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**Community Development Block Grant Audit
of
Clayton Youth Enrichment Services, Inc.**

May 15, 2015



**City of Fort Worth
Department of Internal Audit**

1000 Throckmorton Street
Fort Worth, Texas 76102

Audit Staff

Patrice Randle, City Auditor

Terry Holderman, Assistant City Auditor

Jurelder Solomon, Senior Auditor



A Community Development Block Grant Audit of Clayton Childcare Inc.'s Out of School Time Program was conducted as a part of the Department of Internal Audit's Fiscal Year 2014 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to determine whether:

- Clayton YES! complied with applicable federal regulations and City contract requirements, and
- expenditures charged against the Housing and Urban Development grant were eligible, allocable, and reasonable.

Audit Scope

Our audit included a review for the period October 1, 2013 through March 31, 2014.

Opportunities for Improvement

Accuracy of monthly reimbursement requests

Contract details in agreement with the Action Plan submitted to and approved by HUD

Executive Summary

The Department of Internal Audit conducted a Community Development Block Grant audit of Clayton Childcare, Inc.'s (dba Clayton YES!) Out of School Time Program. For the grant period reviewed, Clayton YES! provided childcare services for approximately 60 clients residing within the city of Fort Worth.

Based on the work performed, Clayton YES! complied with federal regulations and contract requirements related to financial management systems used to account for grant funds. However, we identified numerous incorrect childcare charges on monthly reimbursement requests. The cumulative effect of these errors resulted in additional child care charges that were not, but could have been, charged to the grant and billed to the City, had they been detected and submitted for reimbursement by September 30, 2014.

We also concluded that General Fund monies were used to reimburse Clayton YES! for monthly child care expenditures at Fort Worth childcare locations that were not included in the original Housing and Urban Development Action Plan submitted by the Neighborhood Services Department (formerly the Housing and Economic Development Department). While these were legitimate childcare expenses, the transactions were ineligible for Community Development Block Grant reimbursement because the childcare locations were excluded from the Action Plan. The locations were, however, included in the City's contract with Clayton YES!

These findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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Background

The City of Fort Worth receives an annual allocation of federal grant funds from the United States Department of Housing and Urban Development (HUD) for Community Development Block Grant (CDBG) programs. These programs are administered by the City's Neighborhood Services Department (formerly the Housing and Economic Development Department).

CDBG programs provide communities with resources to address a wide range of unique community development needs. CDBG funds must be used for activities that benefit low and moderate income families and must meet one of the following national objectives:

- benefit low and moderate income persons;
- prevention or elimination of slums or blight; or
- address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community for which other funding is not available.

According to the executed contract between the City of Fort Worth and Clayton YES! (contract number 44913), Clayton YES! was awarded \$82,326.00 in CDBG funds. These funds were authorized to provide scholarships to support eligible Fort Worth children who attend Fort Worth and Keller schools. Under this grant, scholarship assistance is provided for Fort Worth income-eligible households for before and after school, and summer and holiday child care programs. The program goal was to serve 60 unduplicated clients.

Clayton YES! was established in 1975 and currently serves more than 5,700 students in 82 public and private schools throughout Tarrant County. It provides before and after school youth enrichment programs and operates 41 grant-funded childcare programs serving 3,600 students annually. Its mission is to provide quality programs during out-of-school time that meet the diverse needs of our communities' children, youth, and families.



Objectives

The objectives of this audit were to determine whether:

- Clayton YES! complied with applicable federal regulations and City contract requirements; and
- expenditures charged against the Housing and Urban Development grant were eligible, allocable, and reasonable.

Scope

The scope of this audit was October 1, 2013 through March 31, 2014. The contract period for the grant was from October 1, 2013 through September 30, 2014.

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- reviewed executed contract 44913 established between the City of Fort Worth and Clayton YES!;
- reviewed financial transactions maintained by the City's Neighborhood Services Department (formerly the Housing and Economic Development Department), Financial and Management Services Department, and Clayton YES!;
- reviewed applicable federal regulations, as well as Mayor and Council communications;
- conducted site visit at Clayton YES!; and,
- reviewed student accounts receivable records.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review¹. 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.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



Audit Results

From our sample of childcare expenditures, we identified billing errors for a net amount of \$615.82. This amount was not, but could have been, charged to the grant and billed to the City of Fort Worth by September 30, 2014.

We also concluded that the Neighborhood Services Department used \$6,800.00 of their department's General Fund monies to reimburse Clayton YES! for monthly childcare expenditures that were ineligible for CDBG reimbursement. These expenditures were not eligible for CDBG reimbursement because the childcare locations, that incurred costs, were not included in the original Action Plan submitted to and approved by HUD. Management deemed reimbursement from the General Fund necessary because the childcare locations, although not included in the HUD-approved Plan, were included in the City's contract with Clayton YES!.

Overall Evaluation

| High | Medium | Low |
|---|--------|-----|
| Accuracy of monthly reimbursement requests | | |
| City contract inconsistent with HUD-approved plan | | |



Detailed Audit Findings

1. Monthly childcare reimbursements contained billing errors.

Each month, Clayton YES! submits an invoice, expenditure worksheet, and accounts receivable ledgers to the City of Fort Worth (CFW) to be reimbursed for eligible CDBG childcare expenses. The invoice documents the total amount requested for reimbursement, while the expenditure worksheet lists each child and the amount of childcare expenses allocated to the grant for that month. The accounts receivable ledgers serve as supporting documentation for the monthly childcare expenses included on the expenditure worksheet.

Grant fund recipients are responsible for ensuring that information included in routine reports is timely, complete, and accurate. However, from our sample of 60 childcare expenditures, we determined that 52 of the 60 childcare billings (87%) detailed on monthly reimbursement requests were incorrect. Of the 52 that were incorrect, 20 child care expenditures (totaling \$1,718.80) were billed at an amount higher than calculated by the Department of Internal Audit. Thirty-two child care expenditures, totaling \$2,334.62, were billed at an amount lower than calculated. The net amount of all errors was \$615.82.

Recommendation 1A:

The Neighborhood Services Department Director, or the appropriate Department Head, should ensure that staff processing childcare reimbursement requests verify accuracy prior to processing.

Auditee's Response:

Concur. The Neighborhood Services Department will continue to use its process to ensure accuracy of payments to nonprofit agencies. For childcare agencies, the process includes the review of all pay requests by at least 3 Neighborhood Services staff persons' (Project Coordinator, Compliance Specialist, and Accounting Staff) review of family income source documentation to verify accuracy and eligibility of scholarship amounts. In addition, a quarterly review is conducted of all drawdown requests from HUD by the staff person responsible for administering the HUD database which is used to process those drawdowns. The process, however, did not previously include submission or review of parent pay records or accounts receivable printouts to verify that the agency was properly recording these scholarship amounts consistently in their own financial records. These items were covered in a limited manner during [the] Neighborhood Services Department's annual compliance monitoring visits, and more thoroughly by the Internal Audit Department in its financial monitoring of these agencies' contracts. Neighborhood Services has initiated a process of reviewing account receivable records and parent pay records for childcare agencies, as applicable to each agency's particular accounting system and reporting capabilities.

Target Implementation Date:

Process implemented for Clayton Childcare during 2013-2014

To be implemented and monitored for compliance for all Childcares sub recipients during the 2015-2016 contract year

Responsibility:

Program Manager, Community Development Projects Team, Neighborhood Services Department
Barbara Asbury, Compliance Manager of the Neighborhood Services Department, will be responsible for ensuring that the Compliance Division monitors this process both externally and internally.



Audit Comment: To maintain independence, the Department of Internal Audit does not monitor, but instead, conducts audits to evaluate compliance with regulatory and contractual guidelines pertaining to the financial management of grant funds.

Recommendation 1B:

The Neighborhood Services Department Director, or the appropriate Department Head, should assign applicable staff to review monthly reimbursement requests from April through September 2014 (non-sampled months) to verify that reimbursement requests for those months have been calculated properly.

Auditee's Response:

Concur With Finding. However, due to time and staffing constraints in our department, we believe that the requested full follow-up review would not be cost effective relative to the risk level involved. Our Compliance Division is making best efforts to focus on high risk activities, which is consistent with current HUD guidance and regulatory requirements regarding monitoring activities. Also, the agency involved, Clayton YES Childcare, is not currently funded. In addition, our Compliance Division has modified its procedures and checklists for monitoring to include review of Accounts Receivable for all child care providers to ensure that amounts billed to the City match the total fees charged to parents and recorded in each agency's financial system.

Target Implementation Date: N/A

Responsibility: N/A

Audit Comment: The Department of Internal Audit agrees that efforts should be focused on high risk activities. However, since childcare billings errors were identified during our audit (in excess of 80% of our sample), the intent of this recommendation was to allow management to identify, detect and correct subsequent billing errors prior to a future HUD audit of this program, which could result in questioned costs.

2. Childcare locations listed in the City contract did not agree with childcare locations submitted to and approved by HUD.

Clayton YES! operates over 40 child care locations in the Fort Worth area. Each year, the Neighborhood Services Department prepares an annual HUD Action Plan which lists all the childcare locations for which CDBG funding may be used to help subsidize childcare expenses for middle to low income families. HUD approves the Action Plan and then the Plan is advertised for subsequent presentation to the public. If there are any significant changes to the Action Plan, HUD requires a 30-day public notice to disseminate the information to the public.

At the time of contract negotiations, Clayton YES! added additional child care locations to those originally advertised in the HUD Action Plan. As a result, childcare services were provided at locations that were not in the original HUD Action Plan.

Services provided at these locations were, therefore, not eligible for reimbursement from CDBG funds. Since the locations were included in the signed contract between the City and Clayton YES!, the Neighborhood Services Department reimbursed grant expenditures totaling \$6,800.00 from the "Contractual Services" account within their departmental General Fund budget. The Neighborhood



Services Department identified the oversight and corrected the issue with public notice and a budget amendment.

Recommendation 2:

The Director of Neighborhood Services Department, in conjunction with the City Attorney, should ensure that all contracts only include locations that are included in the HUD Action Plan.

Auditee's Response:

Concur. Neighborhood Services Requests for Proposals for future program year will include a requirement that all proposed locations for services must be listed in the agency's proposal, and no additional locations may be included in the contract.

Target Implementation Date: August 15, 2015, Due date for Action Plan Submission to HUD

Responsibility:

Leticia Rodriquez, Community Development Coordinator for HUD Public Services Grants RFP Process for 2015-16

Christian Anderson, Planner responsible for preparation of Final HUD Action Plan Documents

Compliance Manager and Compliance Division review the Public Services RFP and Action Plan prior to publication to ensure compliance with HUD regulations and inclusion of language that will assist the City in complying



Acknowledgements

The Department of Internal Audit would like to thank the Neighborhood Services Department and Clayton YES! for their cooperation and assistance during this audit.