funding. A number of years ago, representatives from multiple state agencies came together to form the Interagency Contracts Coordinating Team (ICCT). The ICCT drafted a definition for grants to clearly differentiate grants from contracts. In addition, there is the definition used by your office in this audit that focused on the services to be provided and costs allowable under the grant. While each of these definitions is different, each could be considered clear depending on its application.

We recommend that the Office of Financial Management refine coding in the state’s accounting system so it can identify and quantify state grant expenditures.

The basic elements of the state’s chart of accounts follow generally accepted accounting requirements. The object of expenditure coding structure classifies what good or service is being obtained. Expenditures for grants, benefits and client services should be coded to Object N. The source of funding (i.e., federal, state, private/local) is captured through the use of revenue source and expenditure authority type coding. The use of specific combinations of coding elements reasonably identifies and quantifies state grant expenditures.

We recommend the Office of Financial Management update the State Administrative and Accounting Manual or Internal Controls Resources website to include guidance on grants management to help ensure consistency.

We agree that statewide guidance on grants management could be improved. However, given the diversity of state agency organizations and the programs they administer, a one-size-fits-all



A P P E N D I X B : A G E N C Y R E S P O N S E

The Honorable Brian Sonntag
September 8, 2011
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approach to grants management is not feasible. Currently, Chapter 20 of the *State Administrative and Accounting Manual* (SAAM) provides general guidance based on a nationally recognized internal control framework. It directs agencies to use a risk-based approach to design internal controls tailored to the agency's level of risk due to variables such as line of business, size, complexity of transactions, and past findings. Your audit identified several best practices currently used by the Department of Commerce and the Recreation and Conservation Office that are based on risk assessments.

To supplement the existing general guidance, agencies would benefit from practical examples and tools that they could tailor to their specific circumstances. Given the complexity of state grant programs as evidenced in your audit, we believe the most effective approach in compiling additional guidance would take a multiple agency effort. As resources permit, we will work with agencies, perhaps through existing groups – such as Assistant Directors for Administrative & Management Services or the Financial Management Advisory Council – to collect best practices and develop tools which we will post to our Administrative and Accounting Resources website.

Sincerely,



Marty Brown
Director

cc: Wendy Jarrett, Manager, OFM Statewide Accounting

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