



CITY OF WILMINGTON

City Council Grants

Internal Audit Review

March 31, 2024

City Auditor's Office

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Highlights

Why We Did This Audit

The Internal Audit Department (IA) performed a scheduled audit of City Council Grants. The audit was conducted in accordance with the city's FY24 Internal Audit Plan.

Methodology

The objectives were met through interviewing management and staff, reviewing policies and procedures and city code, gaining an understanding of the processes and controls in place, random testing and analyzing council grant transactions, and performing grant confirmations.

Audit Review Committee:

Ronald Pinkett, Chair

Angelique Dennis
Chris Johnson
James Spadola - Designee
Tanya Washington

Non-voting Members

Marchelle Basnight
Mona Parikh

Objective and Scope

As part of our audit plan, Internal Audit (IA) conducted a Performance Audit of the City Council Grants process. The audit objectives were to determine whether City Council grants were distributed in compliance with the city code, COW and departmental procedures and the COW's code of ethics.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.

Background

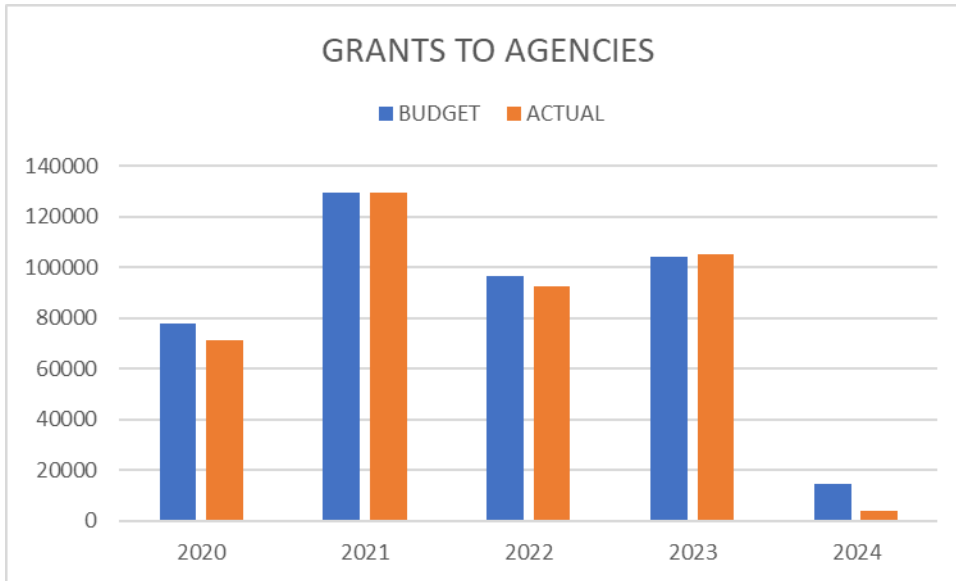
City Council has access to funds labeled Community Support Funds. The Community support Funds are divided into four categories 1) College Scholarship Fund, 2) Council Member Discretionary Fund, 3) Council Strategic Grant Fund of \$5K or more and 4) Council Strategic Grant Fund less than \$5K. Community Support Funds are to be granted to non-profit organizations to assist the local community with initiatives primarily in the following categories: youth development programs, education programs, community programs, economic development programs, festivals/parades, health awareness programs, and programs for seniors.

Additionally, in Fiscal Year 2023, City Council passed legislation (Ordinance 22-031) that created a temporary special fund for community support grants for entities impacted by the COVID-19 pandemic. The special fund was funded by a transfer of \$1.3 Million from the Tax Stabilization Reserve portion of the General Fund Balance. Each council member (8 District, 4 At-Large, and Council President) was allocated one-time funding of \$100K. The special fund allocation does not expire at the end of the fiscal year and can be carried over from year to year until the funds are exhausted. The special fund awards must follow the guidelines established for Special Community Support of \$5K or more, except for City Code Section 2-369, which means any grants of \$5K or more made from the special fund does not require approval by resolution of council, nor does it have to be listed in the annual operating budget ordinance.

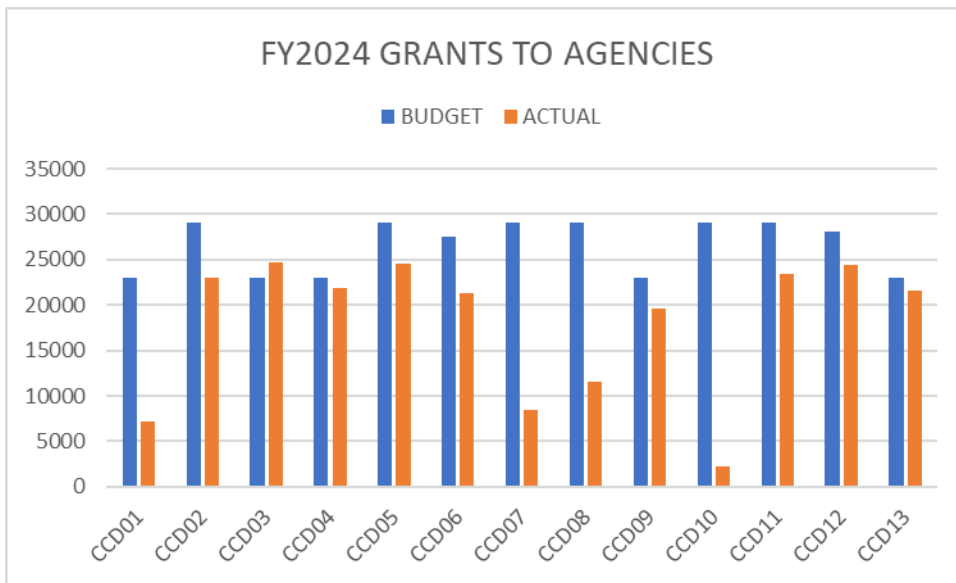
For purposes of this performance audit, the focus was on all Council Strategic Grant Funds including the temporary special fund.

Key Statistics

The following chart shows a budget to actual comparison of council’s grants to agencies by fiscal year:



Note: During fiscal year 2024, Council transitioned to accounting for grants to agencies per city council district (CCD). See chart below for further detail of FY2024 Grant to Agencies budget to actual:



Source: City’s Enterprise ERP (Munis) as of April 26, 2024

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	Process / Area Owner	1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required
Conflict of Interest					✓
Noncompliance				✓	
Policies and Procedures				✓	

Conflict of Interest

1. Discrepancies were noted during a review of cancelled checks from the Eastside Civic Association (ESCA) consistent with what prompted an ethics complaint being filed with the Wilmington Ethics Commission.

A total of 50 transactions for the 3rd district council person were tested. This represents 100% of the 3rd district council person’s disbursements during the audit scope. There were eight checks disbursed to ESCA. Four out of the eight checks reviewed were endorsed by the 3rd District Councilperson.

Noncompliance

2. Noncompliance exists with regards to adherence of City Council Community Support Fund Policy and Guidelines.

A total of 72 random confirmation letters were mailed to grant recipients.

- Thirty-five of 72 (42.7%) were completed and returned.
- Three were returned to the city as undeliverable.

Of the 35 confirmations returned, four did not answer the question “Were the funds used in Wilmington?” and one answered that the funds were used in both Wilmington and New Castle.

Additionally, funds were disbursed to three organizations that did not identify as not-for-profit.

Policies and Procedures

3. Controls surrounding policies and procedures (P&Ps) for City Council (CC) grants need to be strengthened.
 - Although Council has documented policies and guidelines for grant amounts of \$5K or more, there are none for grant amounts below the \$5K threshold.
 - CC's current guidelines are not being fully adhered to and are not fully aligned with the city's procurement policy and procedure manual.
 - Based on a review of 158 transactions tested, the following was noted:
 - Seventy-five percent of recipients either had no W9 on file or it was outdated.
 - Sixty-one percent of grant awards of \$5K did not have a completed vendor application.
 - Twenty-nine percent of checks did not have a valid request for funds on file.

Additional Observations

1. Internal Audit (IA) continues to note that a Grant Review Panel that was once implemented in FY19 to review funding applications and provide recommendations to the CC President for awarding funds has not been utilized again. IA believes that the Grant Review Panel can be an asset to City Council when deciding how to administer funding from the Community Support Fund account and emphasizes an open and transparent method for awarding funds.
2. A review of three years of financial disclosures by council members showed compliance with City Code Section 2-345.1 that requires annual financial disclosures of elected officials; however, it was noted that several times the disclosures reports were signed and notarized after the date deadline required to be submitted to the city's Law Department (May 1). The reporting deadline stated for the disclosure report should be enforced to be effective. Additionally, it was noted that some disclosure forms were more thoroughly completed than others, council members should be reminded of the importance of thoroughly completing financial disclosures.
3. A review of documents identified that council has a Credit Card Form, which is to be completed when utilizing council's credit card to make payment; however, for one of the transactions tested for which the credit card was used to pay a vendor, it was noted that the form was not completed and only a non-itemized receipt was included as support.
4. An instance was noted where a grantee was provided more funding than was requested and there was no documentation providing a reason for the greater amount granted. IA recommends that if more funds are given than what was requested then documentation explaining the reasoning along with how the additional funds are to be spent be attached to the grantee's paperwork. This will assist council in upholding its fundamental responsibility of being effective stewards of the city's taxpayer funds.

Additional Observations (Continued)

5. Grantees are to submit financial documents (usually invoices) evidencing the spending of the fund; however, a review of documents submitted by a grantee were deemed questionable at best. It is recommended that not only invoices, but also receipts of payment be submitted as evidence for how grant funds are spent especially since funding is provided upfront. There is a higher risk that invoices alone can be manipulated or fabricated.
6. A trip organized by a council member was found to be charged to the Grants to Agencies account; however, the trip did not fit this identification. Additionally, there was an instance when a council member purchased screened t-shirts for an event in their district and this was also charged to the Grants to Agencies account. Council should consider creating a different account for funding activities outside of Grants to Agencies.
7. A council member granted funds to an agency that has a room in its facility that bears the council member's name. Council members should avoid granting funds to agencies where there is even an appearance of conflict of interest or self-dealing.

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: Management should ensure that council members complete the yearly ethics training required by the city. Also, written guidelines should be documented and provided to each council member as reference. Additionally, a disciplinary structure should be implemented as a deterrent for council members not to engage in conflicts of interest and/or fraudulent activities.

Management Response and Action Plan: The following response was provided:

- Council passed Sub#1 to Ord# 21-044 that requires ethics training for all employees inclusive of elected officials. Council will see if legislation can be strengthened in conjunction with the Ethics Commission to ensure all council members are compliant or to add consequences for noncompliance.
- Written guidelines are codified in the city code regarding ethics, which is provided to all council members, as well as electronically. Staff will provide an additional written and emailed copy to all council members.
- The Ethics Commission and the Department of Justice through the Attorney General's Office is the structure that Council uses to deter fraudulent and conflict of interest amongst itself as a body. Also, Council has the authority to censure, reprimand, remove council members from committees, and to remove funding allocations, if it chooses to do so, which is within the authority and powers of the Council.
- Based upon the new finding, that four of the eight checks reviewed, were endorsed by the 3rd District council member, this new finding will be submitted to the Ethics Commission.

Completion Date: Completed

Recommendation #2: Management should ensure compliance with its policy and guidelines with respect to community funds. Prior to disbursing funds there should be some form of verification that the recipient is a not-for-profit (i.e., 501c3 determination letter or State Declaration form). Additionally, Council should ensure that the granted funds will be exclusively benefiting the Wilmington, DE area.

Management Response and Action Plan: The following response was provided:

- For grant funds for \$5K or more, Council has a checklist for verification for nonprofit, W9, 501c3 determination letter, etc. Prior to disbursement of any grant funds.
- All organizations will be verified for nonprofit status and to verify if W9 is in the Enterprise ERP (Munis) system, and to have W9 attached with request for check payment. However, the Procurement Division is responsible for managing the Vendor Database to ensure updated W9's, etc.
- A copy of the grant fund policy will be recirculated to Council, as well as a reminder that grant funds are exclusively for Wilmington.

Completion Date: Completed

Recommendation #3: Management should ensure consider having similar procedures in place for grants regardless of the grant award amount to ensure good stewardship of taxpayer funds. Also, ensure the P&Ps align with the Procurement SOP.

In addition, Management should also develop a checklist of required documentation that is verified prior to submission of a check request.

Concluding, training should be developed for council members that includes FAQs with “dos and don’ts.” The training should focus on preventative controls by emphasizing the importance of providing complete and accurate facts to deter CC from withholding information (i.e., Disclosures) and to educate on the importance of having correct documentation on file according to SOPs.

Management Response and Action Plan: The following response was provided:

- Council will ensure that for grants issued for \$5K or more there is a W9 on file for grantees.
- For funds for less than \$5K that were disbursed with no W9 on file, that is because the Vendor file was set up already in the Enterprise ERP (Munis) system as Active. If there is an Active vendor in the system, the Procurement Division is responsible for updating any outdated vendor file. Council’s internal process will be updated to check the Munis system for payments \$5K or less to verify W9 is in the Munis system, although this is a function of Procurement Division.
- Council has internal procedures in place for \$5K or less.
- Internal process for \$5K or less does align with the Procurement process, which our staff attends Procurement Financial trainings for processing payments for request for checks, purchase orders, and processing of any invoice, which is also part of internal guidelines.
- There is a checklist of required documentation prior to submission of a request for check for grant funds for \$5K or more. Checklist is not needed for less than \$5K due to there is not a litany of information required.
- For any financial disclosures, to ensure that accurate information is provided, each elected official, must have the form notarized; however, if anyone is unsure about any information to disclose, it is always communicated to inquire directly with the Law Department. A request will be submitted to the Law Department to see if they perhaps will be amenable to provide a FAQ sheet for the financial disclosure statement and a Do’s/Don’ts.

Completion Date: Completed

Audit Team

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