



DATE: June 19, 2009

TO: RANDY COOPER, Director, PARCS
JERRY HAYNES, Assistant Director, PARCS
PATRICIA A. CLARY, President/CEO, United Way of Fresno County

THROUGH: RENENA SMITH, Budget Director
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor
Budget and Management Studies Division - Internal Audit

SUBJECT: CONTRACT AUDIT – CITY OF FRESNO AND UNITED WAY OF FRESNO
COUNTY – FINAL AUDIT REPORT

Attached is the Final Audit Report of the Contract between the City of Fresno and the United Way of Fresno County for the period October 1, 2007 through September 30, 2008. This audit was requested by PARCS Management.

Department and Contractor Management have the responsibility for implementation of Internal Audit recommendations and for establishing an effective system of internal controls. Internal Audit believes the complete implementation of our audit recommendations by the Contractor and PARCS will aid in accomplishing improved customer satisfaction, contract compliance, and financial management.

Internal Audit will perform a follow-up audit six to twelve months after this report is issued to verify that each recommendation has been implemented or that the issue documented in the finding has been resolved in a manner that addresses the weakness or risk identified. The follow-up audit is performed in accordance with AO 1-12 and Government Auditing Standards.

We wish to thank the PARCS and United Way staff for their assistance and cooperation during the course of this audit. If you have any questions, please contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachments

cc: Ashley Swearengin, Mayor
Council Members
Andrew T. Souza, City Manager
Bruce Rudd, Assistant City Manager
Margaret Arechiga, Deputy City Manager
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INTERNAL AUDIT

FINAL AUDIT REPORT

**Contract Audit – PARCS Department
City of Fresno and United Way of Fresno County**

**Performed By:
Bob Koury, Principal Internal Auditor
Budget and Management Studies Division – Internal Audit**

Issued on June 19, 2009

Executive Summary

Based on the results of this audit of the City of Fresno and United Way of Fresno County Contract, the more significant audit findings are summarized below. This audit report is intended to assist both PARCS and United Way in the performance of their responsibilities, administration, recordkeeping, oversight and contract compliance related to the contractual arrangement between both parties.

Key Audit Findings

- Compensation payment(s) to Contractor (United Way) and detailed monthly statements for services performed (expenses incurred) were not completed in compliance with the Contract.
- Some Contract “Program Deliverables” were not fully completed nor was adequate supporting documentation available for contract compliance verification of such “deliverables”.
- Monthly Reports were not submitted to PARCS by United Way and the Annual/Year-End Reports were not submitted to PARCS by the due date stipulated in the Contract.
- Lack of consistent and formalized communication between PARCS and United Way related to the Contract terms and conditions, unclear “Program Deliverables”, and non-receipt and/or untimely reports required per the Contract.

Key Audit Recommendations to PARCS and United Way Management

- Detailed monthly statements of services performed and expenses incurred by United Way for the preceding month should be submitted to PARCS and compensation of said expenses should be processed by PARCS on a monthly basis, as required by the Contract. These monthly expenses incurred and claimed by United Way should be reviewed, approved and paid by PARCS, up to the maximum authorized Contract compensation amount, i.e. \$100,000.
- United Way of Fresno County should maintain sufficient and adequate supporting documentation for all “Program Deliverables” they are responsible to complete and for the compensation they receive from the City for all services described in EXHIBIT A of the Contract. This supporting documentation should also be organized in a manner for ease and quick access for verification by the City of Fresno’s authorized representatives, e.g. all grant proposals (applications) for the contract year, all actual grant awards with total value for the contract year, all individualized mentoring/consultation sessions with nonprofit organizations for the contract year, etc.

- United Way of Fresno County should submit all required monthly and annual reports to the City (PARCS) appropriate staff by the established due dates stipulated in the Contract. All reports should be properly dated when submitted to PARCS, with appropriate confirmation of receipt being provided to United Way by PARCS staff receiving such reports.
- Appropriate staff from both PARCS and the United Way of Fresno County should meet at least quarterly during the contract period to discuss any and all contract compliance issues and the status to date of all “Program Deliverables” as stipulated in the Contract. Any other reporting requirements or documentation to support the “Program Deliverables” may also be requested by PARCS in conjunction with these meetings as administrators over this Contract. These quarterly meetings should also be documented for future reference and/or audit purposes.

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INTRODUCTION

Background

The City of Fresno – PARCS Department entered into a contract with United Way of Fresno County, effective October 1, 2007. This was a one year contract ending September 30, 2008. Under this contractual arrangement with the City of Fresno, United Way of Fresno County was to provide professional resource development services for training of nonprofit organizations in grant writing skills, building the capacity of such organizations, and writing grants. United Way's sole compensation for satisfactory performance of all services required or rendered pursuant to the contract was a total fee of \$100,000.

Although the contract audited and reported on in this report was for the period October 1, 2007 through September 30, 2008, it should be noted that a current contract is also in place between the City of Fresno and United Way of Fresno County for the period October 1, 2008 through September 30, 2009. This audit report and related audit recommendations should therefore be applied and implemented, as appropriate, to the current and future contracts for immediate improvements in contract compliance, fiscal and budgetary controls, reporting and communication between the two parties, and enhanced recordkeeping and documentation.

Audit Objectives

The primary audit objectives of this contract audit were to determine and provide assurances that:

- ▶ The Contractor (United Way of Fresno County) has established and maintains an adequate system of internal controls to assure that all City compensation to the Contractor is adequately accounted for, documented, and accurately reported;
- ▶ Both Contractor and City (PARCS) responsibilities, as stipulated and required by the contract, have been adequately complied with by both parties;
- ▶ The specific "Program Deliverables", as set forth in the contract, have been complied with by the Contractor and are completely and sufficiently documented for audit and compliance verification purposes; and
- ▶ All applicable laws, regulations, policies and procedures have been adequately complied with by the Contractor in the performance of this contract for the City of Fresno (PARCS).

Audit Scope and Methodology

Internal Audit performed this contract audit during March and April 2009, in accordance with AO 1-12 and Generally Accepted Government Auditing Standards.

To accomplish our audit objectives, we thoroughly reviewed the City of Fresno and United Way of Fresno County contract; interviewed appropriate staff from both PARCS and United Way; reviewed all available documentation provided to Internal Audit by both PARCS and United Way; and tested

applicable and sufficient records/documentation in order to form conclusions on the adequacy and accuracy of such records for audit and contract compliance purposes. We performed other audit procedures as considered necessary under the circumstances.

Conclusion

Internal Audit has identified specific areas related to the City of Fresno and United Way of Fresno County contract for the period October 1, 2007 through September 30, 2008. These areas need to be addressed as soon as possible for improved internal controls and fiscal accountability, contract clarity and compliance, monitoring, and recordkeeping and documentation.

Internal Audit believes the complete implementation of our audit recommendations by the Contractor and PARCS will aid in accomplishing improved customer satisfaction, contract compliance, and financial management.

REPORT SECTIONS – AUDIT RESULTS AND RECOMMENDATIONS

I. Compensation and Need for Enhanced Budgetary and Fiscal Accountability

Section 3.(a) of the Contract specifically states: “*Consultant’s sole compensation for satisfactory performance of all services required or rendered pursuant to this Agreement shall be a total fee of \$100,000. Such fee includes all expenses incurred by Consultant in performance of the services.*”

Section 3.(b) of the Contract specifically states: “*Detailed statements shall be rendered monthly for services performed in the preceding month and will be payable in the normal course of City business.”*

During the audit, it was noted that:

- No detailed monthly statements for services performed (expenses incurred) in the preceding month were submitted to PARCS by United Way throughout the contract period for reimbursement purposes, and;
- The entire compensation of \$100,000 was paid to United Way by PARCS on January 29, 2008, instead of on a monthly basis as stipulated in the Contract. Lump-sum Contract payments to Contractors for services and/or “program deliverables” not yet completed or provided is not good practice nor good fiscal accountability of such City funds.

Audit Recommendations

1. Detailed monthly statements of services performed and expenses incurred by United Way for the preceding month should be submitted to PARCS and compensation of said expenses should be processed by PARCS on a monthly basis, as required by the Contract. These monthly expenses incurred and claimed by United Way should be reviewed, approved and paid by PARCS, up to the maximum authorized Contract compensation amount, i.e. \$100,000.

Note: This recommendation should be implemented for any future contractual arrangements between the City (PARCS) and United Way since the full compensation of \$100,000 has already been paid to United Way by PARCS for both the contract audited as well as for the current contract October 1, 2008 through September 30, 2009.

2. If both the City (PARCS) and United Way Management desire to continue the practice of paying United Way their full compensation in one initial payment (prior to all required services under the Contract being performed), then the Contract should be amended accordingly to document this agreed upon compensation stipulation.

PARCS Management Responses to Recommendations 1 & 2

- 1. As recommended, detailed monthly statements of services performed and expenses incurred by United Way for the preceding month will be requested from United Way for any future contractual arrangement between the City (PARCS) and United Way, and compensation of said expenses will be processed by PARCS on a monthly basis, as required by the Contract. These monthly expenses incurred and claimed by United Way will be reviewed, approved and paid by PARCS, up to the maximum authorized Contract compensation amount, i.e. \$100,000.**
- 2. The City (PARCS) does not desire to continue the practice of paying United Way their full compensation in one initial payment (prior to all required services under the Contract being performed); therefore no Contract amendment is required.**

United Way Management Responses to Recommendations 1 & 2

United Way concurs with the notes of the auditor and agrees that an annual budget should be presented to the City at the beginning of a contract year. Billing should be in the most efficient way for both systems to provide a high quality program.

A budget for the current contract year will be provided at the July 14, 2009 meeting with UWFC and the PARCS department for discussion on how to move forward given the 'Note'.

Although not required in the current City/United Way Contract, the submission of an Annual Operating Budget to the City (PARCS Management) by United Way reflecting how they will expend the City's allotted funds will enhance fiscal accountability and clarity in the usage of these funds prior to the commencement of the Contract. This proposed Budget would include all United Way staffing as well as any outside individuals incurring expenses specific to the City/United Way Contract.

Audit Recommendation

- 3. For any future contracts entered into between the City of Fresno and United Way of Fresno County, an Annual Detailed Operating Budget should be submitted to the City (PARCS) by United Way detailing how the City funds will be expended to provide the required services under the Contract. This approved Budget would then be utilized by both PARCS and United Way to monitor the expenditure of funds on a monthly basis throughout the contract period.**

PARCS Management Response to Recommendation 3

Furthermore, the City (PARCS) is in agreement with the submission of an Annual Detailed Operating Budget by United Way for any future contract reflecting how the City funds will be expended to provide the required services under the Contract, which we agree will enhance fiscal accountability and clarity in the usage of these funds prior to the commencement of the Contract. This proposed Budget will

include all United Way staffing as well as any outside individuals incurring expenses specific to the City/United Way Contract. This approved Budget would then be utilized by both PARCS and United Way to monitor the expenditure of funds on a monthly basis throughout the contract period. PARCS will initiate this process following discussing with United Way of Fresno in the near future.

United Way Management Response to Recommendation 3

United Way concurs with the notes of the auditor and agrees that an annual budget should be presented to the City at the beginning of a contract year. Billing should be in the most efficient way for both systems to provide a high quality program. This will be a topic for discussion at the July 14, 2009 meeting.

II. Contract Scope of Services, Program Deliverables and Supporting Documentation

EXHIBIT A of the City/United Way Contract specifically describes the scope of services and “Program Deliverables” that are to be performed by United Way which shall be completed prior to the expiration of the Contract on September 30, 2008. Briefly stated, United Way of Fresno County was to provide “professional resource development services for training of nonprofit organizations in grant writing skills, build the capacity of such organizations and writing grants.” In addition to the specific “Program Deliverables” that United Way was to complete by September 30, 2008, monthly and annual reports were also required to be submitted by United Way to the City (PARCS), with specific due dates.

The Internal Auditor reviewed and examined all supporting documentation and reports made available, upon his request, by both PARCS and United Way staff for audit and contract compliance verification. As a result of the audit and based on the documents examined, the following status/finding for each of the seven contract “Program Deliverables” was noted:

- ▶ “Employ, manage and evaluate a full time expert as the Program Manager”

Completed

- ▶ “Submit at least 60 proposals with a cumulative request total of at least \$2,000,000”

Not fully completed nor adequately supported by documentation – Per the 2007-08 Annual Report prepared by United Way and provided to the City (PARCS), only 56 grant proposals (applications) were completed and submitted by participating organizations, representing total funding applied for in the amount of \$5,120,221.

In addition, supporting documentation for the 56 grant proposals/applications was not provided to the Internal Auditor for verification during the audit. This was either due to the fact that a copy of the specific proposals/applications was not maintained by United Way in support of this specific “program deliverable” or, if the

documentation did exist at United Way, it was not easily or readily accessible for audit purposes.

- ▶ *“Achieve a funding success rate of at least 10% for an actual value of \$200,000 of grants received”*

Completed per the 2007-08 annual report but not adequately supported – Per the 2007-08 Annual Report prepared by United Way and provided to the City (PARCS), \$3,868,221 in new grant funding was received by participating nonprofit organizations. However, supporting documentation for the \$3,868,221 in grant funding was not provided to the Internal Auditor for verification during the audit. This was either due to the fact that a copy of the approved “grant award” for the applicable nonprofit organization was not maintained by United Way in support of this specific “program deliverable” or, if the documentation did exist at United Way, it was not easily or readily accessible for audit purposes.

- ▶ *“Provide individualized mentoring on proposals for at least 20 nonprofit organizations to develop capacity levels, at least 10 of whom have not been previously aided by the Program”*

Completed per the 2007-08 annual report but not adequately supported – Per the 2007-08 Annual Report prepared by United Way and provided to the City (PARCS), “35 organizations received focused, private counseling and/or editorial services”. However, this specific contract “program deliverable” appears to be unclear and difficult to report on and verify completion, for the following reasons:

- a) The definition and exact meaning of “mentoring” does not appear to be clear to both PARCS and United Way based on discussions with both parties during the audit;
- b) Different terminology is used related to this particular “program deliverable” in the monthly and annual reports prepared by United Way, e.g. “counseling and/or editorial services” (annual report), “counsel/mentoring” (monthly reports).
- c) Supporting documentation for the 35 “mentoring” sessions was not provided to the Internal Auditor for verification during the audit. This was either due to the fact that the sessions themselves were not documented or, if the documentation did exist at United Way, it was not easily or readily accessible for audit purposes.

- ▶ *“Provide grant writing workshops with handouts for all attendees”*

Completed

- ▶ *“Provide 12 monthly reports and year-end report of activity and results”*

12 Monthly Reports – Completed but not submitted to the City - No monthly

reports were received from United Way per PARCS staff (MA II) during the audited contract period, nor for the current contract period to date. However, the monthly reports entitled “Monthly Report to the City of Fresno” and “Resource Development Services Monthly Impact Report” for the audited contract period were reviewed and obtained from United Way during the audit. These monthly reports were due to the City (PARCS) by the 15th day of the following month, per the contract.

Year-end (Annual) Report of Activities and Results – Completed but untimely - The year-end report for 2007-08 was due to the City (PARCS) by October 30, 2008, per the contract. However, the final report was not submitted by United Way to PARCS until January 26, 2009, approximately 3 months late.

► “Provide a year end financial report”

Completed but untimely – The Financial Report was submitted to the City (PARCS) on January 29, 2009, as part of the Annual Report, which was due by October 30, 2008. (Copy Attached as **Attachment A** to this audit report)

Audit Recommendations

4. Appropriate staff from both the United Way of Fresno County and PARCS should immediately meet, discuss and clarify the meanings for all seven (7) “Program Deliverables” within the current Contract. As a result of this meeting, clarification and agreement as to the “Program Deliverables” should be formalized in writing between both parties to the Contract.
5. United Way of Fresno County should submit all required monthly and annual reports to the City (PARCS) appropriate staff by the established due dates stipulated in the Contract. All reports should be properly dated when submitted to PARCS, with appropriate confirmation of receipt being provided to United Way by PARCS staff receiving such reports.
6. United Way of Fresno County should maintain sufficient and adequate supporting documentation for all “Program Deliverables” they are responsible to complete and for the compensation they receive from the City for the satisfactory performance of all services described in EXHIBIT A of the Contract. This supporting documentation should also be organized in a manner for ease and quick access for verification by the City of Fresno’s authorized representatives, e.g. all grant proposals (applications) for the contract year, all actual grant awards with total value for the contract year, all individualized mentoring/consultation sessions with nonprofit organizations for the contract year, etc.
7. Appropriate staff from both PARCS and the United Way of Fresno County should meet at least quarterly during the contract period to discuss any and all contract compliance issues and the status to date of all “Program Deliverables” as stipulated in the Contract. Any other reporting requirements or documentation to

support the “Program Deliverables” may also be requested by PARCS in conjunction with these meetings as administrators over this Contract. These quarterly meetings should also be documented for future reference and/or audit purposes.

PARCS Management Responses to Recommendations 4 - 7

- 4. The City (PARCS) has contacted the United Way of Fresno County to meet, discuss and clarify the meanings for all seven (7) “Program Deliverables” within the current Contract to clarify and agree as to the “Program Deliverables.” Once the meeting transpires staff will formalize in writing what is expected from both parties to the Contract.**
- 5. The City (PARCS) supports the recommendation for United Way of Fresno County to submit all required monthly and annual reports to the City (PARCS) appropriate staff by the established due dates stipulated in the Contract. All reports should be properly dated when submitted to PARCS, with appropriate confirmation of receipt being provided to United Way by PARCS staff receiving such reports.**
- 6. The City (PARCS) supports the recommendation for United Way of Fresno County to maintain sufficient and adequate supporting documentation for all “Program Deliverables” they are responsible to complete and for the compensation they receive from the City for the satisfactory performance of all services described in EXHIBIT A of the Contract. This supporting documentation should also be organized in a manner for ease and quick access for verification by the City of Fresno’s authorized representatives, e.g. all grant proposals (applications) for the contract year, all actual grant awards with total value for the contract year, all individualized mentoring/consultation sessions with nonprofit organizations for the contract year, etc.**
- 7. The City (PARCS) agrees to quarterly meetings during the contract period to discuss any and all contract compliance issues and the status to date of all “Program Deliverables” as stipulated in the Contract with United Way of Fresno. Staff will schedule the quarterly meeting and discuss any other reporting requirements or documentation to support the “Program Deliverables” as administrators over this Contract. These quarterly meetings will also be documented for future reference and/or audit purposes.**

United Way Management Response to Recommendation 4

A meeting has been scheduled for July 14, 2009 at 2:30 PM at the PARCS department with UWFC and PARCS to meet, discuss and clarify the meanings of all seven (7) Program Deliverables, at which time, United Way will bring documentation for programmable deliverables that were implemented for the City Contract beginning October 2008 to determine if compliance to the intent of the contract is in place or further evaluation and clarification is needed.

United Way Management Response to Recommendation 5

United Way concurs.

United Way Management Response to Recommendation 6

United Way concurs that documentation is absolutely vital to maintain the integrity and intent of a contract that is based on measurable outcomes. In looking to the 2009-2010 year, United Way will look forward to a conversation around appropriate measures for intended outcomes.

United Way Management Response to Recommendation 7

United Way concurs.

III. Professional Liability (Errors and Omissions) Insurance Coverage

Section 8 and specifically Exhibit B of the City of Fresno/United Way of Fresno County Contract requires minimum limits of insurance be maintained by United Way throughout the contract period.

Upon examination of the "Certificates of Liability Insurance" effective during the contract period audited, as well as for the current contract period, all required minimum limits of insurance were established except for the Professional Liability (Errors and Omissions) Insurance Coverage. The Contract and specifically Exhibit B to the Contract requires \$1,000,000 per claim/per occurrence and \$2,000,000 policy aggregate as the minimum limits of insurance. The \$1,000,000 per claim/per occurrence coverage is in place; however, only \$1,000,000 is in place for policy aggregate coverage.

Audit Recommendation

8. United Way of Fresno County should immediately procure the contract required policy aggregate insurance limit of \$2,000,000 for the Professional Liability (Errors and Omissions) Insurance Coverage to be in compliance with the Contract with the City of Fresno.

PARCS Management Response to Recommendation 8

The City (PARCS) has requested that the United Way of Fresno provide a valid Certificate of Insurance procuring the contract required policy aggregate insurance limit of \$2,000,000 for the Professional Liability (Errors and Omissions) Insurance Coverage to be in compliance with the Contract with the City of Fresno.

United Way Management Response to Recommendation 8

United Way will provide the verification of increased coverage to the PARCS Department on or before July 14, 2009.