

DEPARTMENT OF PARKS AND RECREATION

It Needs to Improve Its Monitoring of Local Grants and Better Justify Its Administrative Charges

REPORT NUMBER 2004-138, APRIL 2005

Audit Highlights . . .

Our review of the Department of Parks and Recreation's (Parks) administration of local grants revealed the following:

- Parks principally relies on certifications by recipients that they complied with grant requirements and expended grant funds for allowable purposes.*
 - Parks has not consistently followed its procedures for monitoring recipients' progress on projects, and such monitoring is inconsistently documented.*
 - Parks could not always demonstrate that specific project objectives for grants were met.*
 - The expected results from the use of General Fund grants are at times not specifically defined in legislation and are subject to Parks' interpretation.*
 - Parks does not separately track its actual costs of administering local grants, creating the risk that bond funds have subsidized the cost of administering General Fund grants.*
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Department of Parks and Recreation's response as of September 2005

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits review Department of Parks and Recreation's (Parks) process for administering local grants. Specifically, the audit committee asked us to assess whether Parks' oversight activities ensure that recipients are fulfilling the terms of their grants and spending the funds only on allowable purposes. The audit committee also asked us to determine how Parks defines administrative activities and related expenses, identifying the amounts charged to bond and other funds for administrative expenses.

Finding #1: The Office of Grants and Local Services (grants office) could strengthen its ongoing monitoring of recipients.

The grants office has not consistently followed its procedures for monitoring recipients' progress on projects. As a result, it has not been in a strong position to identify recipients who are not complying with grant requirements. According to its database, the grants office has disbursed \$215 million as advance payments between July 1996 and mid-October 2004. Given the significant amount of funds advanced and the fact that recipients are allowed as much as five or eight years to complete their projects, we expected the grants office to periodically assess recipients' compliance with grant requirements.

The grants office indicated that its project officers have historically conducted annual agency reviews, generally over the telephone, to obtain updates on recipients' progress. However, our review of project files found that annual agency reviews were mentioned in only seven of 14 instances. Further, for these

seven, it was generally unclear exactly what information project officers gathered from the recipients during the reviews. In some instances the files gave no indication of the information obtained or the specific projects discussed.

Parks asserted that, in addition to annual agency reviews, project officers maintain continual contact with recipients, obtaining up-to-date information on the status of projects. However, our review revealed a lack of consistent interaction. For 12 of 18 projects, the files indicated that the grants office went more than 10 months without discussing the status of projects with recipients. For two of the 12 projects, the grants office went longer than two years without obtaining updates. Recognizing its need for improvement, the grants office in December 2004 implemented a new policy requiring recipients to report the status of their projects every six months. However this new requirement is essentially nothing more than another self-certification by grant recipients.

Parks should continue its efforts to more consistently monitor recipients' use of grant funds, including its efforts to implement the new six-month reporting requirement. Additionally, Parks should require recipients to submit evidence of project progress and inform Parks about significant project developments. Finally, Parks should revise its policies to ensure that project officers consistently document their interaction with recipients, providing sufficient detail regarding projects for effective future monitoring.

Parks' Action: Corrective action taken.

Parks indicated that it requires grant recipients to submit a Progress Status Report twice a year for all active projects. As of September 2005, Parks' revised policy requires that it stop payment on projects where this report is past due for more than 15 days. Along with each report, grant recipients will submit photos of work in progress, report on project status, and report on significant project developments and potential obstacles to project completion. Further, recipients sign under penalty of perjury that the information provided in the report is accurate. Finally, Parks states that it continues to contact all recipients that currently have active grant contracts via telephone to conduct annual agency reviews.

Finding #2: The grants office cannot always demonstrate that the public benefited from its local grants as intended.

Because it uses a monitoring process that relies heavily on recipients self-certifying their appropriate use of grant funds, it is important that the grants office conduct thorough final inspections of projects to ensure that the public benefited as intended from the grants. However, our review of project files revealed that the project officers could not always demonstrate that they performed final inspections or that they ensured specific project objectives were met during inspections they did perform. The grants office indicated that it has waived its requirements for final inspections under unusual circumstances, such as small grant amounts and when photographs are available to document the work. However, Parks has not developed procedures outlining when it will waive this requirement, potentially resulting in an inconsistent approach.

Such inconsistency was noted for one \$500,000 grant where the grants office waived the final inspection requirement, accepting photographs instead. Given the significant amount of the grant, it would have been prudent to visit the site to ensure that the facilities mentioned in the contract were built as planned. For two other projects of 23 we reviewed, the grants office contended that the projects were visited but a final inspection not documented, including one grant for \$985,000. Further, we noted that when final inspections were documented, project officers could not always demonstrate that specific project objectives were met before considering the projects complete. By not documenting that a final inspection was performed, or not documenting that specific objectives were met, the grants office is less able to demonstrate that the public benefited as intended from the grant.

Parks should develop procedures describing the circumstances under which the grants office will conduct final inspections, ensuring that all recipients who expend significant grant funds are consistently reviewed. Additionally, it should continue with its efforts to better document its final inspections, ensuring that it demonstrates that specific project objectives were met.

Parks' Action: Corrective action taken.

Parks has revised its policies regarding final inspections. Specifically, Parks' new policy requires its staff to document, among other things, that project scope items are complete and that the facilities are open to the public. Further, Parks has established policies regarding when final payments on projects can be made before a final inspection has occurred. Parks will permit final payment of a project before a final inspection when certain conditions are met, such as when the dollar amount of the grant is relatively small or when circumstances exist which make timely inspection impractical. Parks' policy states that when a final payment has occurred without a final inspection, a final inspection should nonetheless be conducted as soon as practical. As of September 2005, Parks indicated that it is conducting final inspections on all construction projects and verifying documents to confirm work was completed on all other projects. Parks states that final inspection reports and photos are being filed in the project file and in its computer system as appropriate.

Finding #3: The expected results from the use of General Fund grants are not always clear.

Between July 1996 and mid-October 2004, the grants office disbursed more than \$106 million in local grants from the General Fund. However, sometimes the intended uses of these grant funds are not specifically defined. In fact, in our review of the fiscal year 2000–01 budget act, we noted many instances of the Legislature appropriating General Fund grants with only the recipients' names, grant amounts, and project names specified; the budget act provided no information on what was to be accomplished with the funds. The grants office states that in the absence of clear guidance, it works with the recipient

to clarify the project scope. However, the lack of specific legislative direction on the intended use of funds could allow the recipient to potentially submit multiple scope change requests, and the grants office may have little authority to deny the requests.

Sometimes when working with a recipient to identify a project's scope, the grants office interprets what is to be accomplished by the award. For example, the budget act might specify that the purpose of a General Fund grant is to complete construction of a new facility. However, Parks maintains that the legislative intent behind such a grant may not be as clear as it initially appears, questioning whether the Legislature intended the grant to result in a completed facility that would be open to the public or simply to help pay for construction. In such cases the grants office makes decisions as to when it considers a recipient has met its project objectives. However, the grants office does not always clearly establish at the beginning of the grant what the scope of the project is to be and what type of deliverable it expects to see before it makes final payment. Parks indicated that in the future, it will stop action on any General Fund grant when direction is less than perfectly clear in sponsoring legislation. It will ask for further statutory direction from the Legislature before moving forward on the grant.

Should it choose to appropriate General Fund grants in the future, the Legislature should specifically define what is to be accomplished with the funds. In cases where Parks is unclear as to the expected results or deliverables from grant funds appropriated by the Legislature, Parks should continue with its new policy of stopping action on these grants and seeking further statutory language clarifying the intended use of these funds. Finally, to ensure that it is in a stronger position to hold recipients accountable, Parks should clearly document its expectations as to what is to be accomplished with these funds in its grant contracts.

Legislative Action: None.

It appears that the Legislature did not appropriate any General Fund grants to Parks within the Budget Act of 2005. Thus, no legislative action is needed.

Parks' Action: Corrective action taken.

Parks has revised its policies regarding how its grant contracts will document Parks' expectations as to what is to be accomplished with grant funds. Specifically, Parks' new policy requires project scope language in grant contracts to be "sufficiently specific so that the product to be provided by the project is clearly defined." Further, Parks' new policy requires recipients to submit project scope change requests that include a new cost estimate, application, and evidence that the revised project still complies with the law or budget language that established the grant. Further, Parks asserts that it has provided training to its staff regarding its new policies. Finally, Parks provided evidence that it has sought legislative approval for project scope changes for three grants, indicating that it will seek legislative guidance on the intended use of grant funds. Parks indicates that it will advise grant recipients, along with Senate and Assembly members representing the area, whenever there is a question as to the project's scope or applicant.

Finding #4: Parks does not track its actual costs for the grants office's administration of Propositions 12 and 40 programs.

Although Propositions 12 and 40 require Parks to charge only its actual costs of administering each bond's programs to the respective bond fund, Parks does not track its actual administrative costs incurred by the grants office relative to each of the bonds. We focused on the grants office's costs because it is the office that has primary responsibility for monitoring local grants. In general, the actual cost of the grants office is initially charged to a single program cost account, which is funded by Propositions 12 and 40 as well as other funding sources. Although the amounts charged to the account reflect the total cost of the grants office, the costs cannot be directly attributed to Propositions 12, 40, or other funding sources. They typically reflect the total personnel and operating costs of the grants office. Similarly, the sources and amounts funding the single program cost account are not based on the actual work of project officers on programs funded by those sources. The amounts are appropriated by the Legislature based on Parks' administrative cost plan, as modified by statutorily authorized adjustments. Once the program cost account is funded, actual administrative costs are charged to each funding source based on its share of the total funding received by the grants office.

We question whether Parks' methodology for charging the cost of the grants office to bond funds based on the share of funding the grants office receives is valid. Parks' methodology, in effect, allocates more costs to the administration of large grants than that of small grants. However, according to a grants office manager, grant procedures are the same for administering large grants as they are for small grants, and the level of effort necessary to administer a grant does not depend on a dollar amount as much as it does on other variables, such as the experience and knowledge of the recipient and complexity of the project. Further, for federal funds, Parks is required to periodically assess the reasonableness of its cost allocation methodology to actual costs incurred. Following a similar approach for Propositions 12 and 40 funds would be a prudent practice.

To ensure that it is reasonably charging administrative costs to the appropriate funding sources, Parks should perform quarterly comparisons of its actual administrative costs to the costs it recorded and adjust its methodology and recorded costs as necessary.

Parks' Action: Pending.

Parks indicates that it has implemented a week-long sample workload test for the entire grants office staff. The resulting information, and information from subsequent tests conducted in different workload periods, will be utilized to assess the best methods for comparing costs recorded to actual costs. Parks plans to provide an update on this and any subsequent tests in its one-year response to the audit, which is due April 2006.

