

METRO
Solid Waste & Recycling Department

***Community Enhancement Grant
Processes Need Improvement***

February 2005

A Report by the Office of the Auditor



METRO

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**Alexis Dow, CPA
Metro Auditor**



METRO

February 24, 2005

To Metro Council and Metro-area Citizens:

Metro's community enhancement grant programs have provided more than \$4.5 million for community projects since they began in 1985. During the past two fiscal years, enhancement grant expenditures have averaged about \$400,000 a year, with individual grant awards ranging from \$500 to about \$58,000.

We undertook the accompanying study to evaluate Metro's system for managing community enhancement grant contracts. This work was initiated in response to a citizen allegation that Metro community enhancement grant funds were inappropriately spent. We reviewed issues pertaining to contract development, contract administration and internal controls.

While we found that the questioned expenditure of grant funds substantially met contract requirements, we concluded that Metro's system for managing the community enhancement grant programs needs strengthening. More complete procedures are needed to guide staff on how grants should be created and managed. In addition, there exists an opportunity to further leverage the benefit derived from these grants by linking the enhancement programs' goals to Metro's strategic goals.

The following report provides further detail and contains three recommendations for improving Metro's management of community enhancement grants. The last section of this report presents the written response of Metro Chief Operating Officer Michael Jordan to the report and each recommendation.

We appreciate the cooperation and assistance from Metro's Solid Waste and Recycling Department staff and others involved in the community enhancement grant program as we prepared this report.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Alexis Dow'. The signature is fluid and cursive, written over a light grey rectangular background.

Alexis Dow, CPA
Metro Auditor

Auditor: Douglas U'Ren, CIA

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Executive Summary

Metro's community enhancement grant programs have provided more than \$4.5 million for community projects since they began about 20 years ago. They were developed to compensate communities for having waste disposal facilities located nearby. During the past two fiscal years, enhancement grant expenditures have averaged about \$400,000 a year, with individual grant awards ranging from \$500 to about \$58,000. The grants are funded by a \$.50 per ton surcharge on solid waste delivered to Metro disposal facilities.

Metro's system for managing the community enhancement grant programs needs strengthening. More complete procedures are needed to guide staff on how grants should be created and managed. The current Community Grants Coordinator has worked to improve grant administration practices over the past two years, but has done so without a framework of goals and procedures that adequately describe how grants should be administered and controlled, and provide a sound basis for evaluating grant recipient performance. Such a management framework exists for other programs and activities administered by Metro's Solid Waste & Recycling Department.¹

As a result of having an incomplete system for managing enhancement grants, Metro faces significant risk that the grants and the programs they are part of will not achieve their full potential. For example, unclear contract provisions and insufficient oversight allowed one grant recipient to spend almost 50% of the \$48,000 they received from Metro on payroll and administrative costs rather than for the grants' purpose, which was funding storefront improvements in the St. Johns area. Metro's initial grant to this organization limited such administrative costs to 20% of the total grant. Procedures to guide staff on developing clear contract terms and monitoring grant expenditures would have helped assure that a higher percentage of these grant funds were spent for storefront improvements rather than for general administrative overhead, some of which was applied to a period after the grant expired.

The enhancement grants have funded many desired community projects in the last 20 years; however, there exists an opportunity to further leverage the benefit derived from these grants by linking the enhancement programs' goals to Metro's strategic goals.

The following report provides further detail and contains three recommendations for improving Metro's management of community enhancement grants.

¹ See July 2002 Metro Auditor report, "*Solid Waste Management Framework is Sound.*"

Summary of Recommendations

- 1. Expand grant management procedures so that they provide the Grant Coordinator, her supervisor, and other Metro staff with more complete guidance on how grants should be initiated, authorized and overseen.**

Current written procedures do not provide staff with adequate guidance on how to initiate, authorize or oversee community enhancement grants.

A more complete set of procedures should be developed, using a risk-based approach², to ensure that community enhancement grant funds are spent for the authorized purposes, that funds are not misspent due to errors, poor business judgment, or other problems, and that grant recipients comply with grant requirements.

The newly developed procedures should not only describe how Metro staff should monitor grants, they should also ensure that grant contracts clearly identify the types of costs that are reimbursable and contain reasonable limits on reimbursements for payroll, administrative and other general expenditures of grantee organizations.

In addition, job descriptions should be revised so they more fully describe the responsibilities of Solid Waste & Recycling staff who administer the community enhancement grant programs.

The risk assessment, procedures and job descriptions should be reviewed and approved by the Solid Waste & Recycling Department's managers.

- 2. Establish a better system for identifying grant goals, measuring grant performance, and communicating grant results to stakeholders, such as Metro Council and enhancement grant committees.**

Each community enhancement grant we reviewed contained a "performance evaluation" section. However, the grants did not establish specific performance goals or set minimum performance expectations. In addition, there is currently no standardized process in place to measure and report whether grant goals and expectations have been met. This puts Metro at risk of paying grant recipients even if their performance is poor.

² A risk-based approach means identifying potential events that may affect the community enhancement grants and developing procedures to manage those risks in a way that provides reasonable assurance that the objectives of the enhancement grant programs will be achieved and grant funds are spent prudently.

Accordingly, a system should be put into place to identify measurable goals for each grant, measure the extent to which goals are achieved, and report results to stakeholders, such as the Metro Council and members of the enhancement grant committees. This information would provide these decision makers with better, more objective information on how individual grants are performing and whether grant recipients are achieving the goals they set out to accomplish.

3. Maximize value of enhancement grant programs by linking their goals to Metro's strategic goals.

Presently, Metro's community enhancement programs provide important benefits to targeted communities; however, these grants may also be able to contribute to Metro's strategic goals. By linking the community enhancement program goals to Metro's goals for the solid waste system and for the agency, there is an opportunity to maximize the benefit derived from these grants for Metro-area citizens.

Accordingly, Metro should consider linking the community enhancement programs to Metro's solid waste system goals and to the Metro Council's goals and objectives for the agency.

Introduction

Background Information

Metro developed enhancement and rehabilitation grants to compensate communities for adverse impacts created by locating waste disposal facilities nearby. Metro started its first community enhancement program in 1985 in North Portland to mitigate the potential effects of the St. Johns Landfill. It has subsequently established three other enhancement programs near transfer stations located in Northwest Portland, Forest Grove and Oregon City.

Metro's community enhancement programs have provided more than \$4.5 million for community projects since they began about 20 years ago. During the past two fiscal years, enhancement grant expenditures have averaged about \$400,000 a year. Individual grant awards range from \$500 to about \$58,000.

A surcharge of \$.50 on each ton of waste disposed at the transfer stations funds the programs. Funding for the North Portland enhancement program comes from interest earned on a \$.50 per ton surcharge on waste disposed at the St. Johns Landfill before it closed in 1991.

Advisory committees decide how the North Portland and Metro Central enhancement funds are spent, based on a number of criteria. The award criteria vary by enhancement program and include improving public safety, enhancing neighborhood appearance or cleanliness and increasing employment and economic opportunities. Generally, members of these advisory committees are nominated by neighborhood associations, appointed by the Metro Council President and subject to Metro Council confirmation. One Metro Councilor sits on each of these committees. Grant contracts are drawn up and managed by the Community Grant Coordinator, an employee of Metro's Solid Waste & Recycling Department.

The Forest Grove and Oregon City enhancement funds are administered under the terms of Metro's intergovernmental agreements with those cities. Forest Grove's enhancement grants are awarded by a seven-member committee comprised of the Forest Grove city council and a Metro Councilor. Oregon City's city council reviews and recommends enhancement grant awards in that community. Both cities enter into their own contracts with grant recipients.

Purpose and Scope of Review

The purpose of this study was to evaluate Metro's system for managing community enhancement grant contracts. We reviewed issues pertaining to contract development, contract administration and internal controls.

To accomplish this project, we:

- Performed a number of Internet searches for best practices and internal controls related to grant contracts and programs.

- Interviewed Metro staff and reviewed program records in order to identify current goals, policies, procedures and practices.
- Examined Metro records and files associated with five grant contracts funded through the Metro Central and North Portland enhancement programs. Three of the contracts were with a single non-profit organization, while the remaining two grant contracts were with separate non-profits. Metro awarded about 35 grants from the Metro Central and North Portland enhancement programs during FY 2003-04.
- Compared “best practices” as identified from our research to procedures and practices applied to Metro’s community enhancement programs and contracts.
- Identified the financial resources and expenditures of the community enhancement programs by using Metro’s financial management system.

Our audit work focused on the Metro Central and North Portland enhancement grant programs, which are administered by Metro staff in the Solid Waste & Recycling Department. Accordingly, we evaluated and tested Metro’s procedures and practices over those programs. Our review of the Forest Grove and Oregon City enhancement grant programs was limited to evaluating Metro’s written procedures for assuring that those cities complied with the terms of their contracts with Metro.

Our work was conducted in accordance with generally accepted government auditing standards. These standards require that we review internal controls and report any significant deficiencies related to those controls. We reviewed internal controls relevant to our audit objectives. Any significant control deficiencies found during the course of the audit are noted in this report.

Processes for Managing Community Enhancement Grants Need Improvement

Overview Metro's system for overseeing community enhancement grants needs strengthening. The enhancement programs have funded many worthy community projects since initiation in 1985. However, a complete system for managing the grants and the business risks they generate is not yet in place. For example, written procedures are minimal, and we found no evidence that the existing procedures have been reviewed and approved by Metro management. In addition, the grants sampled for the audit did not contain performance standards that would enable Metro to more fully and objectively assess the performance of grant recipients. Finally, an opportunity exists to connect the goals of each grant program to Metro's broader strategic goals.

Develop a more complete set of procedures to manage grants The current Community Grant Coordinator, who has been in the position since early 2003, has worked to improve grant administration practices. For example, she started to include provisions in grant contracts that attempt to more fully capture grant results. She also began to carefully document all significant contacts with grantees. However, she has been operating under incomplete procedures that do not adequately define how she and others should initiate and monitor enhancement grant contracts.

As a result, the community enhancement programs and the grants within them may not be achieving their full potential and may expose Metro to unnecessary risks, as evidenced by the problems described below:

- Three grant contracts, awarded to a single non-profit organization over a three-year period, did not adequately define the types of administrative expenses that were allowable, and two of the three grants didn't limit the amounts that could be spent for administrative purposes. As a result, about \$23,000, or almost half, of the \$48,000 in grants made to this organization paid for general organization costs, such as payroll, administrative, and meeting costs, instead of the storefront improvements that were the purpose of the grants. In fact, some of the grant funds were used to pay for the non-profit organization's general liability insurance for the period subsequent to grant expiration.
- The three storefront grant contracts described above were signed by the non-profit organization's business manager without formal authorization by the directors of this non-profit. As a result, the business manager came to believe he had authority over the expenditure of grant funds rather than the organization's leaders. This led to a disagreement between the non-profit organization's leadership and their business manager over how some of the grant funds provided by Metro were spent.

- A standard provision in Metro's grant contracts requires grant recipients to provide proof of general liability and auto insurance. The contracts also require grant recipients to provide Metro with proof of workers' compensation insurance or certify that they have no employees and will be performing grant-related work without the assistance of others. We found no evidence that grant recipients have been providing these certifications to Metro, or that Metro staff have asked for them. As a result, Metro is not receiving the level of legal protection that grantees are required to provide.

To avoid these kinds of problems, the Solid Waste & Recycling Department should develop a more complete set of procedures to guide the Community Grant Coordinator and other staff on how enhancement grants are to be initiated, managed and controlled. Such procedures should be commensurate with the risks inherent to the grant management process and address some basic issues, such as:

Issues to Consider

- How should management ensure that grant contracts accurately reflect the decisions and restrictions approved by the community enhancement committees?
 - What provisions should be included in grant contracts to help ensure that grant recipients will use Metro-provided funds for their intended purposes and not for unrelated purposes?
 - When and how should Metro verify that persons signing grant contracts on behalf of grant recipients are authorized to do so?
 - How should Metro ensure that grant recipients are complying with the requirements of their grant contracts?
 - How should Metro confirm that grant recipients are carrying adequate liability, auto and workers' compensation insurance?
 - If grant recipients are sent grant funds in advance of performing their work, how should Metro ensure that the recipients actually incurred grant-related expenses and performed the required work?
 - What steps does the Community Grant Coordinator need to take in order to close grants in which funds were partly spent or not spent at all?
 - What information should the Community Grant Coordinator furnish to the enhancement committees and internally to managers in the Solid Waste Department and the Metro Council? How should this information be conveyed, and how frequently?
 - How should the Community Grant Coordinator's supervisor monitor her performance and ensure that grant contracts are properly administered?
-

Procedures are also needed to guide staff on how to manage Metro’s enhancement grant program agreements with Oregon City and Forest Grove. These procedures should address such issues as:

Additional Issues to Consider for Oregon City and Forest Grove Enhancement Grant Program

- What steps should Metro staff take to assure that Oregon City and Forest Grove award grants in accordance with their established criteria and prudently spend enhancement grant funds?
 - How should Metro staff ensure that Oregon City and Forest Grove properly account for unspent grant funds so that the funds are not inadvertently used for unrelated purposes?
 - What information should Metro staff provide to the Council and other stakeholders about the grants administered by Oregon City and Forest Grove?
-

In addition to developing more complete procedures, Metro should revise employee job descriptions so they more fully describe the grant-related responsibilities of Solid Waste & Recycling Department staff administering the community enhancement grant programs. Clear and specific job descriptions can help program staff better understand their roles and what management expects them to do. For example, the Community Grant Coordinator’s job description states that she should coordinate the community enhancement grant program, but it doesn’t explain what this means. Is she responsible for making sure grant recipients meet the requirements of their Metro grants? Should she assess the performance of grant recipients and report the results of her evaluations to the enhancement committees and her managers? What are her responsibilities with respect to the community enhancement committees? Job descriptions should avoid ambiguity and be clear about accountability for results and resources.

Improve Process for Measuring Grant Performance

Each community enhancement grant we reviewed contained a “performance evaluation” section. However, we found that community enhancement grants lack specific performance goals or minimum performance expectations. In addition, no process exists to assess and report whether the goals of each grant have been met. This puts Metro at increased risk of paying grant recipients even if their performance is poor or inadequate. A benefit of having well-defined grant goals, minimum performance expectations, and performance reporting is that the community enhancement committees could use this information to help them allocate grant funds in subsequent years, with the option of rewarding organizations that achieve their goals and scaling back funding to organizations that do not meet them.

Accordingly, a system should be put into place to set measurable goals for each grant, assess actual performance of grants against the goals, and report the results to stakeholders, such as the Metro Council and members of the enhancement grant committees. Enhancing the present system would provide these and other enhancement grant stakeholders with better, more objective information about how individual grants are performing and whether grant recipients are achieving the goals they set out to accomplish.

Maximize value of enhancement grant programs by linking to Metro goals

Presently, Metro's community enhancement programs provide important benefits to targeted communities; however, these grants may also be able to contribute to Metro's strategic goals. By linking the community enhancement program goals to Metro's goals for the solid waste system and for the agency, there is an opportunity to maximize the benefit derived from these grants for Metro-area citizens.

Accordingly, Metro should consider linking the community enhancement programs to Metro's solid waste system goals and to the Metro Council's goals and objectives for the agency.

Response to the Report

Metro Chief Operating Officer Michael Jordan

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METRO

To: Alexis Dow, CPA, Metro Auditor
From: Michael Jordan, Chief Operating Officer
Date: Tuesday, February 22, 2005
Re: Response to Draft Audit Report on Process for Managing Community Enhancement Grants

Thank you for the opportunity to review and comment on the draft report on the Community Enhancement Programs administered by Solid Waste and Recycling. I generally agree with your findings, conclusions and recommendations. In this memorandum, you will find a response to your recommendations.

Metro's Community Enhancement Program is an *ambassadorial* program for the agency. It puts Metro in a positive light by investing money in projects that help meet community needs, create real change and touch the lives of local residents. For many citizens, the enhancement grant programs are the only direct contact they have with Metro.

The design of the enhancement program puts citizens at the center of making decisions about the livability of their neighborhoods. Committees are comprised of residents representing neighborhoods nearby waste disposal facilities. They develop a program for administering the funds generated by enhancement fees, promote enhancement programs, solicit and select projects to fund, evaluate performance of funded projects and solicit public review and comment pertinent to enhancement programs. In these ways, Metro and members of the enhancement committees are partners in meeting the needs of our shared constituents.

There is a full-suite of management practices and protocols being used to support this program. Staff writes and provides contract oversight from start up through project completion, disperses payments to vendors, develops and maintains printed and electronic sources of promotional information, staffs the committee, and makes contact with the media and public. However, the system for managing the programs can be strengthened. The development of a written procedures manual will help formalize a framework that not only helps the grant program achieve its potential, but ultimately helps fulfill the community's vision.

As noted in your report “unclear contract provisions ...allowed one grant recipient to spend almost 50 percent... on payroll and administrative costs... rather than for the grants’ purpose...” While contract provisions could have limited the use of grant funds for such expenses, the grant recipient substantially met contractual requirements in that instance. Furthermore, a portion of the costs in question may be imprecisely categorized as “administrative.” Some funds were used to promote and market the storefront improvement program, which was in keeping with the purpose of the grant. However, we agree with the Auditor’s recommendation to develop clear guidance to oversee such expenditures.

Regarding Metro’s strategic plan goals and the enhancement grant program, the original intent of the enhancement grant programs was to compensate the affected community for having waste disposal facilities located nearby. Metro Council adopted this approach and created by resolution citizen advisory committees to decide how the North Portland and Metro Central funds are spent. As such, staff will work with the Council to review any potential policy changes that modify the original intent of the program, including the recommendation in this report that suggests linkages between enhancement grant programs and Metro’s goals for the solid waste system and for the agency.

Metro’s community enhancement grants program offers exceptional support for many critical neighborhood projects. While enhancement funds are one of Metro’s most valued services, they are also one of the agency’s best-kept secrets. The time is ripe to intensify the impact of Metro’s investments. The improvements we plan to make will help achieve greater benefit for Metro and the community it serves.

cc: Councilor Rex Burkholder
Mike Hogle, Director Solid Waste and Recycling Dept.
Jan O’Dell, Supervisor Community Outreach, Solid Waste and Recycling Dept.
Karen Blauer, Community Grant Coordinator, Solid Waste and Recycling Dept.

Audit: Processes for Managing Community Enhancement Grants Need Improvement

Date: February 2005

AUDIT RESPONSE

Recommendation 1

Expand grant management procedures so that they provide the Grant Coordinator, her supervisor and other Metro staff with more complete guidance on how grants should be initiated, authorized and overseen.

Agree

Yes

No (specify reasons for disagreement)

What action will be taken (if any)?

A procedure manual will be drafted that includes guidance on how enhancement grants should be initiated, monitored and overseen. Procedures will be proportionate to the magnitude of the grant award. For example, procedures would vary in complexity between a \$500 and \$40,000 grant award. Developing a procedure manual will include (but not be limited to) an inventory of existing management practices and protocols, committee bylaws, standard contract terms and conditions, enabling legislation, Metro Code and Metro intergovernmental agreements. In addition, input will be solicited from the grant committees, other grant program administrators and relevant sources (e.g., Metro waste reduction and environmental education grant programs, Northwest Neighborhood Parks and Recreation Fund administrator, the Oregon Nonprofit Corporation Handbook). Procedures will be proportionate to the magnitude of the grant award. The manual will identify tasks related to Oregon City and Forest Grove enhancement grant programs for which Metro's grant coordinator will be responsible.

Who will take action?

The grant coordinator will develop the enhancement grant program procedure manual for review by her supervisor, the Solid Waste and Recycling Department director, Metro Councilors on grant committees and by members of grant committees.

When will action be accomplished?

The manual will be completed by December 2005. This timeline will allow the grant administrator an opportunity to test all new procedures during at least one grant cycle.

Follow-up necessary to correct or prevent reoccurrence.

This internal procedure manual will be reviewed and refined annually by the grant coordinator and her supervisor.

Audit: Processes for Managing Community Enhancement Grants Need Improvement

Date: February 2005

AUDIT RESPONSE

Recommendation 2

Establish a better system for identifying grant goals, measuring grant performance, and communicating grant results to stakeholders, such as Metro Council and enhancement grant committees.

Agree

Yes

No (specify reasons for disagreement)

What action will be taken (if any)?

While current procedures do include performance measures and communications strategies with stakeholders, more can be done. A section of the grant program procedure manual will describe enhancement program protocols for developing clear and specific goals and expectations for each grant project, approaches for monitoring contract terms and measuring project performance, and a more systematic process for communicating results to stakeholders. Such mechanisms will provide assurances that conditions associated with grant contracts are being complied with and help inform committee members' decisions about allocating grant funds in subsequent years. Furthermore, the grant coordinator will initiate a work session with committee members to discuss approaches for assessing the effectiveness of grant projects in addressing community needs. Such approaches may include a quantitative and/or qualitative analysis, a community needs assessment discussion with various sources, a review of past and present slates of grants related to funding guidelines, a review of funding guidelines themselves. Performance measures will be proportionate to the magnitude of the grant award. For example, performance measures would vary in complexity between a \$500 and \$40,000 grant award. The process of developing this section of the procedure manual will include (but not be limited to) an inventory of existing management practices and protocols and input solicited from committee members, other grant program administrators and relevant sources.

Who will take action?

The grant coordinator will develop this section of the enhancement grant program procedure manual for review by her supervisor, the Solid Waste and Recycling Department director, Metro Councilors on grant committees and by members of the grant committees.

When will action be accomplished?

The manual will be completed by December 2005. This timeline will allow the grant administrator an opportunity to test all new procedures during at least one grant cycle.

Follow-up necessary to correct or prevent reoccurrence.

The internal procedure manual will be reviewed and refined annually by the grant coordinator and her supervisor.

Audit: Processes for Managing Community Enhancement Grants Need Improvement

Date: February 2005

AUDIT RESPONSE

Recommendation 3

Maximize value of enhancement grant programs by linking their goals to Metro's strategic goals.

Agree

Yes

No (specify reasons for disagreement)

What action will be taken (if any)?

As noted in the Auditor's draft report, the original intent of the enhancement grant programs was to compensate the affected community for having waste disposal facilities located nearby. Metro Council adopted this approach and created by resolution citizen advisory committees to decide how the North Portland and Metro Central funds are spent. As such, staff will work with the Council to review any potential changes that modify the original intent of the program, including this recommendation.

Who will take action?

The grant coordinator will discuss the Audit report recommendation with Metro Councilors on grant committees.

When will action be accomplished?

The grant coordinator will contact Metro Councilors on grant committees in March 2005.

Follow-up necessary to correct or prevent reoccurrence.

Any follow-up related to this recommendation will reflect any potential policy change made by Metro Council.



Metro Auditor Report Evaluation Form

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Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.



Name of Audit Report: Community Enhancement Grant Processes Need Improvement, February 2005

Please rate the following elements of this report by checking the appropriate box.

	Too Little	Just Right	Too Much
Background Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of Writing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, ideas, thoughts: _____

Name (optional): _____

Thanks for taking the time to help us.

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