



# City of Springfield, Missouri



Loan Programs and Grant Processing Internal  
Audit  
Fieldwork March 2019



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CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS CONSULTANTS

August 21, 2019

Finance and Administration Committee  
City of Springfield  
840 Boonville Ave.  
Springfield, Missouri 65802

Re: Springfield Loan Programs and Grant Processing Internal Audit

Dear Committee Members:

In conjunction with our overall engagement to provide internal audit services to the City of Springfield ("City"), we have completed our operations internal audit of the loan programs and grant processing and the associated internal controls. Our services were performed in accordance with the International Standards for the Professional Practice of Internal Auditing, as promulgated by the Institute of Internal Auditors (IIA).

The accompanying report includes an Executive Summary, our Observations and Recommendations and Process Improvement Opportunities. Because the procedures performed in conjunction with the internal audit are more limited than would be necessary to provide an opinion on the system of internal accounting controls taken as a whole, such an opinion is not expressed. In addition, the engagement did not include a detailed audit of transactions that would be required to discover fraud, defalcations or other irregularities.

This report is intended solely for the information and use of management and the City Council and is not intended to be, and should not be, used by anyone other than the specified parties. City of Springfield external auditors may be provided with a copy of this report in connection with fulfilling their responsibilities. In addition, we understand that the City may be required to make our report, once finalized, available under sunshine laws.

We would like to express our gratitude to all employees involved with this project. Each person involved was accessible and responsive to our requests for information.

Sincerely,

RUBINBROWN LLP

A handwritten signature in black ink that reads "Christina Solomon".

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# Table of Contents

<b>Executive Summary</b>	<b>1</b>
<b>Observations and Recommendations</b>	<b>3</b>
<b>Process Improvement Opportunities</b>	<b>5</b>



# Executive Summary

## Project Overview and Scope

We have completed our operations internal audit for the City's loan programs and grant processing. The objectives of our audit were to:

1. Ensure adequate internal controls exist over the approval process and monitoring for loans and grants, and that the controls are operating effectively.
2. Evaluate loans and grants processes for operating efficiencies and applicability of best practices.

In order to achieve the objectives above, we completed the following activities:

- Identified and evaluated existing policies and practices in place for the City's loans and grants across four departments: Planning & Development, Workforce Development, Health, and Finance.
- Performed in-person interviews with key personnel of each department in order to gain an understanding of the business processes for applications, approvals, accounting treatment, and monitoring of performance requirements for both grants and loans maintained by the City.
- Performed testing on a limited number of transactions on a sample basis from January 1, 2018 through December 31, 2018, to ensure procedures are operating as documented:
  - Reviewed the delinquencies and defaults aging schedule and matched the weekly payments to the percentage recorded in the Late Fees schedule.
  - Reviewed 15 Planning & Development loan packets across three segments (HOME, HELP, Small Business) for proper documentation, including approvals of the loans.
  - Reviewed the Schedule of Expenditures of Federal Awards (SEFA) in relation to supporting grant expenditure documentation for each department.
  - Re-performed the Planning & Development loan reconciliation process for each loan segment to determine if the recorded balances were accurate.
  - Reviewed three grants for the Health Department for five months of the testing period to determine the completeness of the Pro Forma supporting documentation and that the approvals were appropriate.
  - Reviewed five Workforce Development tuition participants and five Workforce Development gas card participants to determine the appropriate approvals were given for the grant expenditure.

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## Background

The City of Springfield receives financial assistance in the form of Federal Government or State-funded grants across a number of departments to carry out a public purpose of support for the benefit of citizens of Springfield. Grants can be monetary assistance, commonly in the form of a reimbursement, or non-monetary such as equipment or training. The grants received have varying performance criteria and compliance monitoring requirements in order to retain the funding. The funding is then distributed for the benefit of citizens in the form of loans, sub-grants, and services provided (e.g. healthcare or job seeker support). The City maintains a decentralized grant function. The grant application, administration, and reimbursement process is the responsibility of the department applying for the grant.

## Best Practices

Based on discussions with management personnel, the following key processes are in place and represent best practices:

- The Planning & Development department performs a monthly reconciliation for all loans provided by the department. We noted that reconciliations are performed timely and variances are investigated and resolved.
- Each grant is entered into Oracle and allocated an identifiable program and grant code and the allocations of general costs are tracked in Oracle in accordance with the cost allocation plan.

## Observations and Recommendations

We noted the following observations during our review:

- The Planning and Development department performs loan aging manually via an Excel spreadsheet. The City's loan portfolio averaged approximately \$40M during FY18.
- The Health department does not maintain formal policies and procedures for grant processing.

All observations, recommendations, and process improvement opportunities were discussed with management. Details are noted in the tables attached immediately hereafter.

City of Springfield  
 Loan Programs and Grant Processing Internal Audit  
 Observations and Recommendations



#	Process/Procedure	Observation and Risk	Recommendation	Management Response
1	<p>The Planning &amp; Development department performs a manual monthly reconciliation for all loans provided by the department. The process involves a three-way reconciliation between the ad-hoc 'Loan Program', the HUD 'IDIS' system, and the primary accounting system, 'Oracle'. An aging report is manually created based on the outcome of the reconciliation and general monitoring throughout the month, which is presented at the Loan Committee meeting. The City's loan portfolio averaged approximately \$40M during our sample period.</p>	<p><b>Observation:</b> An aging report for loan balances is not available to be produced from the accounting systems to verify the aging accuracy across the loan segments.</p> <p><b>Risk:</b> Inaccurate aging or late fee calculation due to manual entry.</p>	<p>Investigate potential software solutions that will allow aging of loans to be performed automatically within the system.</p>	<p><b>Planning and Development Department</b>          The Planning and Development Department is always open to upgrades and changes and will continue to seek to improve current processes. From July 2018 to March 2019, late fees charges were assessed at approximately \$200 per month equating to only .08% of the total average monthly loan payments of \$260,000. Each time a new City-wide program is implemented, such as Oracle or INFOR, the program has been investigated in the hopes of continuing to enhance the loan process. We will continue to investigate alternatives to the current manual aging process. Our target date to complete a current evaluation of alternatives is July 2020.</p>

City of Springfield  
 Loan Programs and Grant Processing Internal Audit  
 Observations and Recommendations



#	Process/Procedure	Observation and Risk	Recommendation	Management Response
2	<p>The Health department receives grants passed down through the State and applies for a reimbursement of expenditure. The department has created checklists over time to assist with processing the reimbursement applications.</p>	<p><b>Observation:</b> The Health department does not maintain official documentation outlining the respective policies and procedures for the grant monitoring and reimbursement application process.</p> <p><b>Risk:</b> Noncompliance with grant performance requirements. Inconsistencies in reimbursement applications.</p>	<p>Create an official policy and procedure document that provides guidance for processing and maintenance of grants awarded.</p>	<p><b>Assistant Director of Health</b></p> <p>The Health Department Financial Analyst will create a standard operating procedures manual and an evolving list of current grants. The manual will include instructions for running general ledger reports and gathering payroll information needed to complete proformas. The list of grants will include reporting requirements and deadlines. The manual and grant listing will be stored on a shared drive.</p> <p>Our target date to implement this recommendation is July 2020.</p>

City of Springfield  
 Loan Programs and Grant Processing Internal Audit  
 Process Improvement Opportunities



We noted the following process improvement opportunities during our review. While these observations do not constitute internal control weaknesses, they could help strengthen the overall internal control environment or improve the efficiency of a business process. We recommend management consider the observations and take action where appropriate.

#	Observation	Process Improvement	Management Response
1	<p>The Finance department has published a policy manual and procedures document for maintaining grants for compliance purposes. The Finance department receives a breakdown of grant expenditures at the end of the year and posts July &amp; August deferred/accrued revenue for some departments, where required. Other departments post their own accruals. The breakdown is reconciled against the program and grant ledgers in Oracle.</p> <p>The Finance department receives varying documentation from each department. This creates inconsistencies for maintaining the end-of-year compliance requirements.</p>	<p>Revise the City's Grant Administration Procedures to include a detailed recommended approach to providing end-of-year grant expenditure information to the Finance department.</p>	<p><b>Assistant Director of Finance</b></p> <p>Finance Department personnel will review the City's Grant Administration Procedures and make updates where appropriate including establishing uniform year-end reporting requirements for departments.</p> <p>Our target date to implement this recommendation is July 2020.</p>

City of Springfield  
 Loan Programs and Grant Processing Internal Audit  
 Process Improvement Opportunities



#	Observation	Process Improvement	Management Response
2	<p>The Planning and Development department performs a three-way reconciliation between a Loan Balancing Listing, an in-house system that tracks Loans called "Loan Program", and Loan Summary spreadsheets for each type of loan.</p> <p>The individuals that perform the reconciliations understand their responsibilities and are able to reconcile the loans within \$25 each month. However, there are no written procedures detailing the reconciliation process. If another employee was needed to perform the reconciliation process for a month, they may not be able to reperform the actions of one of the reconcilers.</p>	<p>Document the steps completed for each part of the reconciliation so that a back-up can perform the reconciliation without one-on-one guidance from a current reconciler.</p>	<p><b>Assistant Director of Planning and Development</b></p> <p>The Planning and Development financial staff will document the loan reconciliation process. If one or more financial staff are unable to report to work, the steps for reconciliations will be available in a binder and/or an online shared drive.</p> <p>Our target date to implement this improvement is July 2020.</p>

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City of Springfield  
 Loan Programs and Grant Processing Internal Audit  
 Process Improvement Opportunities



#	Observation	Process Improvement	Management Response
3	<p>The Workforce Development department receives grant funds to provide job seekers with transportation benefits. For Missouri Work Assistance participants, these benefits must be deducted from the existing transportation related expense (TRE) benefits. A TRE deduction form is completed by the participant in order to accept responsibility for the gas card and also to acknowledge the deduction from existing benefits.</p> <p>We reviewed supporting documentation for five recipients of gas cards and found that one participant did not acknowledge the deduction by checking the box on the TRE deduction form. The gas card was properly authorized and the form was signed and dated by the participant.</p>	<p>Ensure that the participant checks the box on the TRE form acknowledging that the gas card will be deducted from their next TRE benefit.</p>	<p><b>Workforce Development Supervisor</b></p> <p>The form has been revised to remove the check box. The participant signature is directly below the description of the deduction, and the division views the check box as an unnecessary requirement. The only reason the participant is signing the form is to authorize and acknowledge the deduction of a future TRE payment.</p> <p>The form was revised in April 2019.</p>