



CONSENT CALENDAR

Office of the City Auditor

May 22, 2001

TO: Honorable Mayor and  
Members of the City Council

FROM: Ann-Marie Hogan, City Auditor

Subject: CIVIC CENTER BUILDING GRANT AUDIT

RECOMMENDATION:

That Council request the City Manager to implement the recommendations contained in the attached report by September 30, 2001 and report back to Council by October 25, 2001 regarding progress made in implementing the auditor's recommendations.

BACKGROUND:

Nothing came to our attention during the audit that we believe would cause the City to receive less than the full \$16.8 million in Hazard Mitigation Grant Program funding for the seismic retrofit of the Civic Center Building. Additionally, no concerns arose regarding the authorization and support documentation for the expenditures reviewed. However, we did note one matter that could be a concern to the FEMA auditors. We also found areas where current procedures could be improved.

The audit recommends:

- That Capital Improvement Projects submit expenditure reimbursement requests for the seismic retrofit of the Civic Center Building, and other million dollar projects, more frequently. For the Civic Center Building seismic retrofit project, more frequent requests would have saved (or earned) the City tens of thousands of dollars in lost interest cost in one year.
- That Capital Improvement Projects establish and implement written policies and procedures aimed at improving efforts to identify and exclude unallowable expenditures from grant reimbursements. Lack of such a procedure could be a concern to FEMA auditors.
- That Capital Improvement Projects periodically compare project information in FUNDS\$ (general ledger) with project funding and expenditure projection information (budget monitoring tool). This will allow a means for significant inaccuracies or omissions to be identified and corrected.

- That Finance and Capital Improvement Projects improve the accuracy and content of the Quarterly Grant Report to the City Manager so that it better serves its intended purpose of enabling oversight over citywide grants billing.

FINANCIAL IMPLICATIONS:

More frequent submission of expenditure reimbursement requests for large grants will result in the City saving (or earning) a significant amount of money each year.

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Approved by:

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Ann-Marie Hogan, City Auditor  
Office of the City Auditor

Civic Center Building Grant Audit  
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**I. PURPOSE AND OBJECTIVE OF THE AUDIT**

The City was awarded a \$16.8 million Hazard Mitigation Grant Program (HMGP) grant for the seismic retrofit of the Civic Center building by the Federal Emergency Management Agency (FEMA). The use of grant funds is subject to review by FEMA.

This audit was requested by the Director of Public Works, and was performed to determine if:

1. accounting and budget monitoring procedures are in place for the project,
2. support documentation is adequate for project expenditures recorded in FUNDS,
3. grant funding is timely requested, received, and deposited,
4. grant reimbursement and grant receivable information is accurately reported in the most recent Quarterly Grant Report issued by Finance.

Audit test work was not performed to determine whether grant funds, or required matching funds, were used for unallowable expenditures. The auditors found that the risk to the City in this area did not warrant the cost of detailed audit test work. We discuss this in more detail later in this report.

**II. SCOPE AND METHODOLOGY**

The scope of this audit was the Civic Center Retrofit Building Project during the period July 1997 through February 2001 (when fieldwork ended).

A limited purpose audit was performed primarily to identify concerns with expenditure reimbursement requests, accounting records, and budget monitoring procedures, associated with the HMGP grant. Consequently, we do not express an opinion regarding the adequacy of the overall financial and managerial operations for the project. Information used to perform the audit was obtained primarily through discussions with City staff and a review of accounting and grant related records and documents.

Audit work was performed in accordance with Government Auditing Standards as prescribed by the Comptroller General of the United States.

**III. BACKGROUND**

The seismic retrofit of Berkeley's Civic Center Building was undertaken to eliminate the building's structural deficiencies. This was accomplished by 1) installing a base isolation system and 2) strengthening shear walls on the upper stories of the building. The Civic Center Building Retrofit project is administered by the Capital Improvement Project (CIP) Division of the Public Works Department. This project is currently expected to cost \$37.5 million, and take up to three years to complete. All aspects of the project are scheduled to be completed by September 2001. As of January 8, 2001, project-to-date expenditures (including encumbrances totaling \$4,197,114) reported in FUND\$ totaled \$33.4 million.

A large portion of the project, approximately \$16.8 million, is funded with HMGP funds. FEMA provides this funding, and the grant is administered by the State of California Governor's Office of Emergency Services (OES). The original HMGP grant required the Federal Government to fund \$15,622,842 of the project and the City was to match with \$9,596,299. On July 20, 2000 the City was granted an additional \$1.2 million in HMGP funding, bringing total Federal funding to \$16,822,842. The HMGP grant pays for project expenditures on a matching basis.

In addition to HMGP funding, the Civic Center Seismic Retrofit Project is also funded by Measure S bond money, the general fund, and departmental savings. In the City's automated accounting system, FUND\$, fund 618 is used to account for all the HMGP funding and expenditures paid for by this funding. Other funds are used to account for other funding sources and related expenditures. Fund 652 is used to account for Measure S general obligation bond funding for the Civic Center project and related expenditures.

All Civic Center Retrofit Project funding and expenditures are accounted for in FUND\$ under two project codes. CIP periodically prints FUND\$ reports which identify the project-to-date expenditures for both these projects. This information is used to prepare expenditure reimbursement requests that are periodically submitted to OES.

As a tool to help insure project expenditures will not exceed authorized funding, the Program Manager in CIP periodically prepares and reviews funding awards, funding allocations, and expenditure projections. Expenditure projections are typically based on known expenditure information, adjusted upward or downward for probable changes. For example, an expenditure projection may be comprised of a contract amount, plus authorized change orders and/or contract amendments, plus anticipated change orders and contract amendments.

As part of the City's effort to monitor grant activity citywide, the Finance Department prepares a quarterly grant report. This report identifies grant receivable and grant billing activity for every City grant including the HMGP grant for the Civic Center Building Seismic Retrofit project. The CIP staff develops HMGP status information for inclusion in the Finance Department report.

**IV. AUDIT SUMMARY**

Nothing came to our attention during the audit that we believe would cause the City to receive less than full HMGP grant funding. We did, however, note one matter which could be of concern to FEMA auditors. We also found areas where current procedures could be improved.

A review of 37% of the Civic Center Retrofit project expenditures recorded in FUND\$ as of January 8, 2001 was performed. All expenditures reviewed pertained to five large contracts. All documents associated with these five contracts, including contract amendments, contract change orders, and contractor invoices, were available. Documents also appeared to have been properly authorized. All goods and services also appeared to be eligible for grant reimbursement with the exception of expenditures associated with the purchase of a building on Sixth Street, and possible exception of expenditures for improvements at this location. This is discussed in more detail later in this summary.

Requests for FEMA reimbursement are being submitted on the required form and signed by an authorized City representative. Project-to-date expenditure information used to calculate the expenditure reimbursement request amount is taken directly from FUND\$. However, because reimbursement requests are not always submitted timely, the City too often has to temporarily loan the project millions of dollars that it would not otherwise have to. We estimate that such practices cost the City tens of thousands of dollars in lost interest on this project. The employee that prepares the reimbursement requests stated that requests were not submitted sooner because of the press of other duties. Another reason contributing to this condition was that there were no written procedures available in CIP regarding timely billings. The Public Works Grant Policy and Procedure Manual also does not encourage grant funding to be timely requested. This concern is addressed in Finding 1.

After the Civic Center Retrofit project is complete, FEMA or OES representatives may conduct an audit. They may find expenditures that they feel should not have been paid for from the HMGP grant and require the City to return this money. However, risk appears very low that this could occur because project expenditures are expected to be approximately \$7.8 million dollars (excluding administration costs which are also reimbursable) more than the \$27,619,141 necessary for the City to receive the full \$16.8 million in grant funding. In other words, in the event that an audit by FEMA finds non-reimbursable expenditures were reimbursed, or matching expenditures which are unallowable, it appears other expenditures could be substituted in their place, and no grant money would have to be returned. Accordingly, we did not examine cost allowability as part of this audit. However, during the audit, it did come to our attention that approximately \$2.1 million, comprised of mostly unallowable expenditures for the purchase and improvement of a building on Sixth Street, were included in expenditure reimbursement requests. This apparently occurred because CIP staff had no available documented procedure for identifying and excluding unallowable expenditures from reimbursement requests. This concern

is addressed in finding 2.

The funding and expenditure projection reports prepared by CIP are necessary for the proper management and monitoring of the project. The methodology used to prepare this report is sound, and the report is updated bi-monthly according to its preparer. However, because funding and expenditure projections in this report are not periodically compared with project-to-date information in FUNDS, the auditors are concerned that FUNDS and monitoring report errors and omissions will not be timely identified and corrected. This concern is addressed in Finding 3.

The City's most recent Quarterly Grant Report shows quarterly grant billing information in a manner likely to cause misinterpretation by the reader. It also incorrectly reported grant receivable information for the Civic Center HMGP grant because Finance and CIP did not obtain a common understanding about the methodology to be used. We also found that the report did not disclose whether grant funding was being requested on a timely basis for any of the grants in the report. For example, the number of months that the City was entitled to request expenditure reimbursement, and did not do so, is not reported for each grant. This is a concern since timeliness of grant funding submissions is believed to be one of the main purposes of this report. These concerns are addressed in Finding 4.

## **V. FINDINGS AND RECOMMENDATIONS**

### **Finding 1: Large Cash Advances From the City Could Be Significantly Reduced.**

The City too often advances the Civic Center Seismic Retrofit Project \$2-\$4 million until grant funding arrives. This condition exists because expenditure reimbursement requests are not submitted to the grantor timely. As discussed below, this practice unnecessarily cost the City tens of thousands of dollars in a year for this project in lost interest.

Three of the six Civic Center project reimbursement requests prepared during the twelve month period ending February 2001 asked for 2.6 million to 4.1 million grant dollars. These requests asked for partial reimbursement of project expenditures incurred during a four to six month period. In these three instances, submission of reimbursement requests covering a two month period instead of a four to six month period would have reduced the amount of money the City had to advance by at least one half. The employee that prepares the reimbursement requests stated that requests were not submitted sooner because of the press of other duties.

To illustrate the cost to the City when grant requests are submitted too infrequently, grant funding request number 9 was submitted for \$4.1 million and covered a six month expenditure period. Had it been submitted as three grant funding requests, each covering only a 2 month

period, the City would have saved (or earned) approximately \$39,000 in interest assuming a 6% interest rate.

Another reason contributing to this condition was that there were no written procedures available in CIP regarding timely billing. Also, the Public Works Grants Policy and Procedure Manual does not encourage timely billing. The manual asks employees to submit expenditure reimbursement claims to grantors at the end of each project, or at regularly spaced intervals during the project. The frequency for these regularly spaced intervals is not addressed.

The concern that the City is not timely requesting expenditure reimbursement from grantors is not new. The outside auditors and Finance have considered this an area where the City needs to improve for a number of years. Also, the Auditor's Office has identified untimely grant billing as a concern in a Public Works Grant Audit issued on January 6, 1998 and a Health and Human Services Grant Billing Audit issued on September 15, 1998. It should be noted that billings for the FEMA audit are substantially more timely than the grants billings sampled in the Engineering Division of Public Works in our previous grants audit of 1997/98. However, since standards for timely billing have not yet been incorporated into the Public Works written procedures, we continue to recommend that this be done.

### **Recommendation 1: Capital Improvement Projects**

Reduce the amount of money the City is advancing the Civic Center Building Retrofit project, and other million dollar projects, by requiring the submission of expenditure reimbursement requests to grantors that A) include no more than two months of expenditures and B) are submitted no more than two months after the last expenditure month in the request. We further recommend that this policy be incorporated into the Public Works Grants Policy and Procedure Manual.

### **Response from Public Works**

*We agree that we should have a policy of submitting large expenditure reimbursement requests to grantors that A) include no more than two months of expenditures and B) are submitted no more than two months after the last expenditure month in the request. CIP also considers that it is important in the context of the overall project management process to adjust billing frequency as necessary to avoid project delay and unnecessary project cost increases. We intend to monitor our compliance with this policy by developing a checklist for each grant that will include due dates for the bi-monthly billings. We intend to develop the checklists and begin using them by May 31, 2001. The Public Works also agrees to establish such a similar policy in their Grants Policy and Procedure Manual.*



**Finding 2: Noncompliance With Grant Funding Terms for Reimbursable Costs**

There is no City procedure for identifying and excluding unallowable expenditures from expenditure reimbursement requests. As a result, this is not being done. This is in non-compliance with the grant terms.

CIP staff feels the grantor has not provided adequate written or verbal instructions so they can accurately identify unallowable expenditures. Therefore, they have taken the position that all expenditures charged to the Civic Center Retrofit project in FUNDS are allowable. Additionally, CIP staff stated that, since project expenditures will far exceed what is required to receive the full grant amount, any expenditures identified by the grantor as unallowable can be replaced with allowable expenditures.

HMGP procedures state allowable costs (for FEMA grant purposes) are costs in compliance with:

- Code of Federal Regulation, title 44 (44CFR) Subpart C,
- Office of Management and Budget Circular No. A-87,
- approved grant project scope of work,
- agreements among the subgrantees, the grantee, and FEMA

Although these documents state what is allowable, CIP staff stated they were still sometimes unclear whether particular expenditures were allowable. They acknowledged that in these instances, there was no procedure or practice of contacting the grantor for clarification and documenting the outcome.

Although the audit did not include test work to identify unallowable expenditures, (See Audit Summary for more information about why this area was not audited), during the audit it came to our attention that \$2.1 million in expenditures associated with the purchase of a building at 2344 Sixth Street and building improvements were mostly unallowable expenditures. However, these expenditures had been included in expenditure reimbursement requests, and reimbursed. These expenditures are largely unallowable under Code of Federal Regulation, Title 44, Section 13.31. The purchase of the Sixth street building was discussed with CIP staff. They stated that they felt they had insufficient information for determining if all, part, or none of this expenditure was allowable. Staff stated that they had not made an effort to clarify this matter with the grantor. During the audit, the Program Manager stated he would remove the purchase of the Sixth street building from a future expenditure reimbursement request submission.

**Recommendation 2: Capital Improvement Projects**

A written procedure for identifying and excluding unallowable expenditures charged to a project in FUNDS should be established and maintained. Unallowable expenditures should not be included in expenditure reimbursement request submissions. Additionally, the City should document its good faith effort to obtain clarification from the grantor when instances arise where

it is unclear if a specific large expenditure is allowable. When possible, the clarification obtained from grantor representatives should be in writing.

Future expenditure reimbursement requests should be adjusted to reflect the removal of all unallowable expenditures, including those associated with the Sixth Street building purchase and building improvements (if applicable as we continue to believe).

**Response from Public Works**

*Agree with the recommendation. The purchase of Sixth Street was included in the reimbursement request in error and we have already removed the purchase of the building from the last reimbursement request. Verbal assurance on the subject of all leasehold improvements, including Sixth Street, was obtained in a meeting between the then CIP manager with State of California OES staff. We will document this meeting as recommended. Written procedures have been developed and implemented for this grant project. Procedures for all of Public Works will be developed and implemented by July 31, 2001. We will continue to review the Civic Center Retrofit Project for unallowable expenditures on an ongoing basis, and remove those we do find from the grant project codes in FUNDS\$ and from grant expenditure reimbursements submissions.*

**Finding 3: Underutilization of FUNDS\$ Information In the Budget Monitoring Process**

The Program Manager for the Civic Center Seismic Retrofit project monitors project funding and spending using a report he prepares outside of FUNDS\$. The methodology used to prepare this report is reasonable, lends itself to being easily updated, and allows financial oversight of the project to prevent overspending. Funding information in the report is primarily based on dollar amounts from the grant and other known sources of funding. Expenditure projections are based on contract amounts plus anticipated contract adjustments, or actual expenditures plus estimated additional expenditures, or budgeted expenditures. However, because this information is not sufficiently and periodically compared with information in FUNDS\$, there is a risk that significant inaccuracies and omissions in the monitoring information or FUNDS\$ may not be detected or detected timely. Ultimately, this could result in significant overspending not being timely detected.

For each of the two Civic Center Seismic Retrofit project codes in FUNDS\$, expenditure information is compiled into a report by CIP staff. However, the report for each project code is infrequently prepared, prepared at different times, and covers different periods of time. Finally, the information in these reports is not in a format compatible with the monitoring report. Therefore, the effectiveness of these project reports as a monitoring tool is greatly reduced.

**Recommendation 3: Capital Improvement Projects**

To the extent possible, FUNDS\$ information should be fully utilized in making comparisons with project funding and expenditure projections and monitoring information produced outside of FUNDS\$. This activity should be documented.

**Response from Public Works**

*CIP has been comparing information from both sources but this review has not been documented. We agree to implement the recommendation.*

**Finding 4: Quarterly Grant Report Should be Improved**

The Quarterly Grant Report for first quarter ending September 30, 2000:

1. details quarterly grant billing information (for each grant) in a manner likely to be misinterpreted by the reader,
  2. reported Civic Center HMGP grant receivable information incorrectly because Finance and CIP did not have a common understanding about the reporting methodology to be used,
  3. does not show the number of months the City is entitled to bill, but has not billed, for each grant, i.e. accumulated unbilled expenditures per month.
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1. The “Summary of Grant Billing” schedule in the Quarterly Grant Report presents billing information in a way that is likely to be misinterpreted by a reader. The amounts shown as billed for each quarter have not actually been billed in that quarter in some cases. No explanation was provided in the report for this. The report includes grant activity billed to the grantor after the end of the quarter, but before the Quarterly Report is issued. For the Civic Center HMGP grant, the schedule reports first quarter grant billing totaling \$1.656 million. This represents June 2000 expenditures that were submitted for reimbursement on November 16, 2000 (submitted to the grantor 1.5 months after the first quarter ended). A Finance Department representative stated, “We normally would not have included this billing in the first quarter report, but because it was a very large amount and because we had been reporting it in previous quarterly reports as not billed, we thought it important to show the City Manager that this billing had been sent.”
  2. There was a miscommunication between the CIP staff and Finance staff about the accounting methodology used by CIP staff to calculate the receivable balance for the Civic Center grant. Initially, the methodology used resulted in the June 30, 2000 grant receivable balance being understated by approximately \$1.2 million dollars (reported as \$4,500,093 instead of \$5,695,884). However, we determined during the course of this audit that there was an additional \$1.2 million related to unallowable expenditures. Inclusion of this amount resulted

in an overstatement of the grant receivables. (See Finding 2 above). To some extent the errors are offsetting. Based on current information, the under-reporting could be reduced to approximately \$600 thousand or \$375 thousand depending on whether a 50% or 75% grant reimbursement factor was applicable to the unallowable expenditure.

Our concern, however, is the fact that Finance and CIP staff members did not work together closely enough to obtain a common understanding of the correct methodology to calculate the grant receivable amount for this grant at fiscal year end. The methodology used to calculate the June 30, 2000 grant receivable balance for the Civic Center HMGP grant was also used in error to calculate subsequent grant receivable information for the Quarterly Grant Report.

3. The Quarterly Grant Report does not show the number of months that the City could bill, but has not yet billed, for each grant. Without this information, it is often not possible for a reader to determine if grants are billed timely. This defeats a primary management purpose of the report.

In our January 1998 Public Works Grants Audit, referred to under Finding 1, the auditors recommended improvements in the distribution, reconciliation, and use of the Quarterly Grant Reports. Our Recommendation 2 stated, in part:

*“The information in the Quarterly Report should alert the project managers and administration to late billings, overdue receivables, and other unrecorded / unprocessed information. It should be used by Public Works to assist with grants management.”*

This recommendation for specific disclosures in the report was not implemented in the reports we have reviewed.

#### **Recommendation 4: Capital Improvement Projects and Finance**

CIP and Finance both need procedures that will insure information in the City Quarterly Grant Report is accurate and not subject to misinterpretation. Working together more closely to insure the accuracy of the report should be a part of these procedures.

#### **Response from Public Works**

*Agree with the recommendation. Written procedures will be developed and implemented by CIP and Finance and reflected in the third quarter (3/31) grants report (which is due June 30).*

#### **Response from Finance**

*Finance agrees.*

**Recommendation 5: Capital Improvement Projects and Finance**

Modify the Quarterly Grant Report to include the following:

- a. For each grant, include the number of months the City is entitled to bill for, but has not yet billed.
- b. For each grant, quarterly grant billing activity should only include the dollar value of the grant reimbursement submissions submitted during the quarter being reported.

**Response from Finance**

- a. *Finance agrees and is in the process of implementing this enhancement.*
- b. *The objective of the report is to determine the timeliness of billing. Finance has implemented an alternative method of reflecting this information in the Quarterly Grants Report. Beginning on the 2<sup>nd</sup> Quarter Report, Finance is including on the Summary of Grant Billing the date that each invoice was sent to the grantor. In addition, Finance intends to include in future reports, beginning with the 4<sup>th</sup> Quarter Report for Fiscal Year 2001, an aged report of billing submitted that will show when billings have been submitted late.*

*Finance agrees with the auditor that the report headings should clearly define what is being reported, and those improvements have been implemented on the 2<sup>nd</sup> Quarter Report.*

**Response from Public Works**

*Agree. Finance is in the process of changing the format of the Quarterly Grant Report to include this information. It will be included on the 3<sup>rd</sup> Quarter report due June 30, 2001.*

<b>VI. CONCLUSION</b>
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The most significant issues addressed in this report are:

- The need to submit expenditure reimbursement requests to grantors that A) include no more than two months of expenditures and B) are submitted no more than two months after the last expenditure month in the request.
- The need to identify unallowable project expenditures in FUND\$ and exclude these expenditures from expenditure reimbursement request submissions.
- The need to periodically compare project information in FUND\$ with project funding and expenditure projection information (Project budget monitoring reports).

- The need to accurately report grant information in the City Quarterly Grant Report, and report in a manner which is not subject to misinterpretation.
- The need to modify the City Quarterly Grant Report so timeliness of grant billing for each grant can be monitored. For each grant, include the number of months the City is entitled to bill for, but has not yet billed. The dollar value associated with this information should also continue to be reported.

Overall, not many concerns came to our attention during this audit. However, we feel that those that did, and the recommendations that we have made, will significantly improve the administration of the Civic Center Seismic Retrofit project and oversight of grant financial activity in general. If the timeliness of billing for grant funding for this grant and others is improved, the City will also see a significant interest benefit. This will come in the form of increased interest income (more City money earning interest) or a decrease in interest expense (the City will have to borrow less money to temporarily loan to projects).