CITY OF RICHMOND

Non-Departmental Charitable Organizations Application and Oversight Process

Office of the City Auditor (OCA)
Audit Report

Riad Ali, CPA, CIGA
City Auditor

Audit Conducted by:
Bret Lewis, CPA, CFE, MBA, Deputy City Auditor

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The City did not adequately monitor performance, verify fund use, and ensure compliance with reporting requirements for non-departmental charitable organizations grants.

Executive Summary

The Office of the City Auditor (OCA) conducted this audit as part of the FY 2024 audit plan approved by the Audit Committee. The objective of this audit was to evaluate the non-departmental budget process for compliance and monitoring for return on investments of funding allocated. The audit specifically focused on the charitable organization portion of the non-departmental budget.

Background

As permitted by State Code, the non-departmental grant program enables the City to partner with nonprofit organizations to strategically achieve its goals and provide residents with additional services and programming not currently offered by City agencies. For FY 2023, funding levels for the non-departmental charitable organizations totaled $5,945,926 for 61 programs. Nonprofit organizations submitted applications, which the City reviewed to select and fund eligible recipients. Once the final budget was approved, the City disbursed the funds and managed the grants through various departments.

Overall Conclusion

The City's process to award and monitor non-departmental charitable organization grants was inconsistent. It lacked centralized policies, and each department used its own approach without documented procedures. This led to differences in the application review process as criteria established in the application guidelines were not adhered to. Ultimately, applicants who did not appear to meet the criteria were recommended for City funds while applicants who appeared to meet the criteria were not recommended for funding or had their funding request reduced.

Further, the City's monitoring process is inadequate to determine whether the City is receiving a return on its investments. Instead of verifying documentation and validating outputs, grant managers generally relied on grantees' self-reported information, trusting that the work was completed as reported. Non-departmental grants should be awarded and monitored with the same rigor as federal or state grants, as these funds represent taxpayers' money intended to provide important services.

Similar findings regarding decentralized grant management, a lack of oversight and monitoring, a lack of measurable performance metrics, maintaining documentation, and insufficient training were all noted in several prior audits. Several recommendations remain open related to these topics. Without adequate staffing, training, monitoring, and oversight, the City is exposed to significant risks, including fraudulent use of grant funds. The current environment creates vulnerabilities that could allow fraud to go undetected, undermining public trust and the effectiveness of these programs.

Summary of Opportunities for Improvements

The City lacked formal policies and procedures governing the grant-awarding process for non-departmental charitable organizations, leading to inconsistent practices across departments and deviations from best practices recommended by state and federal guidelines. Departments generally reviewed and recommended grants without either standardized criteria or adhering to published criteria. The application package required the applicant to submit the application on time and receive a score of 75 or higher to be considered for an award. Applications were reviewed by Human Services, Department of Public Works (DPW), and Department of Planning and Development Review (PDR). Human Services was the only department that assessed applicants against the established scoring criteria and scored them. The OCA reviewed the scores given by Human Services and noted inconsistencies in applicants who were recommended for awards at every review level. Specifically for the FY 2023 award process:

- Human Services, which reviewed the majority of applications, failed to adhere to its published criteria and extended deadlines without public notice. They recommended awards totaling $1.15 million to applicants who did not meet published award criteria or the established deadline while reducing funds for applications that met the criteria.

- Department of Public Works (DPW) and Department of Planning and Development Review (PDR) had no established review criteria and demonstrated confusion over their review responsibilities, further undermining the objectivity of the process.

- The City Administration's review lacked a formal evaluation framework, and City staff informed the OCA that City Administration was not supplied with the scores. This led to inconsistencies when compared against the only documented scores. For example, 14 applicants that did not meet criteria outlined in the application guidelines were recommended for $1,364,238 in awards in the Mayor's proposed budget, and 35 applicants that met the criteria were removed or had their funding reduced, totaling $2,452,649.

The OCA also found critical information, such as total available funding, was not shared with reviewers or applicants. In addition, we found poor conflict-of-interest management and inadequate records retention. During the FY 2023 award process, departments failed to maintain conflict-of-interest forms or ensure that reviewers disclosed potential conflicts. In addition, key records, such as individual scoring sheets, were discarded, potentially violating state retention requirements. These deficiencies increased the risk of bias and inefficiency in the award process, underscoring the need for standardized policies.

The City Code requires the Chief Administrative Officer (CAO) to provide a report to City Council detailing the performance of non-City entities that received prior-year funding at least 30 days before the Mayor's annual budget submission. However, this report had not been

provided. In April 2024, the Education and Human Services Committee received a delayed and incomplete presentation on FY 2023 performance, which included only Human Services-managed grants and lacked detailed performance data for FY 2024.

With the delay and lack of comprehensive information, City Council may find it difficult to determine where to best allocate non-departmental funds when approving the Mayor's budget. The final approved budget for FY 2023 included $1.45 million in grants awarded to 15 organizations that did not meet the published scoring criteria or deadlines noted in the application packet, while 34 organizations who did meet the criteria and deadline requirements were denied $2.37 million in requested funding.

Finding 3

The City's grant management and oversight practices lack critical elements of effective internal controls, as identified by the U.S. Department of Justice (DOJ) and the Government Accountability Office (GAO). Effective oversight is essential to ensure grant funds are used as intended, recipients are eligible, and performance objectives are met. However, the OCA found that the City's decentralized grant management process failed to implement standardized policies, measurable performance metrics, and adequate monitoring practices.

The OCA's review of 25 grants totaling $2.32 million revealed issues in the City's monitoring practices, including unmeasurable performance metrics, inconsistent site visits, and insufficient desk reviews. Performance measures in many grant contracts lacked specificity, making it difficult for the City to evaluate whether grantees fulfilled their obligations. Moreover, grant managers often relied on grantees' self-reported compliance without verification, and there were no significant consequences for grantees who failed to meet contractual requirements. Oversight was further weakened by the absence of systematic site visits and desk reviews, with only 13 site visits conducted across the 25 grants reviewed. The OCA notes the responsibilities for administering and monitoring the grants were delegated to various City departments and this responsibility was in addition to their regular daily operational duties. They were expected to ensure compliance with grant terms and guidelines and contract terms with limited training and staffing. The City does not have a centralized grants management and oversight function to assist the departments.

Additionally, 24% of grantees reviewed failed to submit required reports, and most were not asked to provide detailed accounts of how City funds were spent. The City's lack of a formalized process for verifying grant fund usage increases the risk of funds being misused or retained without proper justification. These deficiencies highlight the need for the City to adopt centralized policies, measurable performance standards, and robust monitoring procedures to ensure accountability, transparency, and the effective use of taxpayer dollars in grant administration.

Summary of Recommendations

The OCA issued 9 recommendations and management concurred with 6 recommendations and partially concurred with 3 recommendations. Management has advised that 4 recommendations

have been implemented as of the report issuance date. A detailed listing of recommendations and management responses are included in **Appendix C**. We will review the implementation status of the recommendations during our Quarterly Open Recommendation Follow-Up Review.

Introduction, Background, and Internal Controls

Introduction

What is the City's Non-Departmental Grant Program?

The purpose of the City's non-departmental grant program is to support investments and programmatic activities in key priority areas, including Education, Housing, Health and Human Services, and Arts and Culture. As permitted by State Code, the non-departmental grant program enables the City to partner with nonprofit organizations to strategically meet goals and provide residents with additional services and programming not currently offered by City agencies.[1] **Figure 1** below illustrates the FY 2023 to FY 2025 funding levels for the non-departmental categories. This audit focused on evaluating the City's process for issuing and monitoring grant awards to charitable organizations.

Figure 1 -Non-Departmental Funding
FY 2023 – FY 2025

Non-Departmental Budget Totals			
	FY 2023	*FY 2024*	*FY 2025*
Internal Governmental Expense[2]	$47,367,553	$50,033,631	-[3]
Economic Development Incentive[4]	$1,705,000	$3,565,000	-[5]
Organizational Subsidy[6]	$23,142,046	$26,990,626	$37,277,926
Charitable Organizations	**$5,945,926**	**$8,079,996**	**$13,361,734**
Total	**$78,160,525**	**$88,669,253**	**$50,639,660**

Source: Created by OCA using the FY 2024 and FY 2025 Adopted Annual Fiscal Plans

Background

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[1] § 15.2-953 (A) - Donations to charitable institutions and associations, volunteer and nonprofit organizations, chambers of commerce, etc., https://law.lis.virginia.gov/vacode/title15.2/chapter9/section15.2-953/
[2] Programs and services not directly attributable to specific city departments.
[3] No longer included in Non-Departmental for FY 2025 Budget.
[4] Designated for economic incentive payments per contractual agreement.
[5] No longer included in Non-Departmental for FY 2025 Budget.
[6] City's contribution to regional efforts in partnership with surrounding counties.

The Grant Awarding Process

The non-departmental grant awarding process begins with the City announcing that it is accepting applications for grant funding.[7] The process includes two training sessions to support applicants and award recipients:

- **Pre-Application Training**: Held before the City reviews applications, this session provides guidance on completing the application and understanding the grant requirements.

- **Post-Award Training**: Conducted for all awarded recipients, this session covers reporting requirements, grant agreements, and the process for receiving funds.

For the audit scope (FY 2023), the application period ran from November 22, 2021, to December 17, 2021. The City has since extended the application period, which now runs from October to December. Applicants submitted either full application packets for new programs/services or modifications in funding, or addendums for existing programs. In their application package, applicants were required to:

- Describe how their proposed services align with the City's strategic objectives in key areas: Education, Housing, Health and Human Services, and Arts and Culture.

- Submit a detailed program description outlining proposed services and specific performance measures.

- Affirm their commitment to working with City agencies to maximize the impact of their program implementation.

This structured application and training process aims to ensure that grant-funded programs align with City priorities and achieve measurable outcomes.

The Department of Budget and Strategic Planning received all of the applications/addendums and tracked the date received on a spreadsheet. These applications or addendums were then dispersed for the initial review to the following City Departments for the FY 2023 grant period:

- Human Services
- Department of Public Works (DPW)
- Planning and Development Review (PDR)

These departments reviewed grant applications using its own process and submitted recommendations to City Administration on which applicants should receive awards along with a recommended funding amount. City Administration then reviewed these departmental recommendations using its own separate review process and determined which organizations would receive funding in the Mayor's proposed budget. Finally, the Mayor presented the annual

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[7] Human Services coordinates advertising for all non-departmental grant opportunities.

budget to City Council, which has the authority to make amendments to and approve the non-departmental funding.

The Grant Contract and Management Process

Once the budget was adopted, the Department of Budget and Strategic Planning distributed a responsibility list to all relevant parties which included the grant recipient, the awarded amount, and the designated City personnel responsible for managing the grant. As previously noted, $5,945,926 was awarded to applicants during the FY 2023 grant process. **Figure 2** below illustrates the breakdown of FY 2023 non-departmental funds by portfolio.

Figure 2
Non-Departmental Funding by Portfolio
FY 2023

Non-Departmental FY 2023 Funding	
Portfolio	**Amount**
Human Services	$4,475,716
Economic and Community Development	$1,437,710
Operations	$32,500
Total	**$5,945,926**

Source: Created by OCA using information supplied by City Staff.

Each applicant awarded funds must enter into a grant contract with the City. Per City Code,[8] all grant contracts must include the following:

- **Responsible Party**: Identification of the City officer or responsible party for monitoring compliance.

- **Scope of Services**: A detailed description of the services to be provided by the non-City entity using the City funds disbursed.

- **Performance Measures**: Specific measures sufficient to enable the City to determine whether the non-City entity fulfilled its contractual obligations.

- **Reporting Provisions**: Requirements for regular reporting to the responsible party to assess whether the non-City entity is meeting the performance measures outlined in the contract.

Once grant contracts were drafted, organizations reviewed and signed them. The agreements were then signed and authorized by the City Attorney's Office and the Chief Administrative Officer (CAO).

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[8] City Code Sec. 12-15 - Contracts for Non-Departmental Appropriations, https://library.municode.com/va/richmond/codes/code_of_ordinances?nodeId=PTIICICO_CH12FI_ARTIINGE_S12-15CONPAAP

City employees who are responsible for managing the grants are identified in the grant contracts and may not be from the reviewing department. They are responsible for monitoring grantees to ensure they meet the goals outlined in the agreements. Reporting requirements for each grantee are specified in the contracts, but each department responsible for managing grantees uses its own oversight process.

Conclusion on Internal Controls

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

The City's process to award and monitor non-departmental charitable organization grants was inconsistent. It lacked centralized policies, and each department used its own approach without documented procedures. This led to differences in the application review process as criteria established in the application guidelines were not adhered to. Ultimately, applicants who did not appear to meet the criteria were recommended for city funds while applicants who appeared to meet the criteria were not recommended for funding or had their funding request reduced.

Further, the City's monitoring process is inadequate to determine whether the City is receiving a return on its investments. Instead of verifying documentation and validating outputs, grant managers generally relied on grantees' self-reported information, trusting that the work was completed as reported. Non-departmental grants should be awarded and monitored with the same rigor as federal or state grants, as these funds represent taxpayers' money intended to provide important services.

Similar findings regarding centralized grant management, a lack of oversight and monitoring, a lack of measurable performance metrics, maintaining documentation, and insufficient training were all noted in several prior audits. Several recommendations remain open related to these topics. Without adequate monitoring and oversight, the City is exposed to significant risks, including fraudulent use of grant funds. The current environment creates vulnerabilities that could allow fraud to go undetected, undermining public trust and the effectiveness of these programs.

Findings and Recommendations

Finding 1: The application review and grant award process for non-departmental charitable organizations lacked adequate oversight, controls, and policies and procedures to ensure an objective review and award process.

Policies and procedures are an important component of the grant-awarding process, as they promote fairness and transparency, mitigate the risks of fraud, waste, and abuse, and facilitate accountability and responsibility for all participating parties. In fact, the Government Finance Officers Association (GFOA) recommends that governments adopt policies addressing the administration of grants.[9]

The OCA requested the City's policies and procedures and interviewed City staff across departments. We found the City generally lacked policies and procedures governing the grant-awarding process for non-departmental charitable organizations. To address this gap, the OCA examined requirements implemented by the State of Virginia and the federal government to identify best practices for grant administration. Our review found that both state and federal guidelines emphasize the use of objective standards and criteria in the grant review and awarding process. Specifically:

- The Code of Federal Regulations requires that awarding agencies identify due dates for submitting applications and design and execute a merit-based review process for discretionary awards.[10]

- The State of Virginia Code mandates that grant programs develop objective guidelines or state the criteria to be used in awarding funds.[11]

To assess the City's grant-awarding process for non-departmental charitable organizations, the OCA reviewed grant applications submitted for the FY 2023 budget. We also examined all supporting documentation on file related to the review and recommendation of applications, including the summary scoring sheet when applicable.

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[9] GFOA Best Practices, "Adopting Financial Policies," https://www.gfoa.org/materials/adopting-financial-policies
[10] Code of Federal Regulations:
- § 200.204 - Notices of funding opportunities, https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-C/section-200.204
- § 200.205 - Federal agency review of merit of proposals, https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-C/section-200.205
[11] State Code reviewed: https://law.lis.virginia.gov/
- § 3.2-305 - Guidelines and criteria for awarding grants from Fund.,
- § 3.2-310 - Agriculture and Forestry Industries Development Planning Grant Program.,
- § 3.2-311 - Local Food and Farming Infrastructure Grant Program.,
- § 3.2-312 - Blue Catfish Processing, Flash Freezing, and Infrastructure Grant Program.,
- § 2.2-233.1 - Virginia Military Community Infrastructure Grant Program and Fund.,
- § 9.1-110 - School Resource Officer Grants Program and School Resource Officer Incentive Grants Fund.,

For FY 2023, the City received 82 applications, reviewed by three different departments: 79 by Human Services, 2 by the Department of Public Works (DPW), and 1 by the Department of Planning and Development Review (PDR). Each department utilized a different process to review grant applications. After completing their reviews, departments submitted recommendations to City Administration, which conducted its own review and incorporated selected organizations into the Mayor's proposed budget to City Council. Ultimately, the approved City budget for FY 2023 awarded 61 programs through the grant awarding and amendment process for a total of $5,945,926.

Our review of the grant-awarding process revealed that the absence of standard policies and procedures may have resulted in grantees not being awarded City funds objectively. Specifically, we found:

- Human Services did not adhere to its own established criteria in the grant review process.

- DPW and PDR did not establish any criteria or processes to evaluate applicants.

- City Administration lacked a standard criterion for reviewing applications.

- Neither the departments responsible for reviewing and recommending grants nor the applicants were aware of the total funding available for grants.

- Departments did not have a process to identify conflicts of interest for reviewers or maintain completed conflict-of-interest forms and did not maintain individual scoring sheets from their review of applications.

1A. Human Services recommended $1,151,668 for 16 applications that did not meet application criteria while funding was reduced for applications that did meet the criteria.

Applications for grant awards in FY 2023 were made available to the public in November 2021. On December 6, 2021, Human Services hosted a training event to guide potential applicants on how to properly complete the application. The application guidelines required applicants to submit a detailed program description of proposed services, specific performance measures, and an affirmation describing how they would work with City agencies to maximize the impact of program implementation. The application guidelines packet emphasized a firm deadline of December 17, 2021, stating that applications received after this deadline would not be considered. It also stated that a maximum of 100 points was available for scoring and that a minimum of 75 points was required to qualify for funding consideration.

Human Services reviewed 79 of the 82 applications received for the FY 2023 non-departmental budget process, implementing a two-part review process. Human Services noted the first review was conducted by a committee of subject matter experts,[12] who evaluated the applications based on the following criteria established by Human Services:

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[12] For FY 2023, Human Services noted that each application committee consisted of one reviewer.

Applications had to score at least 75 out of 100 points, with points allocated as follows:

- **Program Strength and Potential Impact** (50 points):

    o Clearly defined goals that do not duplicate existing City services or programs – 10 points

    o Goals align with the Citywide objective of reducing poverty by 40% by 2030 – 10 points

    o Addresses a specific need identified by the City, with a high prospect for success – 25 points

    o Metrics for success are clearly defined – 5 points

- **Organizational Capacity and Proposal Feasibility** (50 points):

    o Demonstrates the capacity to complete the proposed project – 10 points

    o Provides realistic objectives and timelines; the budget is feasible and aligned with goals, objectives, and activities – 10 points

    o Leverages funds from other sources – 10 points

    o Reflects strong collaborative partnerships and a commitment to work closely with the City or other agencies – 10 points

    o Demonstrates a commitment to inclusivity – 10 points

After the deadline, applications received were provided to Human Services from the Department of Budget and Strategic Planning and forwarded to the applicable committee for the first review.[13] Per a Human Services manager, each committee member completed an evaluation form for their assigned applications, which included assigning an overall score, recommending funding amounts, and providing comments. Also, they advised the OCA the individual scoring sheets for the FY 2023 review process were discarded in a warehouse cleanup. A manager received the evaluation forms and compiled the information into a spreadsheet, which was used

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[13]Applicants were also required to meet all the following "Organizational Threshold" criteria.
- Nonprofit agency approved by the Federal Government.
- Applicant complies with all federal, state and local regulations, and has no outstanding violations, taxes, or penalties.
- Provide description of the organization's commitment and approach to equity.
- Nonprofit organizations must have a currently active board.
- Applicant must commit to coordination of project implementation with City departments as appropriate.
- Applicant must disclose all recent, current, or pending lawsuits.

in the OCA's review. Not maintaining the evaluations is potentially a violation of the Library of Virginia's records retention requirements.[14]

Following the committee's review, a second review was conducted by Human Services management. Unlike the committee's review, this second review did not follow specific documented criteria. A Human Services manager informed the OCA that their review considered committee scores and recommendations, past performance, and prior awards, but no documentation existed that explained how these factors influenced funding decisions. Once their review was complete, Human Services management submitted a spreadsheet to the Department of Budget and Strategic Planning, listing the recommended applicants, the scores they received, comments about the applications, and the proposed funding amounts.

The OCA reviewed the spreadsheet provided to the Department of Budget and Strategic Planning and found that recommendations did not consistently align with the criteria outlined in the application materials or the scores assigned by the review committee. In total, 16 recommended applications totaling $1,151,668 appeared to be ineligible for funding based on the published criteria. Specifically:

- Thirteen applicants were recommended for grant awards despite submitting applications after the deadline. Of these, two scored below 75.

- Five applicants with scores below 75 were recommended for funding, contrary to the stated minimum score requirement.

In addition, fourteen applicants who scored 75 or higher and were described as providing critical services to the City and of these, five were recommended for grants totaling $293,000 less than requested. One applicant was recommended for $10,000 more than they requested in their application. Further discrepancies were noted in the comments on the spreadsheet. Examples include:

- One applicant scored 65, with comments stating, "Application did not show other sources of funding and application lacked substance and critical components such as reasonable goals and clear proof of previous success," yet they were recommended for $20,000.

- Another applicant scored 70, with comments indicating a lack of key information, including a budget, and a determination that "CAO/Council will need to decide if this is a critical partner," yet they were recommended for $25,000.

- A third applicant scored 74, with comments noting thoroughness in outlining their program, budget, and partnerships but a lack of evaluation metrics and less alignment with Human Services' portfolio compared to other applications. Despite this, they were recommended for $10,000.

Discussions with a Human Services manager revealed that the deadline for submissions, although presented as firm in application materials, was not strictly enforced. Late applications were often accepted by Human Services, particularly from organizations with a history of receiving funding. After the FY 2023 application deadline passed, an email was sent to previously funded applicants who had not submitted applications extending their deadline as a courtesy due to COVID-19. This new deadline was not publicly communicated or provided to other applicants. The Human Services manager also noted that the Deputy Chief Administrative Officer for Human Services could override the review committee's decisions, even if an applicant scored below 75, based on the organization's known work and past performance, which were not factors disclosed in the application materials. (See **Finding 3** regarding findings on grant management, including a lack of monitoring grantee's performance and ensuring compliance with required reporting).

Ultimately, the OCA's review concluded that Human Services did not adhere to the criteria communicated to the public, outlined in the application guidelines, or established internally. The absence of specific and objective criteria in the second review, combined with the selective extension of the application deadline without public notice to the broader community, created inconsistencies in the grant awarding process. These practices may have resulted in funding awards to applicants less suited to meet the City's needs, thereby reducing the effectiveness of the City's investment of taxpayer dollars.

1B. The Department of Public Works (DPW) and the Department of Planning and Development Review (PDR) did not have an established review process for non-departmental application reviews.

DPW and PDR were responsible for reviewing three of the 82 applications received for FY 2023. DPW reviewed two of the applications, while PDR reviewed one. Each application was assigned to a different reviewer within the departments, and these reviewers ultimately made funding recommendations to the Department of Budget and Strategic Planning.

As noted earlier, best practices in grant awarding include establishing clear criteria, key dates, and performing merit-based reviews of applications.[15] The OCA interviewed the employees responsible for reviewing the applications to evaluate the processes used by DPW and PDR and compare them against best practices,

We identified the following issues:

- **Lack of Specific Review Criteria:** Although both departments used the application format created by Human Services, neither established specific criteria for reviewing the applications.

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[15] Code of Federal Regulations:
- § 200.204 - Notices of funding opportunities, https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-C/section-200.204
- § 200.205 - Federal agency review of merit of proposals, https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-C/section-200.205.

- **Reliance on Past Performance Without Documentation:** Both departments indicated that they considered applicants' past performance in their evaluations. However, there was no documentation to verify if or how this was done, or to support their funding recommendations.

- **Inadequate Training:** The PDR reviewer stated that this was the first review they performed of a non-departmental grant application, and they received no training on how to review applications or what to assess during the review process. Despite this, they recommended the City award funding of $80,000 to one applicant.

- **Confusion Over Review Responsibilities:** One DPW reviewer could not recall making a funding recommendation for one application and stated they had never seen the application, believing it had been reviewed by Human Services. When shown an email from them to the Department of Budget and Strategic Planning recommending a grant of $50,000 to the applicant, they explained that the recommendation was based on their knowledge of the organization's prior work with the City and their belief that the amount was reasonable.

- **Questionable Justifications for Funding Recommendations:** For the other DPW application, the reviewer recommended awarding $7,500 and noted that the City was required to fund the organization annually as a subsidiary. However, the City Attorney's Office and the Department of Budget and Strategic Planning informed the OCA there was no legal requirement to fund the organization. Upon reviewing the City's budget books, the OCA found the organization had received the same funding amount from the City since FY 2019.

Ultimately, the OCA was unable to determine how funding decisions were made for these three applications due to the lack of documented policies, procedures, or criteria for the review processes used by DPW and PDR. Reviewers expressed a lack of clarity on what to evaluate in the applications and an incomplete understanding of the City's funding requirements. Without a formal, merit-based review process, the City risks allocating grant funds to organizations that may not represent the most effective use of taxpayer dollars.

1C. The City Administration's application review lacked established criteria.

The Department of Budget and Strategic Planning received and summarized the departments' funding recommendations and provided them to City Administration. City Administration informed the OCA they would not review the full applications unless additional information was needed beyond the summary provided. Per City Administration, they reviewed the summary sheet and determined which applicants to include in the Mayor's proposed budget. Their goal was to allocate funds to organizations to the best of the City's abilities, using a case-by-case evaluation to assess whether funding submissions represented a good use of taxpayer dollars.

City Administration also noted they did not use a standardized set of criteria when making award decisions. However, they prioritized funding organizations that addressed urgent needs, such as gun violence prevention during one funding cycle, which received prioritized consideration.

There is no limit on how often an organization could apply, and many organizations applied annually. Generally, the process defaulted to awarding grants at the same amount received in the prior year.

The OCA compared the programs recommended for funding in the Mayor's proposed budget with those recommended by the departments. The OCA noted the only documented criteria was the score from Human Services and the established deadline. City staff informed the OCA that City Administration was not supplied with the scores when making the decisions. We found 14 applications that did not meet the scoring criteria or the established due date as outlined in the application guidelines were recommended for $1,364,238 in awards. Conversely, 35 applicants that met the criteria were removed or had their funding reduced, totaling $2,452,649. Overall, we noted that:

- Twenty-two applicants recommended for awards by departments were excluded from the proposed budget. Two of these did not meet the established criteria.

- Five applicants were recommended for less funding than the departments' recommendations.

- Six applicants were recommended for more funding than the departments' recommendations.

Due to the absence of documentation, the OCA could not determine how funding decisions were ultimately made in the City Administration review. The lack of criteria, policies, procedures, and a formal evaluation process puts the City at risk of allocating grant funds to organizations that may not represent the most effective use of taxpayer dollars.

1D. Department award recommendations were made without an established budgeted amount.

While reviewing the grant awarding practices of the federal and state governments, the OCA noted that federal grant funding notices are required, to the extent appropriate, to include the total amount of funding available, the number of awards to be given, and expected individual award amounts.[16] The State of Virginia includes similar information in its grant award postings.[17] In contrast, the City does not provide this information to potential applicants. For FY 2023, applicants were instructed to align their requested amounts with their application deliverables, which ranged from $5,000 to $768,000.

Departments responsible for reviewing applications and recommending grant awards to City Administration were also not informed of the total available funds or the number of grants to be awarded. Without this critical information, departments lacked an objective basis to determine appropriate funding recommendations, potentially impacting services for City residents. For

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[16] § 200.204 - Notices of funding opportunities, https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-C

[17] The OCA reviewed State grant postings listed on the Secretary of the Commonwealth Constituent Services website.

example, a reviewer comment described a "strong proposal" from a critical hunger agency but reduced the requested amount by $150,000, citing concerns that the request was "likely outside of what the City budget might be able to accommodate." This decision was made without knowledge of the total funding available.

When asked about the lack of clarity regarding available funds, City Administration stated that departments default to prior year funding levels as a baseline. They acknowledged that no set formula, percentage, or cap exists for non-departmental grant allocations, as clear guidelines or intentions for this funding have not been established by the City.

The absence of clear information about total funding and ranges for grant awards hampers departments' ability to make informed recommendations and increases the risk of underfunding critical services that benefit City residents. Establishing clear guidelines for funding and ensuring transparency in the grant funding process would promote more consistent and equitable decision-making.

1E. Departments did not have a process to identify conflict of interests for reviewers, or they did not maintain the conflict-of-interest forms for application reviewers.

The State and Local Government Conflict of Interests Act[18] and City Code[19] require employees with a personal interest in a transaction to disqualify themselves from participation. Best practices, such as those from HUD's Office of Inspector General, recommend using conflict-of-interest questionnaires, regular training, and monitoring to identify potential conflicts.[20]

The OCA's review of the City's grant process revealed a lack of a standardized approach to managing conflicts of interest across departments. While Human Services required reviewers to sign conflict-of-interest forms, PDR, and DPW did not have formal conflict-of-interest policies or documentation practices. Additionally, Human Services noted conflict-of-interest forms for the FY 2023 non-departmental grant review process were discarded during a warehouse cleaning. Not maintaining the conflict-of-interest forms is potentially a violation of the Library of Virginia's records retention requirements. [21] As a result, the OCA could not verify whether reviewers disclosed conflicts or abstained from reviewing applications where conflicts arose during the FY 2023 non-departmental grant review process.

The OCA notes that Human Services provided conflict-of-interest forms from subsequent years, and a process to maintain these records is now in place. However, the inconsistency in monitoring and managing conflicts of interest during the grant review process in all participating

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[18] § 2.2-3112. - Prohibited conduct concerning personal interest in a transaction; exceptions. https://law.lis.virginia.gov/vacode/title2.2/chapter31/section2.2-3112/
[19] City Code Sec. 21-276. - Proscribed participation by public employees in procurement transaction. https://library.municode.com/VA/richmond/codes/code_of_ordinances
[20] Housing and Urban Development Office of Inspector General Integrity Bulletin, Conflicts%20of%20Interest%20Integrity%20Bulletin[3].pdf
[21] Library of Virginia Records and Retention Schedule General Schedule No. GS-19 - County and Municipal Governments, https://www.lva.virginia.gov/agencies/records/sched_local/gs-19.pdf, page 8

City departments increases the risk of bias or favoritism in grant decisions, exposing the City to potential fraud, waste, and abuse.

Recommendations

Recommendation 1	High Priority

We recommend that the CAO collaborate with City Council to develop and implement comprehensive policies and procedures for the non-departmental grant award process. These policies and procedures should:

- Establish a centralized, standardized framework governing the application review and grant award process for all non-departmental charitable organizations.

- Include specific requirements for application deadlines, scoring criteria, conflict-of-interest management, and document retention.

- Ensure that _all_ reviewers document and justify funding recommendations when deviating from established criteria or scoring thresholds.

Additionally, the CAO should:

- Ensure that these policies are thoroughly documented and consistently applied by all departments involved in the process.

- Effectively communicate the process in the application materials.

- Establish a monitoring mechanism to ensure compliance with the new policies and procedures and periodically review their effectiveness in achieving a fair and transparent grant award process.

Recommendation 2	High Priority

We recommend that the CAO enforce the deadlines stated in grant application materials or formally document the approval of any extensions. Additionally, if a deadline extension is granted, it should be publicly communicated and made available to all potential applicants.

Recommendation 3	High Priority

We recommend that the CAO collaborate with City Council to establish a funding mechanism for determining the total amount available for non-departmental charitable organization grants. This amount should be provided to reviewers before the award review process begins to support informed decision-making and, if feasible, made available to applicants to promote transparency.

Recommendation 4	Medium Priority

We recommend that the Program Manager develop and deliver routine training programs for all staff involved in the grant review process, covering:

- How to evaluate applications objectively.

- Proper documentation and records retention practices.

- Ethical considerations, including conflict-of-interest management.

Finding 2: City Administration did not provide City Council with the required performance reports per City Code to assist in making funding decisions.

City Code states that "at least 30 days before the Mayor's submission of the Mayor's proposed annual budget, the CAO shall furnish the City Council with a report detailing the performance of each non-City entity appropriated funds in the prior year as compared with the requirements of that non-City entity's grant contract." [22] However, City Administration informed the OCA that this report or presentation had not been provided to City Council. The City Attorney's Office informed the OCA that the intent of this City Code section is to provide sufficient information for City Council to make informed funding decisions.

The Education and Human Services Committee received a presentation in April 2024 on the FY 2023 performance of non-departmental charitable organization grantees. The OCA reviewed this presentation and noted the following issues:

- The presentation was completed after the required timeframe, as the Mayor's budget was submitted in March 2024. Timely information was not presented to City Council to make decisions during the budget process.

- The presentation lacked detailed performance data for each grantee. It only included information on grants managed by Human Services, not all non-departmental grants.

- The presentation did not cover funds for the applicable fiscal year. It did not provide the progress of current-year (FY 2024) allocations.

When these observations were discussed with a Human Services manager and a grants advisor, the OCA was informed that detailed information for the prior year was presented because collecting mid-year data and preparing a detailed report within the required timeframe would be

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[22] City Code Sec. 12-15 - Contracts for non-departmental Appropriations, https://library.municode.com/va/richmond/codes/code_of_ordinances?nodeId=PTIICICO_CH12FI_ARTIINGE_S12-15CONPAAP

difficult. As described further in **Finding 3**, the OCA notes that providing relevant information on the performance of grantees may also be difficult because of the lack of oversight of grantees.

As noted in **Finding 1**, funding criteria were inconsistently applied across different stages of the review process. The OCA also noted the only documented criteria was the score from Human Services and the established deadline. As such, in the final approved budget, the OCA found that:

- Fifteen organizations that did not meet established criteria were awarded $1,454,238 in grant contracts.

- Thirty-four organizations that did meet the criteria were either reduced or not awarded totaling $2,366,499 in requested funding.

The OCA notes that without accurate, relevant, and timely information from City Administration on programs/services provided by non-departmental charitable organizations, City Council may find it difficult to determine where to best allocate non-departmental funds when approving the Mayor's budget.

Recommendations

Recommendation 5	High Priority

We recommend that the CAO facilitate regular communication with City Council to ensure their informational needs are met for future funding decisions on non-departmental grants. At a minimum, the CAO should:

- Implement a system to collect and maintain detailed performance and financial data from all grantees to support accurate and comprehensive reporting to City Council.

- Develop a detailed template that includes performance data for each grantee, a comparison of achievements against grant contract requirements, financial data on expenditures and balances, and progress updates on current-year allocations, ensuring comprehensive coverage of all departments managing non-departmental grants.

- Establish a formal process within the CAO's office to ensure compliance with City Code requirements for reporting on non-departmental charitable organizations. If the current City Code is not feasible to follow, the CAO should collaborate with City Council and the City Attorney's Office to update the Code.

Finding 3: The City did not adequately monitor performance, verify fund use, and ensure compliance with reporting requirements for non-departmental charitable organizations grants.

Per the GAO, effective oversight and internal controls are essential to provide reasonable assurance that grants are awarded properly, recipients are eligible, and funds are used as intended and in compliance with applicable laws and regulations.[23] When these controls are weak, challenges arise in achieving program goals and ensuring proper use of funds.

The U.S. Department of Justice Office of the Inspector General (DOJ OIG) issued a special report with recommendations for preventing and detecting fraud, waste, and abuse in grant administration.[24] The report emphasized that "a critical step in ensuring the integrity of the grant process is active oversight of the grantee." It also identified common deficiencies in grant oversight, including:

- Failure to establish performance goals for programs.

- Insufficient monitoring of grantee activities, including inadequate review of supporting documentation for grant expenditures.

- Lack of grantee-submitted performance data to demonstrate that grant funds were used effectively and as intended.

- Failure to ensure grantees submitted required financial and progress reports.

In FY 2023, through the non-departmental charitable organization grant award process, the City awarded 61 grants totaling $5,945,926, managed by seven City departments. Each grantee was required to enter into a grant contract with the City before receiving funds, and these contracts generally established the baseline for City oversight. The contracts included the following provisions:

- **Scope of Services**: Outlined what the grantee would do with the funds.

- **Performance Measures**: Defined how the City would evaluate whether the grantee met the contract's objectives.

- **Reporting**: Specified the reporting requirements for the grantee, which generally included submitting interim and final reports on performance measures.

- **Compliance Monitoring**: Stated that City staff would monitor compliance and could request any information needed to verify whether performance measures were met.

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[23] GAO "Grants Management: Observations on Challenges with Access, Use, and Oversight," https://www.gao.gov/assets/gao-23-106797.pdf

[24] Department of Justice Office of Inspector General Special Report: A Guide to Grant Oversight and Best Practices for Combating Grant Fraud, https://oig.justice.gov/sites/default/files/archive/special/s0902a/index.htm

The OCA assessed the management and oversight of a sample of 25 grants, totaling approximately $2.32 million, managed by four City departments. This assessment was based on the standards cited in the DOJ OIG special report. The OCA found that the City was generally deficient in the same areas identified by the DOJ OIG.

Overall, the City's non-departmental grant management process is decentralized and lacks standardized policies and procedures. The responsibilities for administering and monitoring the grants were delegated to various City departments and this responsibility was in addition to their regular daily operational duties. They were expected to ensure compliance with grant terms and guidelines and contract terms with limited training and staffing. Departments managed grants inconsistently, and oversight of City funds was generally inadequate. Establishing centralized policies and procedures for grant management and training staff on proper grant monitoring would enhance consistency, improve oversight, and help ensure proper use of grant funds. Specifically, the OCA found:

- Performance measures were not always measurable, consistently verified, or effectively used to determine if funds were appropriately utilized or retained.

- Gaps in site visit and desk review practices undermine grant oversight.

- Grantees did not consistently submit required reports and were not required to provide detailed accounts of how City funds were utilized.

3A. Performance measures were not measurable, consistently verified, or effectively used to determine if funds were appropriately utilized or retained.

Per the U.S. Department of Justice, "Performance measures are the data—specific values or characteristics—reported by grantees that measure the output or outcome of grantees' activities and services and demonstrate accomplishment of the goals and objectives of…programs."[25] The GAO notes that performance measures should "be clearly stated; include measurable targets; and be objective, reliable, and balanced." [26] The OCA found that the City's Code emphasizes the importance of performance measures in grant contracts and stated that grant contracts require specific performance measures sufficient to enable the City to determine whether the non-City entity did what they were supposed to do.[27]

The OCA found that the City's grant award process allowed grantees to develop their own performance measures for the grants awarded. While City staff reviewed these measures, their creation and submission were the sole responsibility of the applicants.

Upon reviewing the performance measures for the 25 grants, the OCA identified deficiencies in five grant contracts where the measures were either insufficiently detailed or lacked

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[25] Performance Reporting at the Bureau of Justice Assistance, https://bja.ojp.gov/funding/performance-measures/overview
[26] GAO-12-1016, "Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges," https://www.gao.gov/assets/gao-12-1016.pdf, pages 20-21
[27] City Code Sec. 12-15 – Contracts for non-departmental appropriations, https://library.municode.com/VA/richmond/codes/code_of_ordinances

measurability. In some of these cases, the performance measures merely rephrased the scope of services, without providing clear criteria for evaluation. For example, one performance measure reviewed noted the following:

> *"Did the recipient, through its educational and community programming and in accordance with any public health orders or Executive Orders relating to the emergency caused by the Covid-19 Pandemic, perform the Scope of Services set out in Section 3 above."*

As noted above, performance measures should be specific values or characteristics reported by grantees that measure the output or outcome of grantees' activities and demonstrate accomplishment of the goals and objectives of the program. If performance measures are generic and unmeasurable, the grant manager could have difficulty ensuring the intent of the grant was delivered. Also, they could struggle with comparing the accomplishments and abilities of one organization over another when awarding grants for similar services in the future.

Furthermore, while grant contracts stipulated that grantees must return funds if they failed to fulfill the scope of services and that performance measures were to be used to ensure the scope of services were met, compliance with this requirement was inconsistent. Among the 25 grants reviewed:

- Eight grantees did not meet all performance measures outlined in their contracts, based on their final reports.

- Four grantees failed to submit final reports, leaving their compliance indeterminate.

- These 12 grantees collectively received $700,000 in grant funds.

In discussions with grant managers, the OCA identified gaps in oversight. Some managers acknowledged disbursing funds based solely on requests without requiring final reports or verifying performance. Others indicated they trusted the grantee's self-reported compliance without independent verification. Additionally, grant managers confirmed that no significant consequences would be enforced for grantees who failed to meet performance measures. Funds were rarely reclaimed unless the program ceased operations, and there was no standardized process to determine when funds should be returned to the City.

Without measurable and objective performance measures and proper oversight, the City lacked the tools to ensure that grant funds were used effectively and achieved their intended outcomes. The absence of clear, actionable metrics, and consistent oversight undermines accountability and the ability to evaluate the success of funded programs.

These observations highlight the critical need for strengthened oversight practices as discussed further in **Findings 3B** and **3C.**

3B. **Gaps in site visit and desk review practices undermine grant oversight.**

Once contracts are established and performance measures are defined, site visits and desk reviews are essential tools for monitoring grantee performance and verifying the delivery of contracted services. The OCA reviewed grant manuals, guides, and reports from federal and state agencies nationwide to identify best practices for desk reviews and site visits.[28] Our review found that the decision to perform a site visit or desk review should be guided by a risk assessment of both the grant and the grantee. Generally:

- **Site visits** are conducted for grantees receiving larger amounts of funding or for programs where performance is challenging to monitor solely through documentation.

- **Desk reviews**, which involve reviewing detailed reports and supporting documentation submitted by the grantee, are typically used for lower-risk grantees. When conducting a desk review, a grant manager typically:

  o Examines documentation: Reviews reports, financial statements, invoices, receipts, and other records submitted by the grantee to verify that expenditures align with the terms of the grant agreement.

  o Assesses performance: Evaluates whether the grantee is meeting performance measures and achieving the program's objectives.

  o Identifies red flags: Detects discrepancies in reporting, unusual spending patterns, or other issues that may require further investigation or a site visit.

In fact, per the GAO, "site visits and a review of recipient reports can help agencies determine whether recipients are operating efficiently and effectively and whether program funds are being spent appropriately. Risk-based monitoring programs can help identify those areas in need of oversight resources. When agencies do not consider certain risk factors when selecting recipients for site visits, they may not know where to focus their monitoring resources."[29]

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[28] Manual, guides, and reports reviewed:
- California Governor's Office of Emergency Services - Grants Monitoring: Policies and Procedures Manual, Grants Monitoring Policies And Procedures Manual
- Arizona Department of Administration Office of Grants and Federal Resources - Grants Management Manual, 8.2.3.pdf
- U.S. National Science Foundation - Desk Reviews: Manage your Award, Desk Reviews - Manage Your Award | NSF - National Science Foundation
- Broadband USA, "Effective Grant Monitoring: Site Visits," BTOP External Facing Report Template
- U.S. Office of Justice Programs Territories Financial Support Group - Preparing for Desk Reviews and Site Visits Guide Sheet, Preparing for Desk Reviews and Site Visits Guide Sheet
- National Institute of Allergy and Infectious Diseases - Site Visits, Grant Recipient SOP, Site Visits, Grant Recipient SOP | NIAID: National Institute of Allergy and Infectious Diseases

[29] GAO-12-1016, "Grants to State and Local Governments: An Overview of Federal Funding Levels and Selected Challenges," https://www.gao.gov/assets/gao-12-1016.pdf, pages 28-29

The OCA reviewed reports and supporting documentation submitted by 25 grantees and interviewed grant managers from four departments to assess how the City managed grants, particularly through site visits and desk reviews. Despite the importance of site visits and desk reviews, the OCA identified significant gaps in the City's practices as follows:

- None of the departments had a process to identify when a grantee needed a site visit.

- Three departments noted they did not conduct site visits or require them. One of grant managers noted they did perform a site visit, although they did not document it and the OCA could not verify it occurred.

- A grant manager informed the OCA that they conducted site visits for federal grants they managed; however, they were not required to conduct site visits for non-departmental grants.

Site visits were conducted for only 13 of the 25 grants reviewed, of which 12 were performed by the Department of Human Services. The grant manager informed the OCA that they lacked an official process for determining which grants required visits and there was limited staffing available to conduct site visits. They also advised these site visits often focused on relationship-building or verifying program existence and appropriateness of locations, rather than confirming compliance with performance measures.

The OCA found desk reviews were not conducted for any of the 25 grants reviewed. Even though grant contracts signed by grantees state that grantees must provide any reasonably requested information to enable the City to determine whether performance measures were met, grant managers did not request any documentation beyond interim and final reports for 24 of the 25 grants reviewed. Furthermore, as noted in **Finding 3C**, not all of these reports were submitted by grantees. Rather than ensure grant funds were used appropriately, as noted in **Finding 3A**, grant managers informed the OCA they relied on the grantees' assurances that funds were used properly. Multiple grant managers explained to the OCA they believed requesting proof of services provided would place an undue burden on the non-profits who received City grant funds. Furthermore, a grant manager noted they routinely requested documentation for other grants, such as federal or state-funded programs, verifying the work of non-departmental grantees was not standard practice.

As emphasized by the GAO, effective oversight and internal controls are essential for ensuring grant funds are used as intended and in compliance with laws and regulations.[30] The OCA found that the City's lack of a formalized monitoring process, including systematic site visits and desk reviews, undermines its ability to ensure grantees fulfill contractual obligations and taxpayer funds are maximized to benefit city residents.

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[30] GAO-18-676T, "GRANTS MANAGEMENT: Observations on Challenges and Opportunities for Reform," https://www.gao.gov/assets/gao-18-676t.pdf, page 9

3C. Grantees did not consistently submit required reports and were not required to provide detailed accounts of how City funds were utilized.

City Code requires all grant contracts to include provisions for regular reporting to the responsible party, enabling them to assess whether the non-City entity is meeting the performance measures outlined in the contract. [31] All 25 grant contracts reviewed by the OCA established reporting requirements for the grantee. However, the OCA found that 6 of the 25 grantees (24%) did not submit all the required reports, with five of the six failing to provide their final reports. [32]

Without these reports, the City cannot evaluate the grantees' performance or determine whether they are on track to meet, or have met, their deliverables. Furthermore, as noted in **Finding 3B**, desk reviews were not conducted for any of the 25 grants, and additional documentation was generally not requested from the grantees. Consequently, the OCA was unable to verify whether these programs achieved their performance metrics.

Additionally, as noted in **Finding 1**, departments indicated that they often relied on past performance as a key indicator during evaluations. However, the lack of required reports from some organizations, coupled with the absence of verification by grant managers, raises concerns about whether deliverables were truly met.

Finally, the OCA found that 21 of the 25 grantees did not submit a detailed breakdown of how the grant funds were used, nor were any of them required to report on their specific expenditures. Additionally, 24 of the 25 grant contracts included language allowing organizations to request approval from the CAO to retain unused funds if they met their contractual requirements. However, the City lacked a mechanism to verify whether all funds were utilized appropriately, as grantees were paid in lump sums and not required to provide detailed expenditure reports. Without proper documentation and verification, there is a risk that funds could be misused, or excess funds retained without the necessary approvals.

The absence of appropriate oversight, as described in this report, prevents the OCA from being reasonably assured that grant funds are being used appropriately. As a result, the OCA plans to conduct in-depth reviews of grantee fund usage as staffing becomes available.

Recommendations

Recommendation 6	Medium Priority

We recommend that the CAO develop and implement a process to ensure <u>all</u> grant contracts include specific, measurable, and objective performance measures aligned with program goals.

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[31] City Code Sec. 12-15 – Contracts for non-departmental Appropriations, https://library.municode.com/va/richmond/codes/code_of_ordinances
[32] For one of these grants, the department received information from the grantee and compiled the reports themselves.

Additionally, City staff should review and approve grantee-developed performance measures to ensure they are clear, actionable, and aligned with the City's objectives.

Recommendation 7	Medium Priority

We recommend that the CAO develop and implement comprehensive grant monitoring policies and procedures. These policies and procedures should establish a risk-based approach to grant management and address the following:

- Criteria for determining when site visits, desk reviews, or other forms of verification are required.

- Specific information to review during monitoring procedures, including performance and financial data.

- Proper documentation practices for recording the results of monitoring activities.

- Guidelines for determining when and how funds should be recovered if performance measures are not met or if funds are used inappropriately.

Recommendation 8	Medium Priority

We recommend that the CAO develop and implement a process to enforce reporting and documentation requirements in grant contracts. At a minimum, this process should:

- Require grantees to submit interim and final performance and financial reports as stipulated in their contracts.

- Include a checklist for grant managers to review and verify submitted reports for completeness and accuracy.

- Establish a formal follow-up process to address missing or incomplete reports and ensure compliance.

- Track organizations that consistently fail to submit required reports or refuse to comply and make available to all reviewers for consideration in future grant evaluations. For such organizations, additional oversight measures, such as site visits or a full audit, should be conducted to ensure accountability and compliance with grant agreements.

Recommendation 9	Medium Priority

We recommend that the CAO assess staffing needs for proper grant monitoring and then develop and deliver training programs for grant managers on oversight best practices, including monitoring techniques, performance evaluation, and financial accountability. Training should also include specific guidance on identifying and addressing potential fraud, waste, and abuse.

Appendix A
Compliance Statement, Objectives, Scope, and Methodology

Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

Objectives

Evaluate the non-departmental budget process for compliance and monitoring for the return on investments of funding allocated.

Scope

Non-departmental budget process for Fiscal Year (FY) 2023 and the current operating environment for charitable organization contracts made through the annual budget process.

Methodology

The OCA performed the following procedures to complete this audit:

- Researched and reviewed grant awarding and oversight standards and best practices and compared them to the City's practices;

- Interviewed City staff to determine the non-departmental processes and procedures employed by the Human Services Department, Department of Budget and Strategic Planning, Department of Planning and Development Review, Department of Public Works, the CAO's Office, Department of Housing and Community Development, and Department of Economic Development;

- Reviewed and analyzed the scoring information and recommendations, which included the City's proposed and adopted budgets for all applicants for FY 2023 funds;

- Judgmentally selected a sample of 25 grants to review for the submission of required reports, site visits, and any additional documentation obtained; and

- Conducted other tests as deemed necessary.

Management Responsibility

City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Appendix B

Definition of Audit Recommendations Priorities

The Office of the City Auditor (OCA) assigns priority ratings for the recommendations based on the importance and impact of each recommendation to the City, as outlined in the table below. The OCA is responsible for assigning priority ratings for recommendations, and the City Administration is responsible for establishing target dates for implementing the recommendations.

PRIORITY LEVEL	PRIORITY LEVEL DEFINITION
HIGH	The recommendation addresses critical issues that are occurring that pose significant risks to the organization, including significant internal control weaknesses, non-compliance with laws and regulations, financial losses, fraud, and costly or detrimental operational inefficiencies.
MEDIUM	The recommendation addresses moderate issues that could escalate into larger problems if left unaddressed. While they may not pose an immediate risk, they could lead to significant financial losses or costly operational inefficiencies over time. There is potential to strengthen or improve internal controls.
LOW	The recommendation improves overall efficiency, accuracy, or performance in City operations.

RECOMMENDATION #1

We recommend that the CAO collaborate with City Council to develop and implement comprehensive policies and procedures for the non-departmental grant award process. These policies and procedures should:

- Establish a centralized, standardized framework governing the application review and grant award process for all non-departmental charitable organizations.
- Include specific requirements for application deadlines, scoring criteria, conflict-of-interest management, and document retention.
- Ensure that *all* reviewers document and justify funding recommendations when deviating from established criteria or scoring thresholds.

Additionally, the CAO should:

- Ensure that these policies are thoroughly documented and consistently applied by all departments involved in the process.
- Effectively communicate the process in the application materials.
- Establish a monitoring mechanism to ensure compliance with the new policies and procedures and periodically review their effectiveness in achieving a fair and transparent grant award process.

Concur (Yes/No)	**Partially Concur**

ACTION STEPS
(Please describe the steps you will take or have taken to address the recommendation)

The Administration agrees a consistent, repeatable, and well documented procedures are paramount in the grant award process. However, City Council reserves the right to amend the budget or request an award during the budget process. While a jointly drafted framework in collaboration with City Council maybe possible it cannot supersede the flexibility granted to City Council by Charter and Council's right to propose budget amendments.

Additionally, the Administration acknowledges the difference between grants and donations to charitable, volunteer, and nonprofit organizations. Donations to partner organizations do not require grant agreements. Regardless of the appropriations process, public funding will continue to align with the needs of the community and are monitored for compliance.

The Administration acknowledges, with the above caveats, the award process for grants can and should be bolstered in the following ways:

1. We support enhanced collaboration between the Administration and City Council to ensure shared understanding of the award process.
2. We see value in enhanced documentation and communication of existing processes and any adopted changes. This is evidenced through the newly created Annual Impact Report that was presented to Council in February 2025.
3. We embrace opportunities to increase transparency in the grant award process.
4. Increase in staffing levels as a prerequisite for grant management.

Target Date or Date Implemented	FY 2027
Title of Responsible Employee	DCAO for Human Services

RECOMMENDATION #2	
We recommend that the CAO enforce the deadlines stated in grant application materials or formally document the approval of any extensions. Additionally, if a deadline extension is granted, it should be publicly communicated and made available to all potential applicants.	
Concur (Yes/No)	**Partially Concur**
ACTION STEPS *(Please describe the steps you will take or have taken to address the recommendation)*	
The Administration agrees the CAO shall enforce the deadlines stated in the grant application and any application received after the deadline will be deemed ineligible. The Administration will continue to provide technical support for applicants and make announcements well in advance of submission deadlines. However, the recommendation as currently worded allows for concessions to be made outside of posted deadlines where both procedures and transparency could be questioned. Accepting late applications places an undue administrative burden on review committees who aid in processing applications, outside of the normal procedures. Finally, applications scored in isolation from on time submittals may not have the benefit of being juxtaposed with similar requests from on time applicants.	
Target Date or Date Implemented	FY 2027
Title of Responsible Employee	DCAO for Human Services

RECOMMENDATION #3	
We recommend that the CAO collaborate with City Council to establish a funding mechanism for determining the total amount available for non-departmental charitable organization grants. This amount should be provided to reviewers before the award review process begins to support informed decision-making and, if feasible, made available to applicants to promote transparency.	
Concur (Yes/No)	**Partially Concur**
ACTION STEPS *(Please describe the steps you will take or have taken to address the recommendation)*	
While conceptually the recommendation allows for some administrative ease in processing, in practice the Administration cannot restrict the potential community benefits provided to the city by imposing a cap on grants. During the budget development process, resources are aligned with the priority areas established by the Mayor and Council. Allocations to partner organizations may increase or decrease depending on the need for services.	
Target Date or Date Implemented	FY 2027
Title of Responsible Employee	Chief Administrative Officer

RECOMMENDATION #4
We recommend that the Program Manager develop and deliver routine training programs for all staff involved in the grant review process, covering:

•   How to evaluate applications objectively.
•   Proper documentation and records retention practices.
•   Ethical considerations, including conflict-of-interest management.

Concur (Yes/No)	Yes

ACTION STEPS
(Please describe the steps you will take or have taken to address the recommendation)

The Administration currently maintains comprehensive training for staff involved in the grant review process. All reviewers receive instruction on objective evaluation, proper documentation requirements, and ethical considerations including conflict of interest policies. These training components are integrated into our standard onboarding for staff who participate in grant scoring committees.
We recognize the importance of maintaining high standards in our review process and will continue to evaluate and enhance our existing training programs as needed.

Target Date or Date Implemented	Complete
Title of Responsible Employee	Program Management Team

RECOMMENDATION #5
We recommend that the CAO facilitate regular communication with City Council to ensure their informational needs are met for future funding decisions on non-departmental grants. At a minimum, the CAO should:

•   Implement a system to collect and maintain detailed performance and financial data from all grantees to support accurate and comprehensive reporting to City Council.

•   Develop a detailed template that includes performance data for each grantee, a comparison of achievements against grant contract requirements, financial data on expenditures and balances, and progress updates on current-year allocations, ensuring comprehensive coverage of all departments managing non-departmental grants.

•   Establish a formal process within the CAO's office to ensure compliance with City Code requirements for reporting on non-departmental charitable organizations. If the current City Code is not feasible to follow, the CAO should collaborate with City Council and the City Attorney's Office to update the Code.

Concur (Yes/No)	Yes

ACTION STEPS
(Please describe the steps you will take or have taken to address the recommendation)

The Administration currently maintains detailed performance and financial data from grantees and provides comprehensive reporting to City Council. As evidence of this, we delivered a comprehensive impact report of FY 2024 to the Organizational Development Committee on February 3, 2025. As the new reporting format was not included in the audit period, it will be shared with the Auditors office to aid in the closure of this recommendation.

Target Date or Date Implemented	Complete
Title of Responsible Employee	DCAO for Human Services

RECOMMENDATION #6	
We recommend that the CAO develop and implement a process to ensure all grant contracts include specific, measurable, and objective performance measures aligned with program goals. Additionally, City staff should review and approve grantee-developed performance measures to ensure they are clear, actionable, and aligned with the City's objectives.	
Concur (Yes/No)	**Yes**
ACTION STEPS *(Please describe the steps you will take or have taken to address the recommendation)*	
Current grant contracts, not found within the scope of this audit, incorporate specific performance measures aligned with program goals. The Administration maintains a commitment to continuous improvement and we regularly review our performance measurement framework to ensure optimal grant monitoring and outcomes assessment. As part of our ongoing review process, we have and will continue to regularly collaborate to strengthen scope of services and enhance performance metrics where opportunities are identified. Any additions to performance measures, beyond those recently made, will require additional staff resources.	
Target Date or Date Implemented	Complete
Title of Responsible Employee	Human Services

RECOMMENDATION #7	
We recommend that the CAO develop and implement comprehensive grant monitoring policies and procedures. These policies and procedures should establish a risk-based approach to grant management and address the following: • Criteria for determining when site visits, desk reviews, or other forms of verification are required. • Specific information to review during monitoring procedures, including performance and financial data. • Proper documentation practices for recording the results of monitoring activities. • Guidelines for determining when and how funds should be recovered if performance measures are not met or if funds are used inappropriately.	
Concur (Yes/No)	**Yes**
ACTION STEPS *(Please describe the steps you will take or have taken to address the recommendation)*	
The Administration supports reviewing and strengthening grant monitoring policies. To perform these functions most effectively, an additional five (5) FTE positions will be needed to monitor compliance. The additional personnel will be instrumental in also assisting with application reviews, reports to City Council and the establishment of performance measures.	
Target Date or Date Implemented	Pending Appropriation
Title of Responsible Employee	DCAO for Human Services

RECOMMENDATION #8

We recommend that the CAO develop and implement a process to enforce reporting and documentation requirements in grant contracts. At a minimum, this process should:

- Require grantees to submit interim and final performance and financial reports as stipulated in their contracts.

- Include a checklist for grant managers to review and verify submitted reports for completeness and accuracy.

- Establish a formal follow-up process to address missing or incomplete reports and ensure compliance.

- Track organizations that consistently fail to submit required reports or refuse to comply and make available to all reviewers for consideration in future grant evaluations. For such organizations, additional oversight measures, such as site visits or a full audit, should be conducted to ensure accountability and compliance with grant agreements.

Concur (Yes/No)	Yes

ACTION STEPS
(Please describe the steps you will take or have taken to address the recommendation)

All components of this recommendation are currently implemented and operational within the grant management process. Existing process includes interim and final report requirements, standardized review procedures, formal follow-up protocols for incomplete submissions, and tracking mechanisms to monitor grantee compliance history. This compliance information is made available to reviewers during future grant evaluations, and we maintain the authority to conduct additional oversight measures when necessary.

Target Date or Date Implemented	Complete
Title of Responsible Employee	DCAO for Human Services

RECOMMENDATION #9

We recommend that the CAO assess staffing needs for proper grant monitoring and then develop and deliver training programs for grant managers on oversight best practices, including monitoring techniques, performance evaluation, and financial accountability. Training should also include specific guidance on identifying and addressing potential fraud, waste, and abuse.

Concur (Yes/No)	Yes

ACTION STEPS
(Please describe the steps you will take or have taken to address the recommendation)

A projected five (5) FTE positions will be needed to address recommendation #7 and to build the resources and team necessary for a more robust grants administration unit to ensure compliance with best practices.

Target Date or Date Implemented	Pending Appropriation
Title of Responsible Employee	DCAO for Human Services