



**AUDIT OF THE
OFFICE OF JUSTICE PROGRAMS
EDWARD BYRNE MEMORIAL
JUSTICE ASSISTANCE GRANT PROGRAM GRANT
AWARDED TO THE
CITY OF RIVERSIDE, CALIFORNIA**

U.S. Department of Justice
Office of the Inspector General
Audit Division

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EXECUTIVE SUMMARY

The U.S. Department of Justice Office of the Inspector General, Audit Division, has completed an audit of a Recovery Act Edward Byrne Memorial Justice Assistance Grant Program (JAG) grant (2009-SB-B9-0599), awarded by the Office of Justice Programs (OJP), Bureau of Justice Assistance, to the City of Riverside, California (Riverside). Riverside used the Recovery Act JAG grant to purchase 15 police cars, 4 police motorcycles, including emergency equipment on the aforementioned vehicles, and fund 3 full-time Riverside Police Department employees for 1 year. The goal of the grant was to replace aging or damaged vehicles in order to reduce operating and maintenance costs while providing a highly visible, more reliable police presence; and to retain full-time positions within the Riverside Police Department. Riverside was awarded \$928,874 under this grant. As of July 6, 2010, Riverside had expended \$821,704 (88 percent) of the grant award.

The purpose of the Bureau of Justice Assistance's Recovery Act JAG Program is 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, or 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.

Audit Results

The purpose of our audit was to determine whether costs claimed were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant. The objective of our audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) program income; (4) grant expenditures; (5) payroll; (6) accountable property; (7) Financial Status Reports (FSR); Progress Reports, and Recovery Act Reports; (8) grant requirements; and

(9) program performance and accomplishments. We determined that budget management and control, indirect costs, matching, and monitoring of sub-grantees and contractors were not applicable to this grant.

As a result of our audit, we found that Riverside's financial management system provided adequate maintenance of grant-related activities. For the two grant drawdowns, we found them to be adequately supported and Riverside was managing the grant receipts in accordance with federal requirements. The FSRs, Progress Reports, and Recovery Act Reports that we reviewed were submitted in a timely manner and all Progress Reports and Recovery Act Reports were accurate. However, we noted the following exceptions:

- two FSRs were inaccurate; and
- fringe benefit costs were inadequately supported and were calculated from a ratio that included unallowable expenditures. As result, we questioned \$74,904 in fringe benefit expenditures.

These items are discussed in detail in the Findings and Recommendations section of the report. Our report contains three recommendations to OJP. Additionally, we discussed the results of our audit with Riverside officials and have included their comments in the report, as applicable. Further, we requested from Riverside and OJP written responses to our draft report, which we received and are included in Appendices III and IV, respectively. Our audit objective, scope, and methodology are discussed in Appendix I.

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INTRODUCTION

The U.S. Department of Justice Office of the Inspector General (OIG), Audit Division, has completed an audit of the Recovery Act Edward Byrne Memorial Justice Assistance Grant Program (JAG) grant (2009-SB-B9-0599), awarded by the Office of Justice Programs (OJP), Bureau of Justice Assistance (BJA), to the City of Riverside, California (Riverside). Riverside used the Recovery Act JAG grant to purchase 15 police cars, 4 police motorcycles, including emergency equipment on the aforementioned vehicles, and fund 3 Riverside Police Department employees for 1 year. The goal was to replace aging or damaged vehicles in order to reduce operating and maintenance costs while providing a highly visible, more reliable police presence; and to retain full-time positions within the Riverside Police Department. As shown in the table below, Riverside was awarded \$928,874 under this grant. As of July 6, 2010, Riverside had expended \$821,704 (88 percent) of the grant award.

EXHIBIT 1 JUSTICE ASSISTANCE GRANT AWARDED TO CITY OF RIVERSIDE

GRANT AWARD NUMBER	AWARD START DATE	AWARD END DATE ¹	AWARD AMOUNT
2009-SB-B9-0599	03/01/09	02/28/13	\$928,874

Source: OJP

The purpose of our audit was to determine whether costs claimed were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant. The objective of our audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) program income; (4) grant expenditures; (5) payroll; (6) accountable property; (7) Financial Status Reports (FSR); Progress Reports, and Recovery Act Reports; (8) grant requirements; and (9) program performance and accomplishments.² We determined that budget management and control, indirect costs, matching, and monitoring of sub-grantees and contractors were not applicable to this grant.

¹ The Award End Date includes all time extensions that were approved by OJP.

² According to OJP, grantees were required to prepare and submit FSRs through September 30, 2009. As of October 1, 2009, the requirement changed requiring grantees to prepare and submit Federal Financial Reports - a new version of financial reporting. Throughout this report, we refer to either of the reports as FSRs or simply as financial reports.

Recovery Act

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act). The purposes of the Recovery Act are to: (1) preserve and create jobs and promote economic recovery; (2) assist those most impacted by the recession; (3) provide investments needed to increase economic efficiency by spurring technological advances in science and health; (4) invest in transportation, environmental protection, and other infrastructure that will provide long term economic benefits; and (5) stabilize state and local government budgets in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The Recovery Act provided \$787 billion for tax cuts, education, health care, entitlement programs, contracts, grants, and loans. Recipients of Recovery Act funds are required to quarterly report to FederalReporting.gov on how they have spent their Recovery Act funds and the number of jobs created or saved. The Department of Justice received \$4 billion in Recovery Act funds and made almost \$2 billion of that funding available through the JAG Program.

Background

The City of Riverside is located in the southern portion of the state of California, approximately 60 miles east of Los Angeles. With a population of about 300,000, the city covers approximately 78 square miles. To cover this territory, the Riverside Police Department has more than 500 police officers. According to the Riverside Police Department, there were 27,218 instances of crime committed in 2009, of which approximately 41 percent included murder, rape, robbery, aggravated assault, burglary, theft, and auto theft.

OJP's mission is to increase public safety and improve the fair administration of justice through innovative leadership and programs. Specifically, BJA provides leadership and assistance to local criminal justice programs that improve and reinforce the nation's criminal justice system. The BJA's overall goals are to: (1) reduce and prevent crime, violence, and drug abuse; and (2) improve the way in which the criminal justice system functions.

The purpose of the BJA's JAG Program, including programs funded by the Recovery Act, is to enable states, tribes, and local governments to support a broad range of activities to prevent and control crime based on their own local needs and conditions. JAG funds can be used for state and local initiatives, technical assistance, training, personnel, equipment,

supplies, contractual support, and criminal justice information systems in any one or more of the following purpose areas:

- Law enforcement programs
- Prosecution and court programs
- Prevention and education programs
- Corrections and community corrections programs
- Drug treatment programs
- Planning, evaluation, and technology improvement programs
- Crime victim and witness programs (other than compensation)

Based on Riverside's grant application, Riverside planned to use the Recovery Act JAG grant to fund 3 positions and to purchase 15 police cars, 4 police motorcycles, and emergency equipment for the police cars. The State of California had previously funded two of the three positions. However, when the state's funding was reduced, the Riverside Police Department used OJP JAG grant funds to avoid laying-off these employees. In particular, the Recovery Act JAG grant allowed the Riverside Police Department to retain a Police Records Specialist and a Police Detective. In addition, the Recovery Act JAG grant allowed the Riverside Police Department to continue funding a third position (Evidence Technician) that had been previously funded by non-Recovery Act JAG awards.

OIG Audit Approach

We tested compliance with what we consider to be the most important conditions of the grant award. Unless otherwise stated in our report, the criteria we audited against are contained in the *OJP Financial Guide*, award documents, Code of Federal Regulations, Office of Management and Budget Circulars, and the Recovery Act. Specifically, we tested:

- **Internal control environment** – to determine whether the internal controls in place for the processing and payment of funds were adequate to safeguard grant funds and ensure compliance with grant terms and conditions.

- **Grant drawdowns** – to determine whether grant drawdowns were adequately supported and if Riverside was managing grant receipts in accordance with federal requirements.
- **Program Income** – to determine how it was accounted for in the financial management system and whether it was used in accordance with the *OJP Financial Guide*.
- **Grant expenditures** – to determine whether costs charged to the grant were accurate, adequately supported, and allowable.
- **Payroll** – to determine whether salaries and benefits paid by the grant were reasonable.
- **Accountable Property** – to determine whether property and equipment were recorded in inventory records, identified as federally funded, and used as intended by the grant.
- **Financial Status Reports, Progress Reports, and Recovery Act Reports** – to determine if the required FSRs, Progress Reports, and Recovery Act Reports were submitted on time and accurately reflected grant activity.
- **Grant requirements** – to determine whether Riverside complied with grant award guidelines and grant solicitation criteria.
- **Program objectives and accomplishments** – to determine whether Riverside made a reasonable effort to accomplish stated objectives.

The results of our audit are discussed in detail in the Findings and Recommendations section of the report. Our report contains three recommendations to OJP. Additionally, we discussed the results of our audit with Riverside officials and have included their comments in the report, as applicable. Further, we requested from Riverside and OJP written responses to our draft report, which we received and are included in Appendices III and IV, respectively. Our audit objective, scope, and methodology are discussed in Appendix I.

FINDINGS AND RECOMMENDATIONS

Overall, we found that Riverside adequately maintained grant-related financial records and data and was properly managing the use of grant funds. However, we noted that Riverside applied fringe benefit costs to the grant that were inadequately supported and were calculated from a ratio that included unallowable expenditures. As a result, we questioned \$74,904 in fringe benefit expenditures. Further, although Riverside timely submitted quarterly Financial Status Reports, we found two of the four reports to be inaccurate when compared to Riverside's accounting records.

Internal Control Environment

We reviewed Riverside's policies and procedures, Single Audit Report, and financial management system to assess the city's risk of noncompliance with laws, regulations, guidelines, terms and conditions of the grant. We also interviewed individuals from Riverside's grant management, accounting, and finance staffs regarding internal controls and processes related to payroll, purchasing, and accounts payable functions. We also observed the financial management system, as a whole, to further assess risk.

Our review of any potential internal control issues disclosed in the Single Audit Report or found in our review of Riverside's financial management system are discussed below in the Single Audit and Financial Management sections, respectively. We also reviewed Riverside's administrative manual on grant management and determined that Riverside has complied with its grant management policies and procedures. In addition, we reviewed the city's accounting system and determined that it adequately tracked grant receipts and expenditures and that all grant-related activities were separately accounted for in the system. By interviewing the responsible Riverside officials in charge of the grant, we obtained an understanding of Riverside's internal controls and determined that the internal controls that are in place for the processing and payment of funds were adequate to safeguard grant funds and ensure compliance with grant terms and conditions.

Single Audit

According to Office of Management and Budget (OMB) Circular A-133, non-federal entities that expend \$500,000 or more in federal awards in a

year shall have a Single Audit conducted. At the start of our fieldwork, the most recent single audit available for Riverside was for fiscal year (FY) 2009.³ We reviewed Riverside's FY 2009 Single Audit Report and found that the independent auditors had issued an unqualified opinion and had no findings.

Financial Management System

The *OJP Financial Guide* requires that all grant fund recipients "establish and maintain adequate accounting systems and financial records to accurately account for funds awarded to them." The guide additionally requires that the accounting system provide adequate maintenance of financial data to enable planning, control, and measurement. The guide also requires that grantees separately account for each award and not commingle grant funds.

We found that Riverside adequately maintained grant-related financial records and data. Also, Riverside utilized an accounting system entitled Integrated Financial and Administrative Solution (IFAS). Based on our overall review of grant-related transactions that were recorded in IFAS, we found that the system accurately accounted for grant-related receipts and expenditures. Further, we found grant-related transactions (i.e., receipts and expenditures) were separately tracked from all other funding.

Drawdowns

Before the initial drawdown of grant funds, Riverside was required to notify OJP that it has met the local governing body review and community notification requirements. On April 21, 2009, Riverside met its local governing body review and public notification requirements when its City Council convened a meeting. On August 21, 2009, Riverside made its initial drawdown of grant funds in the amount of \$300,000 and on August 25, 2009, Riverside made a second and final drawdown in the amount of \$628,874. Both drawdowns were made on an advance basis. We found that \$107,170 of grant funds remained unexpended as of July 6, 2010. According to the grant solicitation, Riverside was allowed to draw down the entire grant award amount, as long as it established a trust fund that separately accounted for grant funds from other sources of funding. We found that Riverside segregated grant funds within its official accounting system in accordance with OJP's requirements.

³ Riverside's fiscal year is from May 31 through June 1.

Program Income

According to the *OJP Financial Guide*, "interest earned on JAG and Juvenile Accountability Block Grants funds are considered program income and should be expended only on allowable purpose areas under these programs. Recipients are required to use all funds within the fixed expenditures period."

As of July 6, 2010, we determined that the grantee had earned grant-related interest income totaling \$14,939. Riverside's Grant Manager explained that the funds earned from drawdowns were retained in the city's interest-bearing bank account. The bank account includes not only funds from grant drawdowns but also from other sources unrelated to the grant. The city allocated interest income to the grant using a pro-rata basis. We reviewed supporting documentation that showed how Riverside allocated the earned interest to the grant and we found that the methodology appeared reasonable and the calculation was accurate. Therefore, we determined that program income was being allocated to the grant and it was being used in accordance with the *OJP Financial Guide*.

Grant Expenditures

We reviewed Riverside's grant-related general ledger and noted that as of July 6, 2010, Riverside had \$821,704 of grant-related expenditures. The expenditures comprised of payments made to vendors for the purchase of police cars, police motorcycles, emergency equipment, and compensation to employees. From a universe of 177 transactions totaling \$821,704, we selected and tested a sample of 25 transactions totaling \$544,736 (66 percent). Thirteen of the sample transactions were selected from the highest dollar transactions in the universe and the remaining sample transactions were judgmentally selected. We reviewed supporting documentation (purchase requisitions, purchase orders, receiving reports, invoices, and photocopies of checks) for each of the sampled transactions. We found that all of the sample expenditures tested were accurate, adequately supported, and allowable.

Payroll

According to Riverside's grant application, Riverside intended to pay 1 year's salary and fringe benefits for three full-time employees consisting of a Police Detective, Police Records Specialist, and an Evidence Technician. We noted that a Police Detective's salary was charged to the grant for 1 year from June 25, 2009, to June 24, 2010, and a Police Records Specialist's salary was charged to the grant from August 6, 2009, through

July 22 , 2010.⁴ Additionally, as of July 22, 2010, we found that no salary or fringe benefits had been charged to the grant for the Evidence Technician. According to Riverside's Grant Manager, the Evidence Technician's salary and fringe benefits will be charged to the grant when funds from another grant (a 2008 JAG grant) are depleted.

To verify whether the payroll expenses (salaries and fringe benefits) paid to the Police Detective and Police Records Specialist were accurately recorded, properly supported, and appropriately charged to the grant, we selected two nonconsecutive pay periods and traced the hours worked to employee timesheets. In addition, we reviewed the signed Memorandum of Understanding between Riverside and the Riverside Police Officer's Association, the signed Memorandum of Understanding between Riverside and Service Employees International Union, Riverside's most recent Salary Schedule, and Riverside's Fringe Benefits and Salary Resolution to determine the validity of the salary amounts. Based on our review of these documents, we found that the salaries we tested were properly supported and reasonable. However, we found that Riverside did not accurately record fringe benefit transactions in its grant-specific general ledger nor were fringe benefit expenditures adequately supported.

Specifically, Riverside recorded fringe benefits as "labor overhead," which implies that the fringe benefit charges were indirect costs. Further, Riverside's underlying support for its estimated fringe benefit rate formulation referred to fringe benefits as indirect costs. According to 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments (formerly known as OMB Circular A-87), salary and fringe benefits paid to employees are considered direct costs, not indirect costs. The OJP-approved grant budget did not include any indirect costs nor was any indirect cost reported on Riverside's FSRs. We recommend that Riverside correct how it records fringe benefit charges in its general ledger to ensure that the charges are not referred to as indirect costs.

Furthermore, when we tested fringe benefit transactions, we found that Riverside did not charge the grant for the actual fringe benefit costs associated with the grant-funded positions. Instead, Riverside applied an estimated fringe benefit rate that was calculated based on the fringe benefits paid to all employees of Riverside in the previous fiscal year (FY 2009).⁵ Included in this calculation were fringe benefit costs entitled

⁴ We began our audit's fieldwork on August 3, 2010.

⁵ Riverside's estimated fringe benefit rate was based on fringe benefits paid to all Riverside employees except for those working in its Department of Housing and Urban Development.

"Automobile/Expense Allowance," which is an unallowable fringe benefit category for this grant. In total, Riverside recorded \$74,904 in fringe benefits in its official accounting records for the two grant-funded positions.

According to 2 CFR Part 225, payroll costs, including fringe benefits, are defined as ". . . remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards. . . ." We understand this to mean that the fringe benefit costs that are charged to a grant are actual costs, not estimated amounts.

When we inquired of Riverside concerning the estimated fringe benefit charges, Riverside officials provided to us manually prepared spreadsheets that showed the actual fringe benefits for the two employees, who were paid with grant funds. Riverside's Controller stated that the fringe benefit data provided was derived from the city's accounting system. In addition, the Controller provided a summary that he created to present a comparison between the actual fringe benefits incurred by the two employees and the estimated fringe benefits that were charged to the grant during FYs 2009 and 2010. Since the fringe benefits charged to the grant were less than the actual fringe benefits incurred by the two employees, Riverside's Controller believed that Riverside treated the fringe benefits costs in a conservative manner. As we understand that fringe benefit costs should be actual, and not estimated, costs, we asked the Controller why Riverside did not record the actual fringe benefit amounts for the two grant-funded positions, but rather estimated amounts. The Controller stated that it would be too time consuming to record the actual fringe benefit amounts and it would be much easier to instead record an estimated amount.

We did not audit the figures included in the manually created spreadsheet because those amounts were not the source of the transactions recorded in Riverside's grant general ledger. Rather, we tested the support for the transactions as recorded in Riverside's official accounting system and we found those transactions to be inadequately supported. Given that the amounts recorded on Riverside's grant general ledger were not actual fringe benefits but rather a different amount that was inadequately supported, we question the \$74,904 in fringe benefits that was recorded in its grant-related accounting records.

Accountable Property

According to the *OJP Financial Guide*, property acquired with grant funds should be used for the purposes stated in the grant application. Further, grant recipients must maintain records on the source of property items that were acquired using grant funds. We judgmentally selected from

Riverside’s expenditure records a sample of 10 accountable property items that included police cars, motorcycles, and emergency equipment. We found that all sampled accountable property items were properly recorded and identified as federally funded. In addition, we physically verified all sample property items and determined that the items were being utilized for grant-related purposes.

Reports

According to the *OJP Financial Guide*, award recipients are required to submit both quarterly FSRs and annual Progress Reports. These reports describe the status of the funds, compare actual accomplishments to the objectives of the grant, and report other pertinent information. Moreover, since this is a Recovery Act grant, Riverside was required to submit quarterly Recovery Act reports. We reviewed the FSRs, Progress Reports, and quarterly Recovery Act Reports submitted by Riverside to determine whether each report was timely and accurately submitted to OJP.

Financial Status Reports

According to the *OJP Financial Guide*, the quarterly FSRs are due no later than 45 days after the end of the quarter, with the final FSR due within 90 days after the end date of the award. We reviewed the timeliness of the last four FSRs submitted during the award period for the grant and based on our review we found that Riverside submitted each report in a timely manner.

EXHIBIT 2 FINANCIAL STATUS REPORT HISTORY FOR GRANT 2009-SB-B9-0599

Report No.	Reporting Period	Report Due Date	Date Submitted	Days Late
1	04/01/09 - 06/30/09	08/14/09	08/03/09	0
2	07/01/09 - 09/30/09	11/14/09	10/07/09	0
3	09/30/09 - 12/31/09	02/14/10	01/17/10	0
4	01/01/10 - 03/31/10	05/15/10	04/12/10	0

Source: Riverside and OJP

We also reviewed each FSR to determine whether the report contained accurate information related to actual expenditures, un-liquidated obligations incurred during the reporting period, and program income for the award. Based on our review, we found that two of the four most recent FSRs were accurate, and the remaining two FSRs were inaccurate. For the inaccurate FSRs, Riverside failed to include \$12,672 in cumulative program income on the FSR for the period ending December 31, 2009, and it inaccurately

reported program income and expenditures on the second report causing total expenditures to be understated by \$13,067 and income to be overstated by \$12,259 when compared to Riverside's accounting system. Therefore, we recommend that OJP ensure that Riverside submits FSRs that accurately includes all grant-related program income and expenditures.

Annual Progress Reports

The *OJP Financial Guide* requires grantees to submit Progress Reports semiannually for discretionary awards and annually for block or formula awards. Since this grant is a formula grant award, it is subject to the annual requirement. Riverside was required to submit one Progress Report during the award period for this grant and we found that it was submitted to OJP in a timely manner.

**EXHIBIT 3
PROGRESS REPORT HISTORY FOR
GRANT 2009-SB-B9-0599**

Report No.	Reporting Period	Report Due Date	Date Submitted	Days Late
1	03/01/09 - 09/30/09	11/29/09	10/23/09	0

Source: Riverside and OJP

The *OJP Financial Guide* states that:

. . . the funding recipient agrees to collect data appropriate for facilitating reporting requirements established by Public Law 103-62 for the Government Performance and Results Act. The funding recipient will ensure that valid and auditable source documentation is available to support all data collected for each performance measure specified in the program solicitation.

We found that Riverside's Progress Report for the period ending September 30, 2009, accurately reflected grant accomplishments.

Quarterly Recovery Act Reports

Section 1512 of the Recovery Act requires recipients of Recovery Act funds to report their Recovery Act related expenditures and jobs created or saved to FederalReporting.gov. Riverside's initial report was due October 10, 2009, with quarterly reports due 10 days after the close of each quarter thereafter.

We reviewed Riverside's Recovery Act reports for the quarters ended September 30, 2009, December 31, 2009, March 31, 2010, and June 30, 2010, and found that all of the reports were timely submitted.

**EXHIBIT 4
RECOVERY ACT REPORT HISTORY FOR
GRANT 2009-SB-B9-0599**

Report No.	Reporting Period	Report Due Date	Date Submitted	Days Late
1	07/01/09 - 09/30/09	10/10/09	10/05/10	0
2	10/01/09 - 12/31/09	01/10/10	01/07/10	0
3	01/01/10 - 03/31/10	04/10/10	04/06/10	0
4	04/01/10 - 06/30/10	07/10/10	07/06/10	0

Source: Riverside and OJP

We also confirmed that Riverside's Recovery Act reports accurately reported expenditures and the number of jobs retained.

Compliance with Grant Requirements

We reviewed Riverside's compliance with specific program requirements in the grant solicitation as well as special conditions included in its grant award. We determined that Riverside complied or was complying with all grant requirements.

Program Performance and Accomplishments

According to Riverside's grant application, Riverside planned to use the grant award to purchase 15 police cars, 4 police motorcycles, and emergency equipment, as well as retain 3 full-time employees, including a Police Detective, Police Records Specialist, and an Evidence Technician. Based on discussions with Riverside's Grant Manager, our review of accounting records, and physical verification of sampled vehicles, motorcycles, and equipment, we determined that Riverside purchased all of the aforementioned property items. In addition, we determined that Riverside paid 1 year's salary for a Police Detective. At the time of our fieldwork, Riverside was in the process of paying 1 year's salary for its Police Records Specialist. Riverside plans to use grant funds to pay for the salary and fringe benefits of its Evidence Technician once it has depleted other grant funds.

In the Payroll section of this report, we describe our finding related to inadequately supported fringe benefit expenditures associated with the Police Detective and Police Records Specialist. As a result of our finding, we questioned the amount of fringe benefits that were charged to the grant.

Riverside's failure to record actual fringe benefit expenditures did not, however, cause us to conclude that Riverside did not retain the individuals that were described in its grant application. Therefore, based on our testing, we found no exception to Riverside's efforts to accomplish its grant goals and objective.

Conclusion

Overall, we found that Riverside adequately maintained grant-related financial records and data and was properly managing the use of grant funds. We found that all of the sample expenditures we tested were accurate, adequately supported, and allowable, except for fringe benefits paid to employees that were funded by the grant. Specifically, Riverside applied fringe benefit costs to the grant that were inadequately supported and were based on an estimated ratio that included unallowable expenditures. As a result, we questioned \$74,904 in fringe benefit costs charged to the grant.

We found that all sampled accountable property items were properly recorded in Riverside's property records and identified as federally funded. In addition, we physically verified all sample property items and determined that the items were being utilized for grant related purposes.

Riverside timely and accurately submitted its Progress Reports to OJP and Recovery Act reports to FederalReporting.gov. Although Riverside submitted to OJP its FSRs in a timely fashion, we found that the FSRs submitted were not accurate as it pertained to program income and expenditures.

Recommendations

We recommend that OJP:

1. Remedy the \$74,904 in questioned costs relating to Riverside's inadequately supported fringe benefits.
2. Ensure that Riverside establishes procedures to properly record actual fringe benefits in its grant accounting records.
3. Ensure that Riverside submits accurate Financial Status Reports that include all grant-related program income and expenditures.

OBJECTIVE, SCOPE, AND METHODOLOGY

The purpose of our audit was to determine whether costs claimed under Grant 2009-SB-B9-0599 were allowable, reasonable, and in accordance with applicable laws, regulations, guidelines, and terms and conditions of the grant. The objective of our audit was to review performance in the following areas: (1) internal control environment; (2) drawdowns; (3) program income; (4) grant expenditures; (5) payroll; (6) accountable property; (7) Financial Status Reports (FSR); Progress Reports, and Recovery Act Reports; (8) grant requirements; and (9) program performance and accomplishments. We determined that budget management and control, matching, and monitoring of sub-grantees and contractors were not applicable to this grant.

We conducted this 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit's objective.

Unless otherwise specified, our audit covered, but was not limited to, activities that occurred between the start of Grant 2009-SB-B9-0599 in March 2009 through the start of our audit fieldwork on August 3, 2010. Further, the criteria we audited against are contained in the *OJP Financial Guide*, Code of Federal Regulations, Office of Management and Budget Circulars, the 2009 American Reinvestment and Recovery Act, and specific program guidance, such as award documents and the grant solicitation.

We did not test internal controls for Riverside taken as a whole or specifically for the grant program administered by the Riverside Police Department. An independent Certified Public Accountant conducted an audit of Riverside's financial statements. The results of this audit were reported in the Single Audit Report that accompanied the Independent Auditors' Report for the year ending June 30, 2009. The Single Audit Report was prepared under the provisions of Office of Management and Budget Circular A-133. We reviewed the independent auditor's assessment to identify control weaknesses and significant noncompliance issues related to Riverside or the federal programs it was administering, and assessed the risks of those findings on our audit.

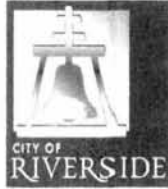
In addition, we performed limited testing of source documents to assess the accuracy of reimbursement requests and FSRs. However, we did not test the reliability of the financial management system as a whole, nor did we place reliance on computerized data or systems in determining whether the transactions we tested were allowable, supported, and in accordance with applicable laws, regulations, and guidelines. We also performed limited testing of information obtained from OJP's Grants Management System (GMS) and found no discrepancies. We thus have reasonable confidence in the GMS data for the purposes of our audit. However, the OIG has not performed tests of the GMS system specifically, and we therefore cannot definitively attest to the reliability of GMS data.

SCHEDULE OF DOLLAR-RELATED FINDINGS

QUESTIONED COSTS:	<u>AMOUNT (\$)</u>	<u>PAGE</u>
Unsupported Costs		
Inadequately Supported Fringe Benefits	\$ 74,904	9
TOTAL QUESTIONED COSTS	<u>\$74,904</u>	
TOTAL DOLLAR RELATED FINDINGS	<u><u>\$74,904</u></u>	

Questioned Costs are expenditures that do not comply with legal, regulatory, or contractual requirements, or are not supported by adequate documentation at the time of the audit, or are unnecessary or unreasonable. Questioned costs may be remedied by offset, waiver, recovery of funds, or the provision of supporting documentation.

GRANTEE RESPONSE



Office of the
City Manager
Finance

December 14, 2010

David J. Gaschke
Regional Audit Manager
U.S. Department of Justice
Office of the Inspector General
1200 Bayhill Drive, Suite 201
San Bruno, California 94066

**RESPONSE TO DRAFT AUDIT REPORT ON THE OFFICE OF JUSTICE PROGRAMS
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM –
GRANT AWARDED TO CITY OF RIVERSIDE, CALIFORNIA**

Dear Mr. Gaschke:

Thank you for the opportunity to submit this letter in response to the findings noted in the draft audit report provided by your office. The City of Riverside has completed its review of the draft audit report covering the above-referenced grant and has the following responses to each of the findings contained therein:

Finding No. 1 - Questioned Costs Relating to Inadequately Supported Fringe Benefits

The City does not concur with this finding.

It is the City's belief that it did charge actual fringe benefits to the grant. The process by which this occurred is an estimation technique that looks at the prior year's actual fringe benefit experience to develop the allocation percentage, as described in the audit report. However, this technique used to apply the charges does not change the character of the expenses paid on behalf of each employee. The City manages thousands of projects every year. This practice is consistent with industry standards. Local government accounting systems typically do not split each individual disbursement of employee benefits to all of the applicable cost centers at the time of payment. Again, the character of a cost is not changed simply by adding the intermediate step of allocating that cost for the sake of efficiency.

A reference is made in the draft audit letter that the allocation process used by the City included "vehicular maintenance" costs (which would NOT be a fringe benefit cost). This was only mentioned to City staff at the exit conference and a supporting documentation was not available to demonstrate the

issue at that time. Therefore, I am unable to specifically speak to what they found but the City has relooked at the calculation used to develop the allocation methodology for the fringe benefits and vehicle costs are NOT included.

Lastly, in regard to this first finding, at the pre-exit meeting held at the Police Department before the auditors left the field, they advised staff of this issue. At that time, staff made the case as documented above and indicated that since the allocation methodology was being challenged, we could for the two grant-related employees actually pull the actual "directly paid fringe benefit" charges to support our premise that the allocation methodology is a reasonable technique for charging fringe benefit costs. That exercise was done and provided to the auditors in a timely manner after the meeting (following week). That exercise demonstrated that the specific actual "direct fringe benefits" associated with these two employees were slightly more than the \$74,904 that had been applied via the allocation methodology.

Our hope would be that even if the DOJ ultimately found that the technique for applying direct fringe benefits is inadequate, because an amount less than the total has been charged to the grant, the costs would NOT be determined unallowable. The draft audit letter indicates that they have not audited this "manual schedule" but that is because the issue was not raised until the pre-exit meeting and not in the course of performing the fieldwork when time would have allowed for "alternative" procedures that would have shown the amount to be reasonable.

Finding No. 2 – Procedures to Properly Record Actual Fringe Benefits in Grant Records

The City does not concur with this finding.

Based on the comments above to Finding No. 1, the City believes its current process to apply actual fringe benefits to its thousands of grants/projects each year is a reasonable procedure. However, if the review process by the DOJ determines this not to be the case for their purposes, the City will develop an alternative to handle the specific grants having this requirement.

The process for applying fringe benefits to grants/projects has been used by the City for many, many years and been evaluated by independent financial, state and federal auditors many times. This is the first time the process has been questioned, and thus we believe it serves as a reasonable methodology and before we "reinvent the wheel," want to allow the process to work itself to a conclusion by the DOJ.

Finding No. 3 - Inaccuracies Found on Financial Status Reports

The City concurs with this finding.

We agree differences existed between what was reported on the financial status reports and what was recorded in the general ledger for the two identified quarters. We simply want to be on record that the difference noted was a timing difference between two sequential financial status reports. The first report was prepared "too early" before all revenue was posted for the period. They were then picked up in the subsequent report, and reported in the were prepared and when the general ledger was closed for that particular reporting period. Enhanced procedures have been implemented to ensure proper reporting in the future.

Not specifically related to a finding, the draft audit letter has an inconsistency on page 9 in which the first full paragraph states that the Controller indicates the estimated fringe benefits charged to the grant are less than the actual fringe benefits, and thus a conservative allocation of fringe benefits is made to the grant. Then the next paragraph seeks to make a point about this, but switches "actual" and "estimated." The Controller's continued position is that the fringe benefits charged to the grant through the allocation methodology are LESS than the amount he determined as "actual" when he went back and pulled those costs out of the ledger subsequent to the pre-exit interview. The summary comment made by the auditor concludes that an inaccurate amount of fringe benefits was charged because the "actual fringe benefits were less than the estimated fringe benefits." This is an incorrect statement.

If you have any questions or require additional information, please contact Jason Al-Imam, Controller at 951-826-5466.

Sincerely,



Brent A. Mason
Finance Director

cc: Office of Justice Programs (copy provided via facsimile)
U.S. Department of Justice

John I. Provan (copy provided electronically)
Assistant Regional Audit Manager
Office of the Inspector General
U.S. Department of Justice

DEPARTMENT OF JUSTICE RESPONSE



U.S. Department of Justice

Office of Justice Programs

Office of Audit, Assessment, and Management

Washington, D.C. 20531

DEC 20 2010

MEMORANDUM TO: David J. Gaschke
Regional Audit Manager
Office of the Inspector General
San Francisco Regional Audit Office

FROM: Maureen A. Henneberg
Director *M. Henneberg*

SUBJECT: Response to the Draft Audit Report, *Office of Justice Programs,
Edward Byrne Memorial Justice Assistance Grant Program Grant
Awarded to the City of Riverside, California*

This memorandum is in response to your correspondence, dated November 23, 2010, transmitting the subject draft audit report for the City of Riverside, California (Riverside). We consider the subject report resolved and request written acceptance of this action from your office.

The report contains **three** recommendations and **\$74,904** in questioned costs. The following is the Office of Justice Programs' analysis of the draft audit report recommendations. For ease of review, the recommendations are restated in bold and are followed by our response.

- We recommend that OJP remedy the \$74,904 in questioned costs relating to Riverside's inadequately supported fringe benefits.**

We agree with the recommendation. We will coordinate with Riverside to obtain documentation regarding the questioned expenditures, and will request a final determination from the Office of the Chief Financial Officer (OCFO) regarding the allowability of the method in which Riverside applied fringe benefit costs to grant number 2009-SB-B9-0599. If the questioned costs are determined to be unallowable, Riverside will be required to adjust the next Federal Financial Report (FFR) for the grant to remove the costs, and return the funds to the U.S. Department of Justice (DOJ), as necessary.

2. **We recommend that OJP ensure that Riverside establishes procedures to properly record actual fringe benefits in its grant accounting records.**

We agree with the recommendation. We will coordinate with Riverside to obtain a copy of implemented procedures to ensure that actual fringe benefits are properly recorded in its grant accounting records.

3. **We recommend that OJP ensure that Riverside submits accurate Federal Financial Reports that include all grant-related program income and expenditures.**

We agree with the recommendation. We will coordinate with Riverside to obtain a copy of implemented procedures to ensure that future FFRs are accurate and complete, and include all grant-related program income and expenditures.

We appreciate the opportunity to review and comment on the draft audit report. If you have any questions or require additional information, please contact Jeffery A. Haley, Deputy Director, Audit and Review Division, on (202) 616-2936.

cc: Jeffery A. Haley
Deputy Director, Audit and Review Division
Office of Audit, Assessment, and Management

James H. Burch, II
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Richard Theis
Assistant Director
Audit Liaison Group
Justice Management Division

OJP Executive Secretariat
Control Number 20102186

**OFFICE OF THE INSPECTOR GENERAL
ANALYSIS AND SUMMARY OF ACTIONS NECESSARY TO CLOSE THE REPORT**

The OIG provided a draft of this audit report to Riverside and OJP. Riverside's and OJP's responses are incorporated in Appendices III and IV, respectively, of this final report. The following provides the OIG analysis of the responses and summary of actions necessary to close the report.

Recommendation Number:

- 1. Resolved.** OJP concurred with our recommendation to remedy the \$74,904 in questioned costs relating to Riverside's inadequately supported fringe benefits. However, Riverside disagreed with this finding and related recommendation.

Specifically, in its response, Riverside stated that it believes it properly charged fringe benefit costs to the grant, despite the fact that it used estimated amounts. Riverside stated that the estimated fringe benefit costs charged to the grant were less than the actual fringe benefit costs. Therefore, this meant that Riverside was conservative in charging the grant for fringe benefits. Further, Riverside stated in its response to our draft report that it had been consistently using this methodology of allocating fringe benefits on other federal grant programs and it has not been questioned before.

However, 2 CFR Part 225 defines payroll costs, including fringe benefits, as ". . . remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards. . . ." We understand this to mean that the fringe benefit costs that should be charged to the grant are actual fringe benefits that have been paid or incurred. As we state in this report, Riverside did not charge actual fringe benefits or even accrued fringe benefits to the grant, but rather, it charged estimated fringe benefit costs that do not meet the definition of 2 CFR Part 225. In order to clarify the requirements of 2 CFR Part 225 as it relates to fringe benefits, we added language to the Grants Expenditure section that was not originally included in our draft report.

Although Riverside's calculations resulted in its estimated fringe benefit charges being lower than the actual fringe benefit amounts, this doesn't mean that this will remain the case every year that Riverside estimates its grant-related fringe benefit costs. There

may be periods where the estimated fringe benefit amounts are higher than the actual fringe benefit amounts. Therefore, we do not see this particular aspect of Riverside's argument to be a sufficient justification for using its estimated method of determining fringe benefits costs that should be charged to the grant.

In addition, as stated in the report, Riverside based its estimated fringe benefit calculation on the total fringe benefit cost for the entire city from a previous fiscal year. This calculation included benefits entitled "Automobile/Expense Allowance," which was an unallowable fringe benefit for the grant we audited. Riverside, in its response to our report, denied that such cost categories were included in its estimated fringe benefit cost calculations. However, Riverside provided us with a spreadsheet of source expenditures, including expenditures entitled "Automobile/Expense Allowance," that were included in its estimated fringe benefits calculation for this grant. Overall, Riverside's method of charging estimated fringe benefits to the grant did not result in this cost category being adequately supported.

OJP stated in its response to our draft report that it plans to coordinate with Riverside to obtain documentation regarding the questioned expenditures and request a final determination from the OJP Office of the Chief Financial Officer regarding the allowability of Riverside's fringe benefit costs that were charged to the grant. If OJP's Office of the Chief Financial Officer finds that Riverside's fringe benefit costs are unallowable, it will require Riverside to adjust the next Federal Financial Report by removing the fringe benefit costs and return the funds to the U.S. Department of Justice.

This recommendation can be closed when we obtain documentation from OJP regarding the allowability of the method in which Riverside applied fringe benefit costs to the grant we audited. If OJP accepts Riverside's method of charging estimated fringe benefit costs to the grant, then we request written justification for OJP's decision and the supporting criteria for that decision. If OJP determines that the questioned fringe benefit costs are unallowable, we request that OJP provide us with a copy of Riverside's updated Federal Financial Report showing the removal of the questioned fringe benefit costs as well as confirmation that Riverside returned funds to the U.S. Department of Justice.

2. Resolved. OJP concurred with our recommendation to ensure that Riverside establishes procedures to properly record actual fringe benefits in its grant accounting records. OJP plans to coordinate with Riverside to obtain a copy of implemented procedures to ensure that actual fringe benefits are properly recorded in its grant accounting records. Riverside disagreed with this recommendation and it referred to its argument related to Recommendation 1 as the basis for its disagreement. We likewise refer to the our analysis related to Recommendation 1 in which we reiterated our reasoning for questioning the fringe benefit costs that Riverside charged to the grant.

This recommendation can be closed when we obtain a copy of Riverside's new procedures for properly recording actual fringe benefits in its grant accounting records.

3. Resolved. Both OJP and Riverside concurred with our recommendation to ensure that Riverside submits accurate Financial Status Reports that include all grant-related program income and expenditures. OJP plans to coordinate with Riverside to obtain a copy of implemented procedures to ensure that future Federal Financial Reports are accurate, complete, and include all grant-related program income and expenditures.

This recommendation can be closed when we obtain a copy of Riverside's new procedures related to filing accurate and complete (including all grant-related program income and expenditures) Federal Financial Reports in the future.