

CPED Grant Management Audit



**City of Minneapolis
Internal Audit Department
April 27, 2020**

Table of Contents

Executive Summary 3

Audit Scope and Approach..... 3

Results 4

Conclusion 5

Background 6

Observations and Management’s Action Plans 9

Executive Summary

As part of our risk-based integrated audit plan approved by the Audit Committee, the City of Minneapolis (the “City”) Internal Audit department conducted an audit of the Community Planning and Economic Development (CPED) grant management processes. The objective of this audit was to determine whether internal controls at CPED are adequate to ensure grant compliance and efficient grant management processes.

CPED receives a variety of grants from local, state, and federal agencies, and also gives out grants to various organizations, businesses and developers. These grants have varying grant periods and requirements. Having a robust grant management program reduces the risk of not meeting the objectives set forth by the grantor, which can impact future funding of CPED programs and initiatives; a robust grant management program also reduces the risk that CPED is not adequately monitoring grant recipients for compliance with grant agreements. Strong controls help ensure grants are used for intended purposes and in accordance with objectives and regulations.

The audit scope and approach, testing results, and conclusion are discussed below, followed by a description of CPED grant management processes in the background section and a detailed description of observations and management’s action plans in the final section.

Audit Scope and Approach

The scope of this engagement included an assessment of the design and operating effectiveness of controls related to grant management processes at the following CPED divisions from January 1, 2018 to December 31, 2019:

Economic Policy & Development

1. Business Development
 - Pass-through grants (Environmental cleanup and Redevelopment)
 - The Great Streets program grants
 - Great Streets Business District Support grants
 - Great Streets Façade Improvement grants
 - Business Technical Assistance Program (B-TAP) grants
2. Employment & Training

Housing Policy & Policy Development

1. Residential & Real Estate Development
 - Project Gap Category grants
 - Down Payment Assistance Loan grants
2. Residential Finance

- Livable Communities Demonstration Account (LCDA) and Livable Communities Demonstration Account – Transit-Oriented Development (LCDA-TOD).

Specifically, the scope of the audit included the following:

CPED Grant Management Policy and Procedures

- A review of available documentation, including policy and procedure documents to ensure the following:
 - Rules, regulations, and grant requirements are adequately communicated to grant recipients
 - Policy and procedures are current and adequate to ensure staff comply with them and have information to adequately perform CPED grant administration duties.

CPED Grant Monitoring

- An assessment of the adequacy of the CPED grant monitoring processes that mitigate financial, compliance and fraud risks of grant disbursements.

Subrecipients and Contractors Monitoring

- An assessment of the adequacy of CPED monitoring of subrecipients and contractors to ensure that grant contracts are appropriately executed, effectively managed, and terms and conditions adhered to.

Reporting

- An assessment of the completeness, accuracy and timeliness of the grant close-out and reporting processes.

Results

As a result of this audit, one issue was identified:

1. CPED grant management policy and procedure documents do not always contain a date indicating when a document was last reviewed and updated. (LOW)

Table 1 below contains the overall evaluation of the severity of the risk and the potential impact on operations. There are many areas of risk to consider including financial, operational, compliance, and reputation when determining the relative risk rating. Issues are rated as High, Moderate, or Low.

Table 1

CPED Grant Management Audit Summary of Observations and Issue Ratings

High	Moderate	Low
		1. CPED grant management policy and procedure documents do not always contain a date indicating when a document was last reviewed and updated.

- **High Risk:** Some key controls do not exist or are not effective resulting in impaired control environment; high risk improvement opportunities require immediate corrective action
- **Moderate Risk:** Adequate control environment in most areas; moderate risk improvement opportunities identified which require corrective action
- **Low Risk:** Satisfactory overall control environment; small number of lower risk improvement opportunities identified which do not require a management action plan

The details of these observations are included within the *Observations and Management’s Action Plan* section of this report, beginning on page 10.

Conclusion

Overall, CPED’s internal controls related to the grant management and administration process are adequately designed and operating effectively. Internal Audit noted an opportunity to improve the process of documenting review and update dates on grant management policy and procedure documents.

Internal Audit would like to thank the following CPED business lines for their cooperation and time during this engagement: Economic Policy and Development (Business Development and Employment & Training); Housing Policy and Policy Development (Residential & Real Estate Development and Residential Finance); Long Range Planning; and Operations and Innovation.

Internal Audit would also like to thank Development Finance and CPED Accounting for their cooperation and time during this engagement.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those 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.

Audit Team for this Engagement

Huguette Essoh Latte, CIA, Internal Audit Manager

Travis Kamm, Internal Auditor
Comlan Alede, Internal Auditor

Interim Director of Internal Audit
Ryan Patrick, CGAP

Office of Internal Audit

Phone: (612) 673-5938

Email: InternalAuditDepartment@minneapolismn.gov

Website: <http://www.ci.minneapolis.mn.us/audit>

Background

CPED is a City of Minneapolis department with the following primary business lines¹:

- Development Services: Manages zoning administration, land use, design and preservation review, construction code services and is the customer service center that serves as the front door for the City's consolidated development activities.
- Economic Policy & Development: Supports investment that grows businesses, jobs and the City's tax base, and works to ensure that Minneapolis residents are competitive for those jobs.
- Housing Policy & Development: Establishes housing policy, finances and redevelops single and multifamily residential real estate to stimulate private investment, increase the tax base and sustain a healthy housing market.
- Long Range Planning: Prepares and maintains the City's comprehensive plan, small area plans, and strategic planning initiatives; conducts research; oversees the Public Art Program; guides development; and partners in plan implementation.
- Operations & Innovation: Supports the entire department by providing internal support services and solutions, interdepartmental coordination, and implementation of enterprise and department goals and policies.

The following are the two business lines and their associated areas that currently receive the most grants:

- Housing Policy & Development
 - Residential Finance
 - Residential & Real Estate Development
- Economic Policy & Development

¹ http://www.minneapolismn.gov/cped/cped_about

- Business Development
- Employment & Training

Grants are used to operate programs, provide services, and fulfill policy and regulatory mandates. CPED receives Federal, State, and Local grant awards from a variety of entities. The tables below show a detail of CPED grant activity by division for 2018 and 2019 YTD.

2019

Fund	Department	Current Budget	Expended as of 12/31/2019	Remaining Available	Percent Remaining Budget
01300 - GRANTS - FEDERAL		3,464,039.29	2,691,327.64	772,711.65	22.31%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT	-	-	-	-
Employment and Training	8900610 - JOBS EMPLOYMENT AND TRAINING	3,010,000.29	2,830,544.05	179,456.24	5.96%
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY HOUSING	0	(949.74)	949.74	
Residential & Real Estate Development	8900230 - SINGLE FAMILY HOUSING	454,039.00	(138,266.67)	592,305.67	130.45%
01400 - CDBG & UDAG FUNDS		9,010,157.18	6,820,059.78	2,190,097.40	24.31%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT	611,659.05	132,700.00	478,959.05	78.30%
Employment and Training	8900610 - JOBS EMPLOYMENT AND TRAINING	1,562,702.83	1,924,557.60	(361,854.78)	-23.16%
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY HOUSING	3,946,295.63	2,602,986.90	1,343,308.73	34.04%
Residential & Real Estate Development	8900230 - SINGLE FAMILY HOUSING	2,889,499.68	2,159,815.28	729,684.40	25.25%
01500 - HOME		3,097,141.73	3,085,967.61	11,174.12	0.36%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT				
Employment and Training	8900610 - JOBS EMPLOYMENT AND TRAINING				
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY HOUSING	1,583,468.00	2,089,418.49	(505,950.49)	-31.95%
Residential & Real Estate Development	8900230 - SINGLE FAMILY HOUSING	1,513,673.73	996,549.12	517,124.61	34.16%
01600 - GRANTS - OTHER		29,205,242.95	18,197,336.88	11,007,906.07	37.69%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT	16,737,369.00	2,148,084.84	14,589,284.16	87.17%
Employment and Training	8900610 - JOBS EMPLOYMENT AND TRAINING	2,249,999.95	2,394,703.87	(144,703.92)	-6.43%
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY HOUSING	9,382,174.00	13,092,510.57	(3,710,336.57)	-39.55%
Residential & Real Estate Development	8900230 - SINGLE FAMILY HOUSING	835,700.00	562,037.60	273,662.40	32.75%
Overall		44,776,581.14	30,794,691.91	13,981,889.23	31.23%

Source: CPED Accounting

2018

Fund	Department	Current Budget	Expended YTD 2018	Remaining Available	Percent Remaining Budget
01300 - GRANTS - FEDERAL		3,599,205.87	3,495,461.02	103,744.85	2.88%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT		-		
Employment and Training	8900610 - JOBS EMPLOYMENT A	3,019,999.87	2,975,161.97	44,837.90	1.48%
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY HOUSING DEV		-		
Residential & Real Estate Dev	8900230 - SINGLE FAMILY	579,206.00	520,299.05	58,906.95	10.17%
01400 - CDBG & UDAG FUNDS		13,346,484.60	13,776,958.87	(430,474.27)	-3.23%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT	65,388.67	786,262.58	(720,873.91)	-1,102.44%
Employment and Training	8900610 - JOBS EMPLOYMENT A	2,311,221.48	2,322,648.88	(11,427.40)	-0.49%
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY	6,894,343.98	7,638,421.88	(744,077.90)	-10.79%
Residential & Real Estate Dev	8900230 - SINGLE FAMILY	4,075,530.47	3,029,625.53	1,045,904.94	25.66%
01500 - HOME		3,968,879.00	3,981,885.97	(13,006.97)	-0.33%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT				
Employment and Training	8900610 - JOBS EMPLOYMENT AND TRAINING				
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY	2,742,195.00	2,376,821.23	365,373.77	13.32%
Residential & Real Estate Dev	8900230 - SINGLE FAMILY	1,226,684.00	1,605,064.74	(378,380.74)	-30.85%
01600 - GRANTS - OTHER		22,142,426.62	11,489,380.16	10,653,046.46	48.11%
Economic Policy & Development					
Business Development	8900320 - BUSINESS DEVELOPMENT	2,284,788.00	2,511,757.11	(226,969.11)	-9.93%
Employment and Training	8900610 - JOBS EMPLOYMENT A	3,199,999.62	1,825,441.03	1,374,558.59	42.95%
Housing					
Residential Finance	8900220 - AFFORDABLE FAMILY	16,537,639.00	6,487,650.62	10,049,988.38	60.77%
Residential & Real Estate Dev	8900230 - SINGLE FAMILY	120,000.00	664,531.40	(544,531.40)	-453.78%
Overall		43,056,996.10	32,743,686.02	10,313,310.08	23.95%

Source: CPED Accounting

CPED goals² include the following:

- Leveraging investments and resources to foster economic development and revitalization in challenged areas.
- Planning, designing and developing sustainable, healthy, livable, high performance and resource efficient communities.
- Strengthening the department's role as leader, innovator and key driver of the City of Minneapolis's regional competitiveness.

Each grant has different approval, application, funding, and reporting requirements, and project coordinators and staff have institutional knowledge in managing grants. Some are structured as pass-through to local organizations, businesses, and developers, and staff may work closely with those stakeholders throughout the process. The City may serve as both a grantee and a grantor.

Observations and Management Action Plans

ISSUE #1

CPED grant management policy and procedure documents do not always contain a date indicating when a document was last reviewed and updated (LOW)

Observation

CPED divisions have established policy and/or procedure documents to allow staff to perform their day to day grant management duties; however, several of the policy and/or procedure documents do not indicate when they were last reviewed and/or updated, and one of the hyperlinks to grant resources generates an error message. This does not indicate that the policy and procedure documents are insufficient or require updates, merely that one cannot verify that they are being reviewed on an annual basis.

Internal Audit reviewed 13 policy and procedure documents (including flowcharts and checklists) and noted that 12 were outdated based on the dates of last update or were missing dates of last revision or review. The 12 policy and procedure documents are the following:

Business Development

- Policy for Great streets Business District Support Contract Extensions - No date of last update or review
- BTAP reimbursement process - Last updated 1/6/2016
- BTAP processing flowchart - Last updated 12/2016
- Façade disbursement process (post-contract payment disbursement and loan information - MINS processing) - Created 02/2017

² http://www.minneapolismn.gov/cped/cped_about

- Façade improvement matching grants flowchart - Last updated 09/2016

Employment and Training

- Federal Competitive Grants Process - No date of last update or review
- Federal & State Formula and Federal & State Competitive Grants Management Procedures - No date of last update or review

Residential & Real Estate Development

- CPED housing development application process (checklist) - No date of last update or review

Development Finance

- Procedures for submitting grant draw requests for site investigation grants - Last updated 5/23/2017
- Procedures for submitting redevelopment grant draw requests - Last updated 11/2018
- Procedures for submitting LCDA & LHIA grant draw requests - Last updated 2/2017

In addition, the hyperlink in the following procedure generates an error message:

- Façade disbursement process - <http://www.minneapolismn.gov/cped/ba/FacadeGrants>

Policy and procedure documents should grow and adapt with an organization, and it is best practice to review and update them, if necessary, on at least an annual basis. The review should not happen only when there are actual changes to the policy and procedure documents, but should be a regular activity to ensure that changes (if any) are incorporated in a timely manner.

Given that there have not been recent changes to CPED policy and procedure documents, they were not reviewed and the dates on them updated to reflect that they are still current. CPED policy and procedure documents owners may not be aware of the need to review policies and procedures on at least an annual basis, causing them to not plan for an annual review.

Ensuring current policy and procedure documents are regularly reviewed and updated decreases the risk of non-compliance with laws and regulations. It also decreases the risk that staff are performing their grant management duties using outdated information or outdated systems or processes. By adding the 'date last reviewed' to policies, organizations proactively demonstrate that policies are current and applicable.

Recommendation

Internal Audit recommends that CPED management ensure that their policy and procedure documents contain both the last update date and last review date to provide evidence that documents are reviewed on at least an annual basis.

Management Action Plan

Management response:

Low-rated audit issues do not require a management action plan.