



**AMERICAN RECOVERY AND
REINVESTMENT ACT:
QUALITY ASSURANCE & INITIAL
REPORTING**

SPECIAL AUDIT

FEBRUARY 17, 2009 THROUGH DECEMBER 31, 2009

**CITY OF CHESAPEAKE, VIRGINIA
AUDIT SERVICES DEPARTMENT**

March 4, 2010

The Honorable Alan P. Krasnoff and
Members of the City Council
City of Chesapeake
City Hall – 6th Floor
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

We have reviewed the City of Chesapeake Virginia's (City's) internal controls over American Recovery and Reinvestment Act (ARRA) funding. The purpose of this audit was 1) to evaluate the City's quality assurance procedures for financial and operational reporting relative to ARRA and 2) evaluate the accuracy of the City's initial ARRA reporting and the effects that any potential changes in federal reporting requirements may have on future City-submitted ARRA reports.

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.

ARRA included 23 title chapters covering appropriations, taxes, unemployment, health care, state fiscal relief, and other provisions. The \$787 billion stimulus package contained \$288 billion in tax credits, \$144 billion in state and local fiscal relief, and \$355 billion of federal spending programs.

Within the City of Chesapeake, as of December 31, there were eleven grants totaling \$7,534,571 for which funds had been appropriated, and another five grants totaling \$7,466,667 which the City had been awarded but for which funds had not yet been appropriated. Grant expenditures totaled \$3,590,199, or 23.93 percent of total grant awards of \$15,001,238. Only two people had been hired or retained utilizing City ARRA funding, though several additional hires were planned. However, we did note that more than 150 youths participated in the City's ARRA-funded Summer Youth Employment Program. A summary of each program is included in Appendix B.

Based upon our review, we found that the City was well prepared to receive and expend ARRA funds. Overall, procedures to meet basic requirements had been implemented. Consequently our recommendations were made predominantly for the purpose of improving future ARRA reporting and accountability processes rather than correcting material weaknesses.

We recommended that the City ensure that funding for Social Services-related ARRA grants was appropriated in amounts sufficient to cover grant expenditures. We also recommended that the City take steps to ensure that jobs funding statistics were reported accurately for its Community Development Block Grant (CDBG-R) project.

This report, in draft, was provided to City ARRA Compliance Team members for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. All of the team members and ARRA program managers were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Sincerely,



Jay Poole
City Auditor
City of Chesapeake, Virginia

C: William E. Harrell, City Manager
Donna Hildebrand, Chair, City Compliance Team

Managerial Summary

A. Objectives, Scope, and Methodology

We have reviewed the City of Chesapeake Virginia's (City's) internal controls over American Recovery and Reinvestment Act (ARRA) funding. The purpose of this audit was 1) to evaluate the City's quality assurance procedures for financial and operational reporting relative to ARRA and 2) evaluate the accuracy of the City's initial ARRA reporting and the effects that any potential changes in federal reporting requirements may have on future City-submitted ARRA reports.

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The American Recovery and Reinvestment Act was signed into law on February 17, 2009. It had five stated purposes:

- To preserve and create jobs and promote economic recovery;
- To assist those most impacted by the recession;
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health;
- To invest in transportation, environmental protection and other infrastructure that will provide long-term economic benefits; and
- To stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

ARRA included 23 title chapters covering appropriations, taxes, unemployment, health care, state fiscal relief, and other provisions. The \$787 billion stimulus package contained \$288 billion in tax credits, \$144 billion in state and local fiscal relief, and \$355 billion of federal spending programs.

Within the City of Chesapeake, as of December 31, there were eleven grants totaling \$7,534,571 for which funds had been appropriated, and another five grants totaling \$7,466,667 which the City had been awarded but for which funds had not yet been appropriated. Grant expenditures totaled \$3,590,199, or 23.93 percent of total grant awards of \$15,001,238. Only two people had been hired or retained utilizing City ARRA funding, though several additional hires were planned. However, we did note that 120 youths participated in the City's ARRA-funded Summer Youth Employment Program. A summary of each program is included in Appendix B.

To conduct this audit, we reviewed Citywide ARRA reporting practices to ensure that 1) the City was following federal requirements and 2) City directives for financial reporting, jobs-creation reporting and other relevant operational reporting were being followed. We also evaluated City reporting procedures against adjustments in federal reporting requirements, to help ensure that future ARRA reports maintained compliance with federal reporting guidelines.

Major Observations and Conclusions

Based upon our review, we found that the City was well prepared to receive and expend ARRA Act funds. Overall, procedures to meet basic requirements had been implemented. Consequently our recommendations were made predominantly for the purpose of improving future ARRA reporting and accountability processes rather than correcting material weaknesses.

We recommended that the City ensure that funding for Social Services-related ARRA grants was appropriated in amounts sufficient to cover grant expenditures. We also recommended that the City take steps to ensure that jobs funding statistics were reported accurately for its Community Development Block Grant (CDBG-R) project.

This report, in draft, was provided to City ARRA Compliance Team members for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. All of the team members and ARRA program managers were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

B. Overview - City ARRA Programs

According to guidelines developed by the Federal Office of Management and Budget (OMB), the City was considered to be a primary recipient on four of its appropriated grants, totaling \$3,663,126, a Sub-recipient on seven appropriated grants, totaling \$3,871,445, and five unappropriated grants totaling \$7,466,667. Grant expenditures as of December 31, 2009 totaled \$3,590,199 or 23.93 percent of total grant awards of \$15,001,238. The City was also planning to issue ARRA bonds totaling at least \$2,555,000. Information on these programs is provided in Appendix B.

In addition, the City had developed an extensive quality control program to help ensure the accuracy of reports submitted for ARRA. We noted there was only one relatively minor Federal correction on each of the City's October 10, 2009 and January 10, 2010 quarterly report submissions.

C. Findings and Recommendations

Based upon our review, we found that the City was well prepared to receive and expend ARRA funds. Overall, procedures to meet basic requirements had been implemented. Consequently our recommendations were made predominantly for the purpose of improving future ARRA reporting and accountability processes rather than correcting material weaknesses.

We recommended that the City ensure that funding for Social Services-related ARRA grants was appropriated in amounts sufficient to cover grant expenditures. We also recommended that the City take steps to ensure that jobs funding statistics were reported accurately for its Community Development Block Grant (CDBG-R) project.

1. Expenditures for ARRA-related Social Services Programs

Finding – Expenditures for the City’s ARRA-related Social Services programs were likely to exceed funding initially appropriated for the programs.

Recommendation – The City should ensure that funding is appropriated sufficiently to cover expenditures for all ARRA–related Social Services programs.

Response - The City has fully implemented this recommendation and has ensured that adequate appropriation is available to cover expenditures related to all ARRA Social Services programs. Currently, there are no grant documents provided by the State. The City Department of Human Services is notified on a monthly basis when reimbursement rates are revised. Review and adjustments of estimated budgets are prepared quarterly.

2. Jobs Funding Statistics for CDBG-R Grant

Finding - The City was planning to allow a third party contractor to develop jobs funding statistics for an ARRA project funded by the CDBG-R grant.

Recommendation – In this particular instance, the City should assume primary responsibility for reporting the jobs funding information.

Response - The City agrees with the recommendation. As part of the City’s Quality Assurance Plan special terms and conditions are included in all contracts funded in whole or in part with ARRA funds. Included in these special terms and conditions is a checklist for the sub-recipients and vendors to address jobs created or retained under ARRA. The City has chosen not to delegate its reporting responsibility to its sub-recipients and has instead assumed primary responsibility for all reporting where the City is the prime recipient of ARRA funds.

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A. Objectives, Scope and Methodology

We have reviewed the City of Chesapeake Virginia's (City's) internal controls over American Recovery and Reinvestment Act (ARRA) funding. The purpose of this audit was 1) to evaluate the City's quality assurance procedures for financial and operational reporting relative to ARRA and 2) evaluate the accuracy of the City's initial ARRA reporting and the effects that any potential changes in federal reporting requirements may have on future City-submitted ARRA reports.

We conducted our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

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ARRA included 23 title chapters covering appropriations, taxes, unemployment, health care, state fiscal relief, and other provisions. The \$787 billion stimulus package contained \$288 billion in tax credits, \$144 billion in state and local fiscal relief, and \$355 billion of federal spending programs.

Within the City of Chesapeake, as of December 31, there were eleven grants totaling \$7,534,571 for which funds had been appropriated, and another five grants totaling \$7,466,667 which the City had been awarded but for which funds had not yet been appropriated. Grant expenditures totaled \$3,590,199, or 23.93 percent of total grant awards of \$15,001,238. Only two people had been hired or retained utilizing City ARRA funding, though several additional hires were planned. However, we did note that 120 youths participated in the City's ARRA-funded Summer Youth Employment Program. A summary of each program is included in Appendix B.

To conduct this audit, we reviewed citywide ARRA reporting practices to ensure that 1) the City was following federal requirements and 2) City directives for financial reporting, jobs-creation reporting and other relevant operational reporting were being followed. We also evaluated City reporting procedures against adjustments in federal reporting requirements, to help ensure that future ARRA reports maintained compliance with federal reporting guidelines.

Major Observations and Conclusions

Based upon our review, we found that the City was well prepared to receive and expend ARRA Act funds. Overall, procedures to meet basic requirements had been implemented. Consequently our recommendations were made predominantly for the purpose of improving future ARRA reporting and accountability processes rather than correcting material weaknesses.

We recommended that the City ensure that funding for Social Services-related ARRA grants was appropriated in amounts sufficient to cover grant expenditures. We also recommended that the City take steps to ensure that jobs funding statistics were reported accurately for its Community Development Block Grant (CDBG-R) project.

This report, in draft, was provided to City ARRA Compliance Team members for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. All of the team members and ARRA program managers were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Scope and Methodology

To conduct this audit, we reviewed the federal reporting requirements for each of the ARRA grants for which the City had either appropriated or been awarded funds. We then conducted interviews with the individual program managers responsible for managing and monitoring the grants. We also verified information related to expenditures charged against the grants.

In addition, we reviewed federal and state reporting requirements related to ARRA grants as well as the City's October 10, 2009 and January 10, 2010 ARRA reporting submissions, which covered City expenditures through December 31, 2009, and Citywide ARRA reporting practices to ensure that 1) the City was following federal requirements and 2) City directives for financial reporting, jobs-creation reporting and other relevant operational reporting were being followed. We also evaluated City reporting procedures against adjustments in federal reporting requirements, to help ensure that future ARRA reports maintained compliance with federal reporting guidelines.

B. Overview - City ARRA Programs

According to guidelines developed by the Federal Office of Management and Budget (OMB), the City was considered to be a primary recipient on four of its appropriated grants, totaling \$3,663,126, and a Sub-recipient on seven appropriated grants totaling \$3,871,445 and five unappropriated grants totaling \$7,466,667. Grant expenditures as of December 31, 2009 totaled \$3,590,199 or 23.93 percent of total grant awards of \$15,001,238. The City was also planning to issue ARRA bonds totaling at least \$2,555,000. Information on these programs is provided in Appendix B.

In addition, the City had developed an extensive quality control program to help ensure the accuracy of reports submitted for ARRA. We noted that there was only one relatively minor Federal correction on each of the City's October 10, 2009 and January 10, 2010 quarterly report submissions.

1. Primary Recipient Grants

OMB defined a Primary Recipient as "any entity other than an individual that receives Recovery act funds in the form of a grant, cooperative agreement or loan directly from the Federal Government". The City had four ARRA programs for which it functioned as a primary recipient. These programs were as follows:

Exhibit #1			
City of Chesapeake			
ARRA Prime Recipient Grants			
<u>Grant Title</u>	<u>*CFDA#</u>	<u>Federal Source Department</u>	<u>Amount</u>
Community Development Block Grant- ARRA Entitlement Grant (CDBG-R)	14.253	Housing & Urban Development	\$331,823
Homelessness Prevention and Rapid Re-Housing Program (HPRP)	14.257	Housing & Urban Development	\$507,406
Edward Byrne Memorial Justice Assistance Grant	16.804	Justice	\$776,997
Energy Efficiency and Conservation Block Grant (EECBG)	81.258	Energy	<u>\$2,046,900</u>
Totals			<u>\$3,663,126</u>
*CFDA (Catalog of Federal Domestic Assistance) Numbers were used by the Federal Government to identify and monitor grants for Federal reporting purposes.			

As of December 31, no new positions had been created by these programs and only one, in the HPRP program, was listed as being retained. However, the CDBG-R and EECBG programs both had the potential to create additional jobs.

2. Sub-recipient Grants

OMB defined a sub-recipient as “a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program but does not include an individual who is a beneficiary of such a program.” The City had seven ARRA sub-recipient programs for funds had been appropriated, and five other sub-recipient programs for which funds had yet to be appropriated. These programs were as follows:

Exhibit #2 City of Chesapeake ARRA Sub Recipient Grants			
<u>Grant Title</u>	<u>*CFDA#</u>	<u>Federal Source Department</u>	<u>Amount</u>
A. Sub-recipient Grants Appropriated by City			
Supplemental Nutrition Assistance Program (SNAP) - FY 10 Allocation	10.561	Agriculture/Social Services	\$79,609
State Victim Witness Formula Grant Program	16.801	Justice/Criminal Justice Services	\$73,476
WIA (Workforce Investment Act) - Youth Activities - (Youth Employment)	17.259	Labor/Opportunity Inc.	\$294,832
Special Education - Grants for Infants and Families (Special Education)	84.393	Education/Social Services	\$137,411
State Fiscal Stabilization Fund - FY 2009 Jail Costs	84.397	Education/Compensation Bd.	\$2,413,725
State Fiscal Stabilization Fund - FY 2009 4th Quarter per diem	84.397	Education/Compensation Bd.	\$645,856
	93.658		
Social Services - Foster Care, Adoption, Child Care & Dev.	93.659		
	93.713		<u>\$226,536</u>
Subtotal - Appropriated Sub-recipient Grants			<u>\$3,871,445</u>

Exhibit #2 (Continued)
City of Chesapeake
ARRA Sub Recipient Grants

<u>Grant Title</u>	<u>*CFDA#</u>	<u>Federal Source Department</u>	<u>Amount</u>
B. Sub-recipient Grants Awarded but Not Yet Appropriated (as of 12/31/09)			
Supplemental Nutrition Assistance Program (SNAP) - FY 11 Allocation	10.561	Agriculture/Social Services	\$79,609
Edward Byrne Memorial Justice Assistance Grant (State Allocation)	16.803	Justice/Compensation Board	\$516,622
Highway Planning and Construction (for Dismal Swamp Trail project)	20.205	Transportation/Transportation	\$1,300,000
Surface Transportation Discretionary Grants for Capital Investment (LED (Conversion: Paving; Bridge Deck Rehab)	20.932	Transportation/Transportation	589,976 3,298,137 1,438,109
National Clean Diesel Funding Assistance Program	66.039	Environmental Protection Agency/Hampton Roads Clean Cities	<u>\$244,214</u>
Subtotal - Unappropriated Sub-recipient Grants			<u>\$7,466,667</u>
Total - Sub-recipient Grants			<u>\$11,338,112</u>
Note - On January 26, 2010, subsequent to our cut-off date, the City Council appropriated all \$6,626,222 of the ARRA Transportation program funds as well as an additional \$133,500 for the WIA Youth Employment program			

As of December 31, one new position had been created within the Victim Witness program, and 120 youths had participated in the WIA Youth Employment program. The City was planning to hire at least one person for the Special Education program, and all of the Transportation programs had the potential to create jobs as well.

Exhibit #3 highlights City ARRA expenditures. It should be noted that \$3,059,581 in FY 2009 State Fiscal Stabilization Fund expenditures were allocated to the City after the fiscal year was over as part of a State adjustment in cost allocation, and thus were not actually "awarded" to the City as a grant. If these funds were subtracted from the total, the City had only expended \$530,618 of the remaining \$11,941,657 in ARRA grant awards, or 4.44 percent, by December 31.

Exhibit #3
City of Chesapeake
ARRA Grant Expenditures (as of 12/31/09)

<u>Grant Title</u>	<u>*CFDA#</u>	<u>Federal Source Department</u>	<u>Amount</u>
A. Prime Recipient Grants			
Homelessness Prevention and Rapid Re-Housing Program (HPRP)	14.257	Housing & Urban Development	\$10,690
Edward Byrne Memorial Justice Assistance Grant	16.804	Justice	\$17,463
B. Sub-Recipient Grants			
Supplemental Nutrition Assistance Program (SNAP) - FY 10 Allocation	10.561	Agriculture/Social Services	\$5,773
State Victim Witness Formula Grant Program	16.801	Justice/Criminal Justice Svcs.	\$4,535
WIA (Workforce Investment Act) - Youth Activities - (Youth Employment)	17.259	Labor/Opportunity Inc.	\$265,621
State Fiscal Stabilization Fund - FY 2009 Jail Costs	84.397	Education/Compensation Bd	\$2,413,725
State Fiscal Stabilization Fund - FY 2009 4th Quarter per diem	84.397	Education/Compensation Bd	\$645,856
	93.658		
Social Services - Foster Care, Adoption, Child Care & Dev.	93.659	Health and Human Services/	
	93.713	Social Services	<u>\$226,536</u>
Total ARRA Expenditures			<u>\$3,590,199</u>

3. Bonds

ARRA provided for issuance of a number of different kinds of tax exempt or tax credit bond issues, including Recovery Zone Facility Bonds (RZFD), Recovery Zone Economic Development Bonds (RZED), Build America Bonds (BAB), and Qualified School Construction Bonds (QSCB). As of January 2010, the City was planning to issue \$2,555,000 in RZED bonds, was considering the use of BABs for a portion of \$36 million in utility bonds, and was pursuing \$9,469,000 from a competitively distributed State allocation of QSCB bonds. More information on the ARRA bond programs is provided in Appendix B.

4. City's Quality Assurance Program

OMB Memorandum 09-21, Implementing Guidance for the Reports on Use of Funds pursuant to the American Recovery and Reinvestment Act of 2009, Section 4.2, stated that "Data quality is an important responsibility of key stakeholders identified in the Recovery Act. Prime recipients...have principal responsibility for the quality of the information submitted. Sub-recipients delegated to report on behalf of prime recipients share in this responsibility." The City had organized an internal ARRA compliance team that included administrative support departments and departmental program managers, and developed a draft quality assurance document which included the following:

Exhibit #4 City of Chesapeake Key ARRA Accountability & Transparency Requirements for Recipients		
Compliance Requirement	City Internal Control	Compliance Team Contact
1. Mayor/Chief Executive certification, accepting responsibility for the appropriateness of infrastructure investment projects, shall be posted on City's Recovery Act website. (Sec. 1511)	~All projects are reviewed and vetted by Department Project Manager and Department Head to ensure appropriate use of taxpayer dollars. The appropriate department provides the City Manager documentation of the review in Certification Template.	Controller / Deputy City Attorney
	~City Manager designated as certifying official.	Controller / Deputy City Attorney
	~Certification on City's website.	Public Comm. Coordinator
2. City website linked to the federal Recovery.gov website. (Sec. 1511)	~IT responsible for keeping website up-to-date and in compliance.	Public Comm. Coordinator
3. Reporting within 10 days of quarter end for recipients, including: (Sec. 1512)		
* Amount of recovery funds received and expended	~Enterprise Wide Financial System will function as the source for all reporting. Special identifier added to ARRA projects. All reports will be tied to the General Ledger.	Senior Accountant / Grants Accountant
* Description of projects & evaluation of each project's completion status	~See Above	Senior Accountant / Grants Accountant
* Estimate of number of jobs created or retained	~Standard methodology determined and to be applied to all reporting	Controller / Deputy City Attorney
* Information on subcontracts or subgrants	~See Above	Controller / Deputy City Attorney

Exhibit #4 (Continued)
City of Chesapeake
Key ARRA Accountability & Transparency Requirements for Recipients

Compliance Requirement	City Internal Control	Compliance Team Contact
4. Central Contractor Registration (CCR) and Dun & Bradstreet Data Universal Numbering System (DUNS) number. (Sec. 1512)	~City is registered with CCR and has a DUNS number (063414759)	Controller
5. Whistleblower protections for non-federal employees. (Sec. 1553)	~Utilize City's Fraud, Waste & Abuse Hotline	City Auditor
* Must post Notice of Rights & Remedies provided under Section 1553	~Section 1553 of the American Recovery and Reinvestment Act: Protecting State and Local Government and Contractor Whistleblowers posted to City of Chesapeake website.	City Auditor
6. To the maximum extent possible, contracts shall be awarded as fixed-price contracts through the use of competitive procedures. (Sec 1554)	~Competitive procedures for the procurement of goods and services are covered in the City's Code.	Procurement Manager / Deputy City Attorney
* A summary of any contract awarded that is not fixed-price & not awarded using competitive procedures shall be posted in a special section of the Federal Recovery.gov website.	~Competitive procedures for public works and improvement projects are covered in the City Code and Administrative Regulations	Procurement Manager / Deputy City Attorney
	~Procurement Officer will certify monthly to the Compliance Team that all ARRA contracts are fixed-price.	Procurement Manager
	~If Procurement Officer indicates a non fixed-price contract has been signed, Procurement Officer will provide Compliance Team with information for federal website.	Procurement Manager / Public Comm. Coordinator

The City had received notification of two relatively minor reporting errors, both of which appeared to result from some initial confusion related to Federal guidance. In the October 10 submission, the City did not submit the correct identification number and awarding agency code for one of the grants because it had consolidated identification numbers after it had received the grant and used the updated number. In the January 10 submission, the City included landlords as vendors, contrary to HUD's request, because OMB guidance suggested that the landlords be reported as vendors. The City quickly addressed and corrected both issues.

C. Findings and Recommendations

Based upon our review, we found that the City was well prepared to receive and expend ARRA funds. Overall, procedures to meet basic requirements had been implemented. Consequently our recommendations were made predominantly for the purpose of improving future ARRA reporting and accountability processes rather than correcting material weaknesses.

We recommended that the City ensure that funding for Social Services-related ARRA grants was appropriated in amounts sufficient to cover grant expenditures. We also recommended that the City take steps to ensure that jobs funding statistics were reported accurately for its Community Development Block Grant (CDBG-R) project.

1. Expenditures for ARRA-related Social Services Programs

Finding – Expenditures for the City’s ARRA-related Social Services programs were likely to exceed funding initially appropriated for the programs.

The City’s Operating Budget Ordinance set the legal level of appropriation for City funds. As an additional control, the City Manager required that each department’s expenditure remain within the appropriation for the department by fund unless another specific level of control had been specified for a department. Generally, for grants, the City matched the appropriation with anticipated grant expenditures to the greatest extent possible, to enhance accountability for the grant as well as provide an audit trail.

We noted that, as part of the City’s FY 2010 budget approval process, \$226,536 was appropriated for three ARRA Social services programs: Foster Care Title IV-E, Adoption Assistance, and the Child Care and Development Block Grant. While the level of appropriated funding appeared to be sufficient to cover the Foster Care and Adoption assistance programs, the Child Care program was expending approximately \$22,000 to \$25,000 per month, or \$264,000 to \$300,000 annually, which was more than the funding specifically appropriated for all three grants.

This situation occurred because the State released the funding for these grants as part of its monthly Social Services allocation to the City, and as such did not provide a specific award letter for the grants. However, without an appropriation for the grants sufficient to cover all grant expenditures, it is possible that some grant expenditures could be subject to reporting errors during a future single audit process.

Recommendation – The City should ensure that funding is appropriated sufficiently to cover expenditures for all ARRA-related Social Services programs.

The City should take steps to appropriate enough funding to cover the anticipated costs of all three grants. Since the funding was received as a State allocation of Federal funds, no additional local funding should be required. This action will help ensure that the funds in question were expended for their intended purpose and reduce the risk of reporting errors related to program expenditures.

Response - The City has fully implemented this recommendation and has ensured that adequate appropriation is available to cover expenditures related to all ARRA Social Services programs. Currently, there are no grant documents provided by the State. The City Department of Human Services is notified on a monthly basis when reimbursement rates are revised. Review and adjustments of estimated budgets are prepared quarterly.

2. Jobs Funding Statistics for CDBG-R Grant

Finding - The City was planning to allow a third party contractor to develop jobs funding statistics for an ARRA project funded by the CDBG-R grant

According to Part 2 of the City's Special Terms and Conditions to be included in Contracts funded in whole or part by the American Recovery and Reinvestment Act of 2009 (Special Terms and Conditions), "The Contractor [or Sub-recipient] shall provide to the Commonwealth an estimate of number of new positions created and filled, positions retained, or previously existing unfilled positions that are filled as a result of this contract... The Contractor [or Sub-recipient] shall update the information regarding jobs creation and retention on a quarterly basis, and shall provide each updated report to the City no later than 10 days before the end of each calendar quarter."

We noted that, as part of its CDGG-R grant, the City was planning to fund the purchase of five of six beds that it was planning to obtain in South Bay apartments, a sixty bed facility being built in Portsmouth as a supportive housing facility for homeless adults by a third party contractor. In addition to Chesapeake and Portsmouth (42 beds), the cities of Virginia Beach and Norfolk (six beds each) were planning to contribute construction support and rental subsidies as well. However, only the City of Chesapeake was planning to use ARRA funding for this purpose.

Generally, the City's use of the Special Terms and Conditions optimized its use of limited resources for monitoring ARRA contractors and sub-recipients. However, in this particular instance, because the City was the only entity utilizing ARRA resources for the project in question, there was a significant risk that the jobs data that the contractor reported may differ from the data the City might choose to report. The City's status as a primary recipient under the CDBG-R program further exacerbated the potential impact of this risk.

Recommendation – In this particular instance, the City should assume primary responsibility for reporting the jobs funding information.

Within the Special Terms and Conditions, the City allowed the contractor to "provide a brief description of the types of jobs created or jobs retained...This description may rely on job titles, broader labor categories, or the Contractors existing practice". However, instead of relying on the third party contractor to develop the estimate to be submitted, the City should instead develop the estimate itself based upon its own analysis of the data submitted. This practice will help ensure that the City can

rely on the reasonableness of the submission, and also help to maintain favorable compliance status as a primary recipient under the CDBG-R grant.

Response - The City agrees with the recommendation. As part of the City's Quality Assurance Plan special terms and conditions are included in all contracts funded in whole or in part with ARRA funds. Included in these special terms and conditions is a checklist for the sub-recipients and vendors to address jobs created or retained under ARRA. The City has chosen not to delegate its reporting responsibility to its sub-recipients and has instead assumed primary responsibility for all reporting where the City is the prime recipient of ARRA funds.

APPENDIX A

RESPONSE FROM COMPLIANCE TEAM OFFICIALS

Memorandum

TO: Jay Poole, City Auditor

FROM: Donna Hildebrand, Compliance Team, Chair

DATE: February 8, 2010

SUBJECT: American Recovery and Reinvestment Act Audit Finding Responses

Finding 1: Expenditures for the City's ARRA-related Social Services Program were likely to exceed funding initially appropriated for the programs.

Recommendation: The City should ensure that funding is appropriated sufficiently to cover expenditures for all ARRA-related Social Services programs.

Response: The City has fully implemented this recommendation and has ensured that adequate appropriation is available to cover expenditures related to all ARRA Social Services programs. Currently, there are no grant documents provided by the State. The City Department of Human Services is notified on a monthly basis when reimbursement rates are revised. Review and adjustments of estimated budgets are prepared quarterly.

Finding 2: The City was planning to allow a third party contractor to develop jobs funding statistics for an ARRA project funded by the CDBG-R Grant.

Recommendation: In this particular instance, the City should assume primary responsibility for reporting the jobs funding information.

Response: The City agrees with the recommendation. As part of the City's Quality Assurance Plan special terms and conditions are included in all contracts funded in whole or in part with ARRA funds. Included in these special terms and conditions is a checklist for the sub-recipients and vendors to address jobs created or retained under ARRA. The City has chosen not to delegate its reporting responsibility to its sub-recipients and has instead assumed primary responsibility for all reporting where the City is the prime recipient of ARRA funds.

DEH/kag

C: Dr. Betty Meyer, Deputy City Manager
Dr. Wanda Barnard-Bailey, Deputy City Manager
Nancy Tracy, Director of Finance
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APPENDIX B

DESCRIPTIONS OF CITY-UTILIZED ARRA GRANT PROGRAMS AND BOND PROGRAMS

1. Prime Recipient Grants

Community Development Block Grant ARRA Entitlement Grant (CDBG-R) – CFDA #14.253 - \$331,823

The overall CDBG program objective was to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for persons of low and moderate income. CDBG-R program funds were to be used to maximize job retention and creation, and economic benefit, carry out infrastructure improvements on an expedited basis, carry out activities to encourage energy efficiency, and provide assistance to unemployed persons. The City utilized this funding for construction-related expenses for its portion of a supportive housing development for homeless adults, and for rehabilitation expenses for the only homeless shelter in the City.

Homelessness Prevention and Rapid Re-Housing Program – CFDA#14.257 – Department of Housing and Urban Development - \$507,406

This program provided financial and other assistance to prevent individuals and families from becoming homeless and helped those who were experiencing homelessness to be quickly re-housed and stabilized. The City was utilizing this funding in conjunction with its Dragas Homeless Children's initiative grant (\$500,000), the purpose of which was to enhance programs and services for homeless children.

Edward Byrne Memorial Justice Assistance Grant (Byrne Grant) – CFDA#16.804 – Department of Justice - \$776,997

The Byrne Grant allowed states and local governments to support a broad range of activities to prevent and control crime and to improve the criminal justice system. The program solicited applications for state and local initiatives, technical assistance, training, personnel, equipment, supplies, contractual support, and information systems for criminal justice, as well as research and evaluation activities that would improve or enhance law enforcement programs related to criminal justice such as: prosecution and court programs; prevention and education programs; corrections and community corrections programs; drug treatment and enforcement programs; planning, evaluation, and technology improvement programs; and crime victim and witness programs. The City utilized this grant to acquire equipment necessary for several Information Technology projects deemed crucial for policing efficiency, public safety and overall crime prevention.

Energy Efficiency and Conservation Block Grant – CFDA# 81.128 – Department of Energy - \$2,046,900

The program provides financial and technical assistance to assist State and local governments create and implement a variety of energy efficiency and conservation projects. The program's objectives were: 1) To reduce fossil fuel emissions created as a result of activities within the jurisdictions of eligible entities; 2) To reduce the total energy use of the eligible entities; and 3) To improve energy efficiency in the transportation, building, and other sectors.

A wide variety of activities were eligible for use of the grant funds including but not limited to: 1) Developing/implementing an energy efficiency and conservation strategy and retaining technical consultant services to assist in the development of such a strategy; 2) Developing public education programs to increase energy awareness programs; 3) Installing light emitting diodes (LEDs); and 4) Developing, implementing, and installing renewable energy technologies on or in any government building. In addition to these activities, the City planned to utilize these funds for energy retrofits of City buildings, developing a regional energy usage analysis, and analyzing the region's carbon footprint.

2. Sub-recipient Grants

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) - Stimulus Administration FY 10 Allocation – CFDA#10.561 – Department of Agriculture - \$79,609

This program provided Federal financial aid to State agencies for costs incurred to operate the Supplemental Nutrition Assistance Program, formerly known as the Food Stamp Program. The State in turn passed through this funding as an allocation of administrative costs to localities

State Victim Assistance Formula Grant Program (Victim Witness) – CFDA#16.801-\$73,476

This grant supported the provision of services to victims of crime throughout the nation. Services were defined as those efforts that (1) responded to the emotional and physical needs of crime victims; (2) assisted primary and secondary victims of crime to stabilize their lives after a victimization; (3) assisted victims to understand and participate in the criminal justice system; and (4) provided victims of crime with a measure of safety and security such as boarding up broken windows and replacing and repairing locks. Funding for this grant included \$73,476 in federal and funds and \$18,369 in local matching funds. The City was utilizing the funding to provide various forms of assistance to crime victims.

WIA (Workforce Investment Act) Youth Activities – CFDA#17.259 - Department of Labor - \$294,832

The WIA Youth Activities program (also known as the Summer Youth Work Experience program) was established to help low-income youth, between the ages of 14 and 21, acquire the educational and occupational skills, training, and support needed to achieve academic and employment success and successfully transition to careers and productive adulthood. Initially, the program provided work experience for eligible youth through August 2009. The program was later extended to March 2010 and received an additional \$133,500 in funding.

Special Education – Grants for Infants and Families – CFDA#84.393 – Department of Education - \$137,411

These funds were used to assist states in implementing and maintaining their statewide systems of early intervention services. States had the discretion to provide services to infants and toddlers who were at risk of having substantial developmental delays if they do not receive appropriate early intervention services. The Individuals with Disabilities Education Improvement Act of 2004 (IDEA) amended the original IDEA to allow states, at their discretion, to continue to serve children with disabilities under this program beyond age 2 until the children entered or were eligible to enter kindergarten or elementary school. The City was utilizing these funds for early intervention services, and was planning to hire a Clinician II to conduct assessments and coordinate with families and vendors.

State Fiscal Stabilization Fund – CFDA#84.397- Department of Education - \$2,413,725 and \$645,856

This stimulus funding from the State Compensation Board was part of the funding for the State Fiscal Stabilization program. This program supported public safety and other government services, including assistance for elementary, secondary education and public institutions of higher education. Each state was allowed significant flexibility in the use of these funds. In accordance with this flexibility, the State Comptroller worked with the State Compensation Board to distribute funding to several localities and regional jails for Fiscal Year 2009 jail costs (\$2,413,725) and Fiscal Year 2009 fourth quarter per diem payments (\$645,856). The State Compensation Board supplanted the General Funds with Federal State Fiscal Stabilization Funds. It should be noted that the City was not notified that the State was taking this action until July 2009, one month after Fiscal Year 2009 ended.

Social Services Programs: Foster Care Title IV-E (CFDA#93.658), Adoption Assistance (CFDA#93.659), Child Care and Development Block Grant (CCDBG, CFDA#93.713) – Department of Health and Human Services - \$136,712

The City operated the following three ARRA programs in conjunction with its other Social Services programs:

The Title IV-E Foster Care program provided safe and stable out-of-home care for children under the jurisdiction of the child welfare agency until the children are returned home safely; placed with adoptive families, or placed in other planned arrangements for permanency. The program provides funds to assist with the costs of foster care maintenance for eligible children; administrative costs to manage the program; and training for public agency staff, foster parents and certain private agency staff. In addition, \$3 million is reserved for technical assistance and plan development/implementation grants to eligible Tribes beginning in FY 09.

The Adoption Assistance program provided Federal Financial Participation in adoption subsidy costs for the adoption of children with special needs who met eligibility tests.

CCDBG provided economic stimulus to the nation while furthering the ACF mission to promote the economic and social well being of children, youth, families, and communities. Objectives under the CCDBG Act are: To make grants to States, Territories, Tribes, and tribal organizations for child care assistance for low-income families and to: (1) allow each State maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within such State; (2) promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; (3) encourage States to provide consumer education information to help parents make informed choices about child care; (4) assist States to provide child care to parents trying to achieve independence from public assistance; and (5) assist States in implementing the health, safety, licensing, and registration standards established in State regulations.

State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) - Stimulus Administration FY 11 Allocation – CFDA#10.561 – Department of Agriculture - \$79,609

This program provided administrative funding for SNAP Fiscal Year 2011.

Recovery Act- Edward Byrne Memorial Justice Assistance Grant – CFDA #16.803 – Department of Justice - \$516,622

This Byrne Grant had the same broad national objectives as the Byrne Grant for which the City was a Primary Recipient. However, these particular Byrne Grant funds were distributed to the State instead of the City, and the State Compensation Board was utilizing the funds in a similar manner as the State Fiscal Stabilization Funds to support Sheriff's operations. These funds represented the City's FY 2010 allocation.

Highway Planning and Construction (for Dismal Swamp project) – CFDA#20.205 – Department of Transportation - \$1,300,000

Federal-aid highway funds were generally apportioned by statutory formulas to the States. Funds were used for highway projects, and also for planning; research, development, and technology transfer; intelligent transportation systems projects; roadside beautification; wetland and natural habitat mitigation, traffic management and control improvements; improvements necessary to accommodate other transportation modes, development and establishment of transportation management systems; billboard removal; construction of bicycle facilities and pedestrian walkways; fringe and corridor parking; car pool and van pool projects; transportation enhancements such as scenic and historic highway improvements; and recreational trails. The City was planning to use these funds to extend and enhance the Dismal Swamp Canal multiuse recreation trail.

Surface Transportation Discretionary Grants for Capital Investment – CFDA #20.932 – Department of Transportation - \$589,976; \$3,298,137; and \$1,438,109

Projects eligible for funding provided under this program include, but are not limited to, highway or bridge projects, including interstate rehabilitation, improvements to the rural collector road system, the reconstruction of overpasses and interchanges, bridge replacements, seismic retrofit projects for bridges, and road realignments; The Federal share of the costs for which an expenditure is made under this program may be up to 100 percent, however, the Department will give priority to projects that require a contribution of Federal funds in order to complete an overall financing package, and to projects that are expected to be completed by February 17, 2012. The three City projects to be funded were as follows:

- Citywide Light Emitting Diode (LED) Conversion - \$589,976 – To upgrade approximately 125 intersections with LED signal lamps.
- Citywide Pavement Resurfacing - \$3,298,137 – To repave/rehabilitate approximately 43 lane miles of roads.
- Citywide Bridge Deck Sealing and Rehabilitation - \$1,438,109 – To seal and/or rehabilitate 19 bridges in the City.

National Clean Diesel Funding Assistance Program – CFDA 66.039 – Environmental Protection Agency - \$244.214

Sections 792 of the Energy Policy Act of 2005 authorize EPA to award grants and low-cost revolving loans to eligible entities to fund the costs of a retrofit technology that significantly reduces emissions through development and implementation of a certified engine configuration, verified technology, or emerging technology for buses (including school buses), medium-duty or heavy-duty trucks, marine engines, locomotives, or non-road engines or vehicles used in construction, handling of cargo (including at port or airport), agriculture, mining, or energy production. In addition, eligible entities may also use funds awarded for programs or projects to reduce long-duration idling using verified

technology involving a vehicle or equipment described above, or the creation of low-cost revolving loan programs to finance diesel emissions reduction projects. The objective of the assistance under this program is to achieve significant reductions in diesel emissions in terms of tons of pollution produced and reductions in diesel emissions exposure, particularly from fleets operating in areas designated by the Administrator as poor air quality areas. The City was planning to use these funds for the premium associated with the purchase of either natural gas or diesel-fueled refuse trucks.

3. Bonds*

Recovery Zone Facility Bonds

These tax-exempt bonds were authorized as a new category of exempt-facility bonds to finance depreciable property for use in areas designated as Recovery Zones. Recovery Zones were areas designated by state and local governments as having significant poverty, home-foreclosure rates, or unemployment. The initial \$15 billion authorization was to be allocated to states in proportion to their 2008 job losses, with sub allocations made first to large municipalities and counties on the basis of their job losses before other sub allocations are made. After the designation of a Recovery Zone went into effect, proceeds of Recovery Zone Facility Bonds could finance in the Recovery Zone depreciable property actively used in a business. Recovery Zone Facility Bonds were to be issued before January 1, 2011. The City was working with a business client who was considering applying for an allocation of these bonds

Recovery Zone Economic Development Bonds

These taxable bonds were authorized to finance purposes that promoted development or economic recovery in a Recovery Zone. Interest on Recovery Zone Economic Development Bonds was taxable, with the federal government providing payments to issuers equal to 45% of the interest payable on the bonds. Allocations of the \$10 billion limit were to be made to states in the same manner as that for Recovery Zone Facility Bonds. Recovery Zone Economic Development Bonds were to be issued prior to January 1, 2011. The City had received an allocation of \$2,555,000 of these bonds, which it was planning to use to partially fund its Poindexter Streetscape Project. The bonds were to be issued as part of a Virginia Municipal League/Virginia Association of Counties pooled issuance.

Build America Bonds.

These taxable bonds allowed a 35% credit to be taken by the investor of the interest paid, or, at the issuer's option, a 35% rebate of such interest from the federal government to the issuer. Build America Bonds could be issued for the same purposes for which tax-exempt governmental bonds were issued, with applicable tax-exemption rules applying. If the issuer elected to receive the 35% interest rebate, Build America Bonds may only be used for capital expenditures, debt service reserve funds, and costs of issuance. Bonds had to be issued prior to January 1, 2011. The City was planning to elect the rebate and use these bonds for a portion of an upcoming \$36 million Public Utilities bond issuance.

Qualified School Construction Bonds

These bonds were a new category of tax-credit bonds created for the financing of the construction, rehabilitation, or repair of public school facilities. The credit rate for Qualified School Construction Bonds was to be set by the Secretary of the Treasury at a rate allowing the bonds to be issued without discount or interest expense (similar to the method for QZABs). For 2009 and 2010, ARRA authorized \$11 billion of Qualified School Construction Bonds annually with 60% allocated to states in proportion to the amount of local educational grants received by each state under the Elementary and Secondary Education Act, and 40% allocated by the Treasury in conjunction with the Department of Commerce and the Secretary of Education to the largest local educational agencies in the country. Virginia had a received a \$191million allocation of these bonds, and the City Schools were applying for an allotment of \$9,469,000 as part of a statewide competitive process. The allotment was to be made in the spring of 2010.

*Note – Descriptions of the Federal programs were taken from the Federal Catalog of Domestic Assistance. Descriptions of the bond programs were taken from a Municipal Bond Overview provided by Ball Janik LLP.