



TENNESSEE

**JIM STRICKLAND
MAYOR**

EXECUTIVE DIVISION

October 12, 2018

Mr. Doug McGowen, Chief Operating Officer
Executive Division
City of Memphis
125 N. Main Street, Room 308
Memphis, TN 38103

Ms. Shirley Ford, Chief Financial Officer
Finance Division
City of Memphis
125 N. Main Street, Room 368
Memphis, TN 38103

Dear Chiefs McGowen and Ford:

We have completed our investigation regarding questionable accounting practices pertaining to Workforce Investment Network (WIN) expenditures. In August 2016, we were informed that the accounting practices employed by the former Fiscal Manager raised a red flag regarding the reliability of WINs financial reporting. The accounting practice involved a large quantity of reclassified expenditures that were shifted among various projects and awards that had little to no funds remaining to absorb the costs that were presented. Additionally, the reclassified expenditures were presented at the end of the fiscal year (FY), which contributed to a negative claim on cash for the period ending FY2016. As a result, three significant deficiencies pertaining to WIN expenditures were reported in the City's Comprehensive Annual Financial Report audit (CAFR) for FY2016.

The objective of our investigation was to determine whether the accounting practices and related expenditures resulted from fraud, waste, abuse or misuse. To accomplish our objective, we interviewed pertinent personnel to obtain an understanding of WINs fiscal operations. We reviewed relevant policies, procedures, contracts and agreements to identify significant internal control weaknesses. We also performed data analytic testing of WIN award expenditures. The scope was limited to WIN's fiscal operations and transactions covering the period July 1, 2015 to September 30, 2017.

Our work was delayed on several occasions due to limited resources within our office and for the reallocation of those resources to other high priority projects. We reprioritized this project based upon the results of our preliminary investigative procedures as well as the corrective actions that were immediately implemented to address the noted deficiencies, including:

- Staff modifications within WINs fiscal operations, including a position upgrade for fiscal management to require specialized knowledge, skills and experience pertinent to grant accounting and finance.
- Monitoring activity performed by our office to ensure the adequacy of corrective actions along with the satisfactory development and implementation of the resulting policies and procedures required to resolve the deficiencies noted in the CAFR.
- Monthly meetings and close constant contact between pertinent staff of the City's Finance division and WINs fiscal operations regarding grant transactional activity.
- Monitoring activity performed by the Office of Grants Compliance to ensure programmatic and fiscal compliance of grant funds.

CONCLUSION

Although it is permissible to shift allowable costs that benefit two or more projects or activities among two or more Federal awards, the cost shifting was done in the manner presented in an effort to exhaust all grant funding rather than returning any funds back to the State. Additionally, the cost shifting was not adequately supported. Based upon our testing of WIN expenditures, we questioned costs totaling \$14,784.30 for four awards. We also noted that some expenditures were not adequately supported with receipts or invoices. However, we did not find any evidence of fraud, waste, abuse or misuse.

BACKGROUND

During the period of review (July 1, 2015 to September 30, 2017), WIN operated in a One-Stop environment in accordance with the Workforce Investment Act (WIA). WIA required WIN to participate as partners (also recipient and subrecipients of federal funding) in the operation of the One-Stop career center, in which program services were provided for adults, youth, and dislocated workers. Designated as one of thirteen Local Workforce Development Areas (LWDA 13) for the State of Tennessee, WIN provided employment, education, training and support services for local job seekers within the boundaries of Memphis, Shelby County and Fayette County.

Applicable guidance can be found within *Title 2 Code of Federal Regulations (CFR) Part 200 – Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Grants*, as well as the written grants and agreements associated with each Federal award. As a component of City government, WIN's fiscal operations (contracting, procurement, reconciliation, financial reporting) were subject to the Finance Division's policies and procedures.

The City Comptroller's Office is responsible for ensuring the integrity of the City's financial statements through several activities, including maintaining the general ledger accounting structure for the City's financial system, Oracle Financials; establishing and enforcing Citywide financial policies, procedures and internal controls; and preparing the City's CAFR in accordance with generally accepted accounting principles and legal requirements. Although the Comptroller's Office generates several journal entries that cross all City divisions, each division is responsible for creating journal entries that impact their specific operation. All journal entries are then submitted to the Comptroller's Office and entered into Oracle Financials to record any corrections, etc. The journal entries presented by the former Fiscal Manager to

reclassify and/or correct prior period entries did not contain adequate documentation to support the purpose of the journal entry.

SUMMARY OF INVESTIGATION

We extracted transactional data from the Oracle Grants module (*CMEM Expenditure Account Detail by Award Report*) that contained 57,884 expenditure transactions for 83 awards totaling \$20,194,024.56 for the period July 1, 2015 thru September 30, 2017. Transactional data contained pertinent details including but not limited to expenditure type, award, transaction amount, transaction description, general ledger period, etc.

We performed various analytical procedures to organize, summarize and analyze the data into smaller, easier to manage data sets to identify unusual patterns, trends or questionable transactions like the ones that initiated this investigation. We noted the following:

1. Resolution of Tennessee Department of Labor and Workforce Development (TDLWD) findings

We performed follow-up procedures for three Subrecipient Monitoring Reports issued by TDLWD to confirm that the noted deficiencies were adequately resolved. The reports contained details of unallowable and/or questioned costs that covered our review period. We confirmed that adequate corrective actions were taken to address all findings noted in the reports issued for 2016 and 2017. All unallowable and/or questioned costs were corrected via journal entry to reimburse the funds back to the applicable contracts. We did not confirm that corrective actions were taken to address the findings noted in the third report issued for 2015. We did not find any adjusting entries for disallowed costs totaling \$6,460.48.

In a monitoring report provided by the City's Office of Grants Compliance (OGC) on June 14, 2016, it was noted that WIN had received payment for personnel costs from a community partner and TDLWD, which resulted in duplicate payments received for the same services. After the OGC review, it was recommended that WIN contact the community partner and TDLWD for guidance regarding reimbursement. We found documentation (check request, TDLWD invoice, etc.) which showed that payment had been initiated by WIN to reimburse the TDLWD for personnel costs totaling \$78,729.27. However, we found that the payment had not been remitted. We also did not find any justification to explain why TDLWD had not been reimbursed as initiated.

2. Questioned costs

We judgmentally selected a sample of 19 active and closed awards with expenditures totaling \$14,238,068.52 to perform compliance testing. We identified several key attributes from the written contracts provided by the federal grant agencies and federal cost principles (reasonable, allowable, properly authorized, adequately supported, consistent) to evaluate compliance.

- Overall, for 79% (15 awards) expenditures appeared to be reasonable, allowable, properly authorized and adequately supported. For the remaining four awards, we questioned costs totaling

\$14,784.30 due to insufficient supporting documentation for one expenditure (\$262.80), and for the remaining expenditures that did not appear to be reasonable or necessary for the performance of the awards for which the costs were applied.

In addition to the noted discrepancies, we identified the following internal control weaknesses that were prevalent during the period of investigation.

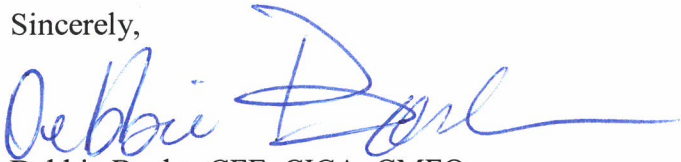
3. Internal control weaknesses

- Check requests were not always adequately supported to justify some expenditures. We noted insufficient documentation such as missing receipts and travel expense documentation with hotel receipts that did not identify the employee for whom the travel was submitted.
- We found that expenditures were remitted for three projects other than the projects that were identified as the cost and funding source notated on the Bid and Contract Agenda Sheet. The expenditures did not exceed the contract award amount. However, we found no documentation to justify why the projects had been added or to approve the project changes.
- According to the former Fiscal Manager, there was an expectation for all grant funding to be exhausted on WIN programs and activities rather than returning any unused funds. We noted that some awards had a significant variance between budgeted and actual expenditures, which indicated that funds would have to be returned to TDLWD. For one award, closeout expenditures were approximately 30% of the total award as of June 30, 2016, which ended the contract period.
 - The large quantity of journal entries that were presented to Finance at fiscal years end, appeared to have been driven in part by the need to spend the funds. For the contract noted above, we found that journal entries were presented the following month (July), resulting in increased spending for that award.
- There was no clearly defined strategy in place to identify, evaluate or respond to critical risks related to WIN expenditures. For example, rapid response awards had a three-month contract period that was significantly impacted by the City's lengthy contract approval process. By the time the funds were approved, there was a race against time to spend the funds. However, we found no evidence that this challenge was properly communicated up the chain of command or to pertinent parties to properly address and resolve the issue.
- WIN expenditures were not adequately monitored to ensure compliance with governing contract agreements, federal guidelines, or Finance policies and procedures. We found no evidence of monitoring activity pertinent to fiscal operations. Additionally, there was no clearly defined process for allocating costs to ensure those incurred for the same purpose were treated consistently, or to accurately distribute costs that are related to multiple awards.

Although WIN has transitioned to the County, effective October 1, 2018, we recommend that WIN management research the duplicate payment issue to confirm whether reimbursement was provided through other means. We will provide WIN management with pertinent details regarding the disallowed and questioned costs for further research to determine whether they need to be corrected. Our review may not

necessarily disclose all weaknesses related to WINs fiscal operations. Additionally, the work performed does not constitute an audit under Government Auditing Standards. We appreciate the patience and cooperation we received from you and the staff and management of Finance, WIN, and Grants Compliance as we worked through several project delays. If we can be of further assistance, please advise.

Sincerely,



Debbie Banks, CFE, CICA, CMFO
City Auditor

- c: Jim Strickland, Mayor, City of Memphis
Lee Harris, Mayor, Shelby County
Alexandria Smith, Chief Human Resources Officer
Patrice Thomas, Chief Administrative Officer, Shelby County
Chandell Carr, Deputy Chief Operating Officer
Candi Burton, Interim City Comptroller
Katrina Hughes, Grants Manager, Office of Grants Compliance
Chris Risher, Internal Audit Director, TDLWD
Ivan Greenfield, Grants & Budgets Director, TDLWD
James Roberson, Assistant Administrator, TDLWD
Henry Lewis, Interim Executive Director, WIN
Randi Owens, Finance Deputy Director, WIN