



Fairfax County Internal Audit Office

**Neighborhood & Community Services
Countywide Coronavirus Relief Funding Distributions to Third
Parties Audit – Nonprofit Sustainability Grant Program
Final Report**

September 2021

"promoting efficient & effective local government"

Introduction

The Internal Audit Office (IAO) is performing audits of COVID relief funding distributions to third parties. The Nonprofit Sustainability Grant program, overseen by Neighborhood & Community Services (NCS) was selected as one of the programs to perform substantive testing of grant awards distributed after the receipt of CARES Act Relief funds in April 2020. The primary purpose of the Nonprofit Sustainability Grant program was to provide grants to nonprofits that were experiencing an increasing demand for services while withstanding organizational challenges which were limiting their capacity to fulfill their missions. This funding did not produce direct client outcomes, but investments in the operations and systems of non-profits supported strengthening the core capacities of nonprofits to carry out their missions. Nonprofits that function as a part of Fairfax County's social safety net in the areas of Financial Stability, Food and Nutrition, Literacy/Educational Attainment, Health, Housing, Positive Behaviors and Healthy Relationships, and/or Support/Community/Social Networks were eligible to apply for funding to address immediate organizational and operational needs. The program was to support projects that addressed an identified area of organizational capacity constrained by the impacts of COVID-19, to include, but not limited to: Employee Retention; Equipment and Materials; Rent Payments; Debt Payments; and Technology Upgrades. Over \$5M in grants were awarded as part of this program. NCS was tasked with verifying that the applicant met grant eligibility requirements, determining award recommendations, and verifying the funds were used for allowable expenses.

Executive Summary

In general, based on our test work we found that NCS's grant award procedures and controls were adequate over assessing the eligibility of applicants and the allowability of expenses, approving awards, and maintaining required documentation. However, we noted one exception where internal controls over granting awards that could be strengthened:

For four of the 30 grant recipients sampled, portions of reported amounts were not supported by the documentation that was provided along with the associated expenditure. NCS has increased staff support and/or contracted with a third party to review reports and expenditures for the Active and Thriving Community Grant Program and will also perform more detailed reviews of expenditures for that program.

Scope and Objectives

This audit was performed as part of our fiscal year 2021 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit objectives were to determine whether:

- Awards were made in compliance with federal, state, and local funding regulations,
- Grants were awarded to eligible nonprofits,
- Award decisions were sufficiently supported and documented,
- Recipients' use of awards was monitored to ensure that funds were used for allowable purposes.

Methodology

Our audit approach included interviewing the appropriate staff to obtain an understanding of the Nonprofit Sustainability Grant program processes to determine if NCS had adequate controls over reviewing applications and awarding grants. We also performed substantive testing to determine that grant award recipients met grant eligibility requirements, award recommendations were documented, the amounts included in reports were supported, and funds were used for allowable expenses.

We obtained the population of all awards and the list of award recommendations that was prepared by NCS. Grant amounts were primarily determined based on the size of the organization, i.e., the number of employees. There were 29 nonprofits that were approved for increases to the initial amounts in which they qualified. We randomly selected 20 grant recipients who received those increases and 10 that received the initial amounts for which they qualified.

Each grant award recipient had to provide NCS with reports showing how funds had been allocated. Over the duration of the program, three reports were submitted by each recipient. We judgmentally selected one report for each recipient for review.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by Government Auditing Standards. We report directly and are accountable to the County Executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the County Executive and the Board of Supervisors.

Findings, Recommendations, and Management Response

1. Review of Expenses

For four of the 30 grant recipients sampled, portions of reported expenses were not supported by the documentation that was provided along with the associated expenditure reports.

For the four organizations, the percentages of amounts noted on reports selected for review that were not initially supported were:

1. CBO A - $\$4,721/\$25,400 = 19\%$
2. CBO B – $\$5,100/\$33,200 = 16\%$
3. CBO C – $\$2,400/\$32,400 = 7\%$
4. CBO D – $\$9,280/\$9,280 = 100\%$

These amounts and percentages were for one report for each CBO.

The amount not supported (\$21,501) totaled 2% of all expenses tested for of 30 grants sampled (\$965,110).

Due to resource constraints, the NCS review of the documentation consisted of a quick, informal review to gain a comfort level that all required supporting documents appeared to have been submitted. It did not always identify omissions or inaccuracies. Documentation we found to be missing during the audit for each of the organizations was subsequently provided and we were able to verify the reported amounts.

Per Article 2.11 of the Nonprofit Sustainability Grant Agreement, “The Grant Recipient is responsible for maintaining and submitting supporting documentation to substantiate expenses identified in Exhibit A: Report Forms. Supporting documentation includes, but is not limited to, time sheets, payroll records, invoices, and receipts. Supporting documentation must be submitted with the Reporting Schedule as detailed in Article 2.5.”

Inadequate review of expenditure supporting documentation increases the risk of grant funds being used for unallowable expenses; fraud, waste, or abuse; and penalties due to noncompliance with federal stimulus funding requirements.

Recommendation: For future grant programs, we recommend NCS develop written, formalized review procedures of supporting documentation, such as selecting a specific number or percentage of reports to be reviewed each month, setting dollar thresholds of expenses to be reviewed, and identifying additional staff who could assist in a secondary review. These procedures would help to ensure that amounts noted on expenditure reports are properly supported with required documentation. The reviews of supporting documentation should be performed timely to ensure that discrepancies are identified and more easily resolved.

Management Response: NCS will increase staff support and/or contract with a third party to review reports and expenditures. For small grant programs, NCS will fully review all expenditures. For large programs, NCS will review a portion of expenditures for all grantees and all expenditures for a subset of grantees. If there are significant issues with that subset, NCS will review all expenditures for everyone.

Specifically, for programs with fewer than 50 grantees, NCS will complete a review and reconciliation for all expenditures. For programs with 50 or more grantees, NCS will review and reconcile expenditures for line items with a reported cost over \$5,000 for all grantees. NCS will review all expenditures from a randomly selected sample of 20% of grantees. If more than half of selected grantees have discrepancies, NCS will complete a full review and reconciliation for all grantees.

Note: Management has stated that they are in the process of implementing these actions for the Active and Thriving Community Grant Program.