

Audit #11-12:

Summer Youth Programs

Executive Summary Report

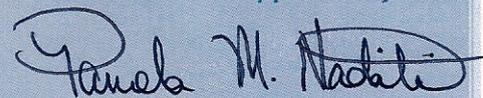
Office of the City Auditor and Clerk
Internal Audit

Prepared by:



Heather Riti, MPA, CIA, CGAP
Manager, Internal Audit

Reviewed and Approved by:



Pamela M. Nadalini
City Auditor and Clerk

You can obtain copies of this report by contacting us at:
Office of the City Auditor and Clerk
1565 1st Street
Sarasota, FL 34236
(941) 954-4135

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EXECUTIVE SUMMARY

AUDIT 11-12: SUMMER YOUTH PROGRAMS

AUDIT SCOPE

The scope of this audit included a review of the City’s agreements with external organizations that provide services related to administering summer youth programs. The audit focused on revenues and expenditures associated with the programs, compliance with contract terms, and internal controls associated with the contract oversight process. While the external organizations actively solicit other sources and organizations for additional funding, the audit was only concerned with City-awarded funds. The audit period covered the 2009 and 2010 summer programs administered by Man Up, Yelda, and MERIT.

REPORT CONTENT AND LIMITATION OF USE

This executive summary report is limited in detail. In order to obtain the full background on a particular item, please review the Detailed Audit Report prior to drawing conclusions based on the limited information contained in this report. Objective ratings indicate the levels at which the objectives were met; rating definitions are included in the **appendix**.

AUDIT CONCLUSIONS

The results of our review indicate:

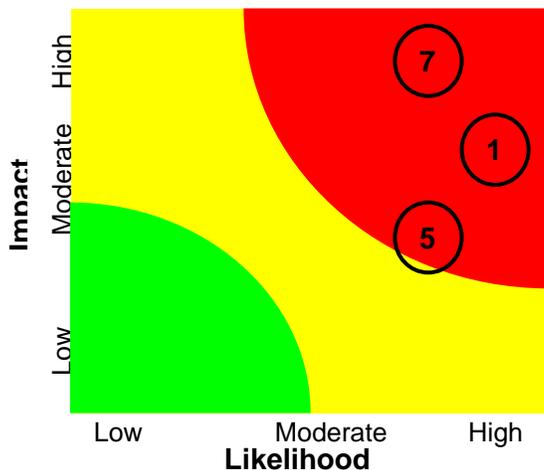
- Internal controls, specifically monitoring controls, were not operating sufficiently to ensure that all program expenses were appropriate,
- Internal controls related to oversight of insurance requirements were determined to be inadequate, and
- The City’s enforcement of compliance with contract terms was found to be ineffective as sub-recipient organizations were not held accountable in instances of non-compliance.

This audit focused on the following objectives:

Audit Objective	Objective Rating		
1) Determine whether controls were adequate to ensure that program revenues were reported and expenditures made according to the terms of the sub-recipient agreements for summer youth services;			X
2) Determine whether controls were in place to ensure that appropriate insurance was obtained by the sub-recipients for the terms of the agreements; and		X	
3) Determine whether the sub-recipients demonstrated compliance with applicable laws, regulations, reporting requirements, and agreement terms.			X

Three significant audit observations (high-priority items) are highlighted below. For a complete list of audit items, see page 3 of this report.

Risk Exposure Map



Significant Observations

Observation	Priority
#1- Numerous errors noted with timecards; program eligibility information was not timely submitted; there were instances of insufficient funds on the part of the sub-recipients to cover payroll expenses, etc.	High
#5- Sub-recipient organizations were not registered with the State per Section 496.405, Florida Statutes to solicit donations.	High
#7- A number of potential conflicts of interest were identified, which should be addressed by management.	High

AUDIT 11-12: SUMMER YOUTH PROGRAMS OBSERVATIONS AND RECOMMENDATIONS

Management Action Plans					
Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
<p>1. Modify the Sub-recipient Agreements so that the City is responsible for payroll administration and recruitment and the sub-recipient provides day-to-day operational services only.</p> <p>See Exhibit B in the Detailed Audit Report for a detailed proposal. This recommendation does not preclude the organization from involvement with other funding entities, but rather prescribes a more amenable contract structure related to City funds.</p> <p>Changes would include:</p> <p style="text-align: center;"><u>Sub-recipient</u></p> <p>Handle administration of the program only- ie, mentorship/ leadership skills training, day-to-day administration of program, performance reporting, etc.</p> <ul style="list-style-type: none"> • <i>Program Funds:</i> Compensation/ stipend for "services" only (10% or less of program funds). • <i>Benefit:</i> Eliminates the need for the sub-recipient to expend funds on hiring administrative consultants relative to City-funded program participants and allows the organization to focus on its mission to assist youth through mentorship. <p style="text-align: center;"><u>City</u></p> <p>Handle all payroll functions for the participants by hiring participants as part-time, temporary employees.</p> <p>Recruit for the summer youth jobs through the City's website and hire participants who meet eligibility requirements on a first-come, first-served basis. Eligibility documentation must be submitted with the application so that the City can review and certify eligibility.</p> <ul style="list-style-type: none"> • <i>Program Funds:</i> City pays payroll costs directly (90% or more of program funds). • <i>Benefit:</i> Increased accuracy of timekeeping through timekeeping system, ensures that participants have workers compensation insurance, relieves the burdensome payroll review and approval process, and opens program up to <u>all</u> eligible youth in the City of Sarasota. 	High	X		<p>Staff accepts the recommendation of the auditor with some modifications. Staff recommends that the City take full responsibility for managing the entire program. Staff will take to the City Commission for their review and approval a proposal to administer the payroll, recruitment and administration of the program. Selection of the young people who meet eligibility requirements would be made by the city, but would be based on some combination of first come - first served or, possibly, a subjective process to reward high performing youth.</p>	12/31/11

Management Action Plans

Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
<p>2. Remit payment to sub-recipient organizations only after all appropriate supporting documentation has been provided to substantiate purchases.</p> <p>In the event appropriate documentation is not received, payment should be withheld until such documentation is obtained.</p>	High	X		By accepting recommendation #1 as modified above, there will be no future payments to the subrecipients. However, if recommendation #1 is not pursued, staff concurs with the audit recommendation.	12/31/11
<p>3. Enforce the terms of the sub-recipient agreements consistently with all organizations. Discontinue management override and waiving of contractual language/ deadlines based on organizations' failure to comply.</p> <p>If sub-recipient organizations do not submit the proper and necessary paperwork for participant eligibility by the contractual deadline, the City should not fund those participants.</p> <p>If an organization is bound by contract to perform a certain task, the City should consider any deviation a breach of contract and address it as such.</p>	High	X		By accepting recommendation #1 as modified above, there will be no future relationships with subrecipients. However, if recommendation #1 is not pursued, staff concurs with the audit recommendation.	12/31/11
<p>4. If the City chooses not to implement recommendation #1:</p> <p>Require the sub-recipients to provide a list of other funding sources when the City requires matching funds. The City should follow-up with outside funding sources to ensure the City is not being billed for participants that are funded from another organization. (Example: City did not request detail on how Yelda's matching funds would be spent in 2009 and were, therefore, unaware that Yelda had invoiced both the City and the State for the same expenses.)</p> <p>Require that program funds paid by City cannot be co-mingled with any other funds managed by the organization.</p> <p>Sub-recipient organizations should be required to open a separate bank account for City funds and, upon conclusion of the program, submit bank statements for this account.</p>	Medium	X		<p>By accepting recommendation #1 as modified above, there will be no future payments to subrecipients. However, if recommendation #1 is not pursued, the most recent Subrecipient Agreement with Man Up states that the City "shall have full and unrestricted access to all documents of the SUBRECIPIENT related to the Summer Youth Program, regardless of the funding source." This language should be included in any future subrecipient agreement for a Summer Youth Program. In the future, the City would monitor the subrecipient's compliance to ensure that subrecipients are not invoicing the City and another organization for the same expenses.</p> <p>In regards to the recommendations about co-mingling of funds and separate bank accounts, staff believes that a separate ledger account should be created and maintained by a subrecipient in order to track funds provided by the City. This bookkeeping function should also be applicable for all organizations that provide funding to a Summer Youth Program subrecipient agency. As noted above, all ledger accounts should be available for City inspection to monitor the disposition of funds. Staff believes that the costs and management associated with maintaining separate bank accounts for these non-profit organizations may burden an organization.</p>	12/31/11
<p>5. Discontinue the issuance of "endorsement letters" which promote the giving of donations to organizations until such time that organizations are registered to solicit under the State of Florida's Solicitation of Contributions Act.</p>	High	X		On April 5, 2010, the City Commission directed staff to draft a letter to be signed by the Mayor that could be used by the Yelda and Man Up organizations to solicit donations. If asked for a similar request in the future, the staff will determine if the organization is registered to solicit under the State of Florida's Solicitation of Contributions Act and, if not, report back to the City Commission for direction.	9/1/11
<p>6. Require Criminal History Checks (available from the Florida Department of Law Enforcement) for each of the program participants prior to their employment start date and utilize the results to determine program eligibility.</p> <p>Information regarding felonies (not misdemeanors) may be discoverable regardless of a child's age per Florida Statutes, Section 985.04(2).</p>	High	X		Human Resources is currently drafting policy on background screening. Different positions will have different requirements for screening to ensure the process is both comprehensive and legally defensible. Anticipated date of implementation is October 31, 2011.	10/31/11

Management Action Plans

Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
<p>7. Investigate all potential conflicts of interest considered in the audit report against the City's Conflict of Interest Policy.</p> <p>Investigate the situation regarding the City employee who was receiving paychecks from both Yelda and the City without an off-duty employment permit in accordance with Human Resources Rule 2.8(E).</p> <p>Determine whether it will be allowable for children of City employees to participate in the City-funded summer youth programs. Modify the language in the City's Conflict of Interest Policy to allow for this if management/ the City Attorney decide it is acceptable.</p>	High	X		<p>There are four (4) potential conflicts discussed in the audit report.</p> <p>The first dealt with whether the children of city employees may participate in the summer youth program. Staff previously researched the issue of whether City Employees and their dependents may participate in CDBG funded activities with the City Attorney's office and HUD.</p> <p>24 CFR 570.611(b) states that "the general rule is that no persons... who exercise or have exercised any functions or responsibilities with respect to CDBG activities assisted under this part, or who are in a position to participate in a decision making process or to gain inside information with regard to such activities, may obtain a financial interest or benefit from a CDBG assisted activity...."</p> <p>The city employees who had children employed by the subrecipients receiving CDBG funds did not exercise any function or responsibility related to the program and did not receive any inside information on the program. Therefore, there was no conflict of interest according to HUD rules or the City Attorney's Office.</p> <p>The second dealt with the spouse of a City employee who works in a department that provided funding to the summer youth programs. At the time, the employee had no decision-making authority over funding provided to the summer youth programs. The employee's spouse is an accountant that was contracted to perform bookkeeping for the Man Up program. There was no business transaction or obligation of any nature that conflicted with the proper discharge of the City employee's duties in the public interest, nor did the employee or the spouse benefit as a result of the employee's position in the City.</p> <p>The third dealt with the child of an employee of one of the subrecipient agencies. In 2009, staff was not aware that the child was related to the employee and the subrecipient did not request for the child to be paid with CDBG funds. During the audit, it was discovered that a uniform shirt(s) that was purchased in 2009 by the subrecipient agency may have been issued to the child. The CDBG funds only paid for a portion of the shirts that were purchased by the subrecipient agency, so it cannot be determined if CDBG funds were, in fact, used to purchase a shirt for that specific child. In 2010, when the staff became aware that the child was related to the employee, staff reiterated that CDBG funds could not be used to pay for that child to eliminate any potential conflict of interest issue. Therefore, no CDBG funds were used to pay for any expenses for that child during 2010 or 2011.</p> <p>Auditor Comment: Expenditure Voucher #CE12878068 includes payment for 9 participants' uniforms. The same voucher identifies those 9 participants by name for payroll purposes. It appears without question that the named relative received a uniform paid by the City. (This reference was previously provided to management.)</p> <p>The fourth dealt with an employee who did not disclose employment with Yelda in 2009. The referenced employee has been counseled regarding the requirement for an Off-Duty Employment Permit each year in order to be employed by another employer other than the City of Sarasota. The employee stated that the employee did not intentionally hold outside employment without first receiving an Off-Duty Employment Permit approval, but rather forgot about the requirement to annually submit the permit application form.</p> <p>The Human Resources Department is revising the Off-Duty Employment Permit process to align</p>	9/30/11

Management Action Plans

Audit Recommendation	Priority	Concur	Do not concur	Proposed Management Action	Action Item Due Date
				<p>approvals with the fiscal year. Department directors will receive an annual listing of those approved Off-Duty Employment Permits expiring on September 30. Those employees with expiring permits will be directly contacted by their department director to determine if the individual is requesting approval for the following fiscal year.</p> <p>Permits may be granted mid-year but will expire on September 30 and require renewal to be in compliance with City policy.</p> <p>Regarding Conflict of Interest, the summer youth programs should mirror our nepotism rules. Any City staff with direct accountability for summer youth programs or providing program funding should be precluded from having relatives participate in the summer youth programs.</p> <p>The Human Resources Department will send out a reminder that employees and elected officials should disclose potential conflicts of interest to ensure an actual conflict of interest does not occur.</p>	
<p>8. Require all City departments to adhere to child labor law requirements outlined in Section 450.081, Florida Statutes.</p> <p>Encourage the sub-recipient organizations to educate all outside employers of the requirements, as well.</p>	Medium	X		<p>The City will provide direction to all departments who employ summer youth program participants summarizing child labor law requirements and the necessity for accurate time reporting. Further, staff will require a mandatory orientation for summer youth supervisors and fully explain child labor law requirements</p> <p>By accepting audit recommendation #1 as modified above, there will be no need to interface with subrecipient organizations on this issue.</p>	12/31/11

APPENDIX AUDIT RATING SYSTEM

The audit ratings listed below are based on the auditor's assessment of whether the audit objectives were met.

Red- A red control rating denotes significant business risk or exposure to the City that requires immediate attention and remediation efforts. The controls reviewed do not appear to provide reasonable assurance that the control objectives are being met. The City is being exposed to a high level of business risk and exposure. Management is advised to immediately review the design and effectiveness of existing controls or consider implementing new or additional controls.

Yellow- A yellow control rating denotes opportunities for improvement exist relating to the controls reviewed. If this state of control is not improved, it could lead to a higher than acceptable level of business risk or exposure to the City. The controls reviewed provide some, but not sufficient assurance that control objectives are being met. Management is advised to review the design and effectiveness of existing controls or consider implementing new or additional controls on a priority basis.

Green- A green control rating indicates that the controls reviewed at the time of the audit indicated a satisfactory or acceptable state of control, where risk appears to be minimized and appropriately managed. Controls reviewed appear to provide a high degree of assurance that control objectives are being met. To maintain this rating management is advised to continue to assess the control systems and monitor existing controls for efficiency and effectiveness as business and organizational changes occur.