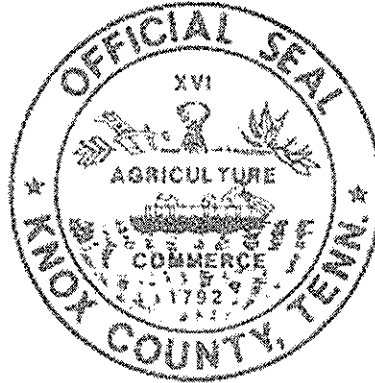


DRAFT

KNOX COUNTY AUDITOR



Review of Community Grants

January 22, 2009

File Number 08-2007-01

Table of Contents

Introduction

Background.....	2
Objectives.....	2
Procedures.....	2
Assistance by Comptroller of the Treasury.....	2

Findings and Recommendations

Community Grant Payments Were Made for Amounts Not Included in the Adopted Budget.....	3
Community Grant Award Changes Were Not Recorded in the Commission Minutes.....	5
County Employees and Officials Have Various Relationships With Nonprofit Organizations Receiving Knox County Community Grant Funding.....	6
Contractual Agreements Were Not Available for All Contract Agencies.....	8
Noncompliance With Community Grant Requirements.....	9

Exhibits

- Exhibit 1 – Community Grant Changes Not Recorded in the Commission Minutes
- Exhibit 2 – Community Grant Payments to Nonprofit Organizations With Relationships With County Employees

DRAFT

OFFICE OF THE KNOX COUNTY AUDITOR Review of Community Grants Audit Number 08-2007-01

INTRODUCTION

Background

Community grants issued by Knox County are intended for the financial aid of nonprofit charitable organizations that provide year-round services benefiting the general welfare of the residents of the county. Knox County Community Development (KCCD) administers the community grant process. KCCD also manages grants with funding from the United States Government consisting of funds from the Department of Housing and Urban Development (HUD).

Recently, many concerns have been raised regarding the Knox County grant process. This review examines community grants, while HUD has conducted a monitoring review of certain federal grants.

Objectives

We conducted a review to determine if:

1. Community grants were paid in accordance with the adopted budget
2. County employees have relationships with nonprofit organizations receiving community grants

Procedures

Our procedures included the following:

1. Reviewed proposed budget and adopted budget for fiscal year 2004 through 2008
2. Verified the existence of contracts for Contract Agencies
3. Reviewed community grant payments for fiscal year 2004 through 2008
4. Identified relationships county employees have with nonprofit organizations
5. Reviewed applicable minutes of the Knox County Commission

Assistance by Comptroller of the Treasury

The Office of the Comptroller of the Treasury, Division of County Audit, provided technical assistance in the planning and monitoring of the Knox County Auditor's review of community grants.

DRAFT

FINDINGS AND RECOMMENDATIONS

Our findings and recommendations are as follows:

1. **Community Grant Payments Were Made for Amounts Not Included in the Adopted Budget**

Community grant recommendations are listed in the Mayor's proposed budget provided to Knox County Commission. During the budget review process, revisions are typically made to the proposed budget and are recorded in the minutes of the Knox County Commission. The final list of awards approved by Knox County Commission is then published in the approved budget document.

The 2006 and 2007 proposed and final award list included Matching Mentors Consortium (MMC). During budget hearings, it was not disclosed to county commissioners that MMC was not an actual organization. This was discovered during 2008 budget hearings. Amounts paid using the MMC award were as follows:

	<u>2006</u>
Knox County Christian Women's Job Corp	\$5,000
SOAR	2,500
TennCorp Community Services Volunteers, Inc. ¹	<u>2,500</u>
Total	<u>\$10,000</u>

	<u>2007</u>
Colonial Village Neighborhood Association	\$500
Mount Olive Community Organization	500
South Doyle Area Home Owners Association	500
South Haven Community Organization ¹	500
Tennessee Conference Community Development, Inc. ¹	<u>2,500</u>
Total	<u>\$4,500</u>

¹ Organization identified as having relationship with county employee
(See Finding Number 3)

In addition, during 2006, amounts approved for Christian Cultural Ministries were paid out as follows:

	<u>2006</u>
Ann Dingus ²	\$1,000
Christenberry Elementary School	300
Fiesta Ritomo Entertainment, LLC	500
New Covenant Baptist Church	<u>200</u>
Total	<u>\$2,000</u>

² Amount was paid to individual (not a nonprofit charitable organization)

DRAFT

Additionally, differences between amounts adopted and paid during 2007 are as follows:

	<u>Adopted</u>	<u>Paid</u>	<u>Difference</u>
Free Clinic of America	\$5,000	\$10,000	(\$5,000)
InterFaith Health Clinic	20,000	30,712	(10,712)
Knoxville Academy of Medicine ¹	-	50,000	(50,000)
Knoxville Symphony ¹	-	100,000	(100,000)
Lisa Ross Birth & Women's Center	-	75,000	(75,000)
Tennessee Conference Community Development, Inc. ^{1&2}	20,000	51,788	(31,788)
Volunteer Health Center ³	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total	<u>\$50,000</u>	<u>\$317,500</u>	<u>(\$267,500)</u>

¹ Organization identified as having relationship with county employee (See Finding Number 3)

² Line item transfer of \$29,288 from Interfaith Health Clinic was paid directly to Home Federal Bank

³ Misprint in budget document (Should have been Free Clinic of America)

Section 3.07, Knox County Charter, states in part, "All offices or departments which receive appropriations from County Government shall utilize such appropriations strictly in accordance with the applicable provisions of the budget as finally approved or amended." Accordingly, payments to nonprofit charitable organizations must be for the amounts included in the adopted budget as approved by Knox County Commission.

This practice violates Section 3.07, Knox County Charter. Such actions could also have the effect of violating other code sections and statutes governing spending or obligating amounts in excess of the appropriations, or knowingly, willfully and intentionally approving expenditures for purposes not authorized by appropriations approved by the commission as provided by Section 2-557, Knox County Code.

Recommendation –

- Disbursement of Knox County community grant funds should be made in accordance with the county's approved budget. Furthermore, all community grant changes made subsequent to the budget approval date should be reviewed and approved by Knox County Commission.

Management's Response – Office of the County Mayor (Direct Quote)

DRAFT

2. Community Grant Award Changes Were Not Recorded in the Commission Minutes

The Knox County Commission speaks through its minutes, the written record of resolutions, directives and actions. Unless the written record is made and approved, the actions of the commission are not considered formally adopted and approved. The printed budget document, which is purported to be formally adopted, includes the following changes in community grant awards (See Exhibit 1 for detail), which were not recorded as being approved by the Knox County Commission:

	<u>Proposed</u> <u>(In</u> <u>Minutes)</u>	<u>Printed</u> <u>(Not in</u> <u>Minutes)</u>	<u>Difference</u>
2004	\$162,500	\$487,500	(\$325,000)
2005	22,250	157,250	(135,000)
2006	169,500	267,000	(97,500)
2007	24,500	70,500	(46,000)
2008	<u>191,500</u>	<u>345,500</u>	<u>(154,000)</u>
Total	<u>\$570,250</u>	<u>\$1,327,750</u>	<u>(\$757,500)</u>

The approved/adopted budget provides the legal framework in which public resources are spent. Making payments to entities without proper approval results in unauthorized transactions.

Recommendation –

- County officials should make sure all community grant awards are included in the adopted budget, have been properly approved, and have been included in the commission minutes before making payment to the nonprofit organizations.

Management's Response – Office of the County Mayor (Direct Quote)

DRAFT

3. County Employees and Officials Have Various Relationships With Nonprofit Organizations Receiving Knox County Community Grant Funding

Several Knox County officials and employees have various relationships with organizations to which the county has contributed funds. The following relationships (See Exhibit 2 for payments made) for the Mayor's Office staff and KCCD staff were identified:

- American Red Cross ¹
- Arts & Cultural Alliance ²
- Family Security, Inc. ³
- Junior Achievement ²
- Knoxville Academy of Medicine ⁴
- Knoxville Neighborhood Housing & Commercial Services ⁴
- Knoxville Symphony ⁴
- Knoxville Zoo ⁴
- Minority Health Summit ⁵
- Partnership for Neighborhood Improvement ⁴
- Parkridge Harbor (Formerly Positively Living) ⁴
- Senior Citizens Home Assistance Service, Inc. ⁶
- South Haven Community Organization ⁷
- Southeast Community Capital Corporation - Technology 2020 ⁸
- TennCorp Community Services Volunteers, Inc. ⁹
- Tennessee Conference Community Development, Inc. ¹⁰
- Young Women's Christian Association (YWCA) ⁷

¹ Mike Ragsdale (County Mayor) served as a volunteer board member.

² Mike Ragsdale and Mike Arms (Chief of Staff) served as a volunteer board members.

³ Family Security, Inc. contracted with TennCorp Community Services Volunteers, Inc. for services. The executive director of TennCorp is the sister of Cynthia Finch (Former Senior Director of Community Services).

⁴ Cynthia Finch served as a volunteer board member.

⁵ The regional coordinator resides at TennCorp Community Service Volunteers, Inc. where the sister of Cynthia Finch is the executive director.

⁶ Barbara Cook (Community Grants Manager) served as volunteer board member.

⁷ Linda Rust (KCCD staff member) served as a volunteer board member.

⁸ Mike Arms served as a volunteer board member.

DRAFT

⁹ Cynthia Finch is the owner of the building where the organization resides and is the sister of the executive director.

¹⁰ According to a report (dated December 21, 2007) issued by the U.S. Department of Housing and Urban Development, Cynthia Finch's relationship with this organization was listed as not in compliance with conflict of interest regulations.

In addition to the relationships listed above, forty-one (41) different Knox County Commissioners have served during the five (5) fiscal years included in this review. Several commissioners have served as volunteer board members on numerous nonprofit organizations that have received grants from Knox County. These relationships could be perceived as a conflict of interest.

The Knox County *Code of Ethics, Employee Handbook* and state laws provide a framework for the ethical behavior of county officials and employees in the performance of their duties. In summary, "You must not have any financial interest in, or receive any financial benefit from, any acquisition or expenditure related to County activities that interferes or conflicts with the full discharge of your duties".

In addition, *The Institute of Internal Auditors* definition of conflict of interest is as follows, "Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively."

Board memberships and relationships with nonprofit organizations soliciting community grants from the county could lead to the appearance of a perceived lack of independence in business dealings with the county.

Recommendations –

- Knox County should develop formal policies requiring disclosure of any nonprofit organization relationships prior to the grant awards. These policies should detail how and to whom these relationships should be disclosed.
- County officials should carefully consider the potential of perceived conflict of interest when making grant award decisions.
- The county attorney should be consulted in order to verify any grant awards would not be in violation of the Knox County Code of Ethics.

Management's Response – Office of the County Mayor (Direct Quote)

DRAFT

4. Contractual Agreements Were Not Available for All Contract Agencies

Knox County works with other government entities and nonprofit organizations to respond to community needs by providing community grants. Community grants are classified in the budget as either (1) General Fund Grants, or (2) Contract Agencies. General Fund Grants are provided without contracting, while contracts are utilized for Contract Agencies which provide services for county citizens.

The contractual funding obligations are specifically listed in the Mayor's proposed budget provided to Knox County Commission. These non-contestable awards are based on contractual agreements with other government entities and nonprofit organizations.

According to Section 3.03M, Knox County Charter, the Mayor has "the sole power to enter into contracts on behalf of Knox County". The Law Director's office approves each contract as to legal form.

Contracts for the following contract agencies that have been awarded community grant funds were requested during our review and were not available:

- Catholic/Columbus Home
- City of Knoxville
- East TN Development District
- East TN Human Resource Agency
- Knoxville Academy of Medicine¹
- Knoxville Area Chamber Partnership
- Minority Health Summit¹
- TN Department of Agriculture, Forestry Division

¹ Organization identified as having relationship with county employee
(See Finding Number 3)

Contractual agreements set forth the terms, conditions and expected performance of the entity receiving the grant award. Making payments to entities without a proper contractual agreement creates an opportunity for unauthorized transactions to occur and go undetected.

In performing the review of community grants, we attempted to verify the existence of applicable contractual agreements, but we have not examined compliance with any aspects of the contractual agreements or regulatory requirements related to the contracts.

Recommendation –

- County officials should make sure all contractual grant awards are properly documented, included in the adopted budget and properly approved before making payment to the grant recipient.

DRAFT

Management's Response – Office of the County Mayor (Direct Quote)

5. Noncompliance With Community Grant Requirements

Thorough compliance guidelines are necessary to ensure taxpayer dollars are spent effectively and efficiently. We were only able to identify a few compliance requirements for community grants. We considered a statement containing the words “must”, “should”, “will”, or “shall” as a requirement. The compliance requirements for community grants are as follows:

- Ordinance O-92-5-102 requires the submission of salary information of the chief executive and the next highest paid employee of the corporation.
- Resolution R-04-10-905 requires a report to commission detailing its expenditures to date of those funds appropriated by Knox County. Resolution R-08-5-501 further clarifies reporting responsibilities.
- Section 5-9-109, Tennessee Code Annotated (TCA), in part requires:
 1. The legislative body shall devise standard guidelines for what purposes the appropriated money may be spent.
 2. Submission of financial reports by the nonprofit organization to the county clerk.
 3. Notice in a newspaper of the intent to make an appropriation to a nonprofit organization other than a charitable organization.

The local compliance requirements in Ordinance O-92-5-102 and Resolution R-04-10-905 are now generally being met. However, we could find no documentation to indicate the second and third provisions listed above of Section 5-9-109, TCA, have been met.

Recommendation –

County officials should develop thorough guidelines for community grants, monitor financial reporting and notices of the intent to make an appropriation to a nonprofit organization other than a charitable organization, in compliance with all provisions of Section 5-9-109, TCA.

Management's Response – Office of the County Mayor (Direct Quote)

DRAFT

If you have any questions regarding this report or would like any further information on this matter, please feel free to call us. We will be pleased to assist in any additional details required. To obtain additional copies of this report; suggest ideas for or to request future reviews; or to report fraud, waste, or abuse, please contact our office as follows:

Knox County Auditor
Room 319, City-County Building
400 Main Street
Knoxville, Tennessee 37902
Telephone (865) 215-2892
FAX (865) 215-3001
richard.walls@knoxcounty.org

DRAFT

Knox County Community Grants

Changes Not Recorded in the Commission Minutes

<u>2004</u>	<u>Proposed</u> <u>(In</u> <u>Minutes)¹</u>	<u>Printed</u> <u>(Not in</u> <u>Minutes)²</u>	<u>Difference</u>
Big Brothers-Big Sisters	\$0	\$4,000	(\$4,000)
Blount Mansion	-	15,000	(15,000)
Boy Scouts Echota Dist.	-	1,500	(1,500)
Buy.com Tour	25,000	33,000	(8,000)
CASA	-	1,000	(1,000)
Columbus House	50,000	82,000	(32,000)
ET Human Resource Agency	-	10,000	(10,000)
ET Public Communications CAP	-	200,000	(200,000)
Emerald Youth Found.	10,000	12,000	(2,000)
Farragut Folklore Museum	-	2,000	(2,000)
Farragut Youth Baseball	-	2,000	(2,000)
Fountain City Town Hall	-	1,000	(1,000)
Gov. John Sevier Memorial Assoc.	5,000	7,500	(2,500)
Halls Bus. & Professional Club	-	1,000	(1,000)
Ijams Nature Center	-	2,500	(2,500)
James White Fort	15,000	16,500	(1,500)
John T O'Connor Sr. Ctr.	15,000	17,500	(2,500)
Karns Community Club	-	5,000	(5,000)
Keep Knoxville Beautiful	10,000	12,000	(2,000)
Knoxville Green	-	2,000	(2,000)
Peaceful Kingdom	-	5,000	(5,000)
Powell Community Club	-	5,000	(5,000)
Ramsey House	10,000	12,000	(2,000)
Tennessee Racking Horse	7,500	12,500	(5,000)
Wee Youth Golf Course	15,000	20,000	(5,000)
Willow Creek Youth Park	-	500	(500)
Year Round Santa Charities	-	5,000	(5,000)
Total - 2004	<u>\$162,500</u>	<u>\$487,500</u>	<u>(\$325,000)</u>

<u>2005</u>	<u>Proposed</u> <u>(In</u> <u>Minutes)¹</u>	<u>Printed</u> <u>(Not in</u> <u>Minutes)²</u>	<u>Difference</u>
CAC-Sr.Citizen Info/Referral Svcs	\$0	\$5,000	(\$5,000)
Film Commission	-	80,000	(80,000)
KORRNET	2,250	7,250	(5,000)
Senior Summit-AMOS	-	35,000	(35,000)
WKOP TV Ch. 15	20,000	30,000	(10,000)
Total - 2005	<u>\$22,250</u>	<u>\$157,250</u>	<u>(\$135,000)</u>

¹ - Proposed budget presented to Knox County Commission - in the minutes of commission.

² - Printed budget document purported to be "adopted" - not in commission minutes.

**Knox County
Community Grants
Nonprofit Organizations With Relationships With County Employees
Payment Schedule**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
American Red Cross	\$2,000	\$1,500	\$1,500	\$1,500	\$2,700	\$9,200
Arts & Cultural Alliance	3,000	10,000	13,500	13,500	15,000	55,000
Family Security, Inc.	-	-	-	-	5,000	5,000
Junior Achievement	6,000	4,000	7,500	7,500	7,500	32,500
Knoxville Academy of Medicine	-	-	-	50,000	50,000	100,000
Knoxville Neighborhood Housing & Commercial Services	-	-	-	7,000	7,000	14,000
Knoxville Symphony	25,000	22,500	25,000	100,000	25,000	197,500
Knoxville Zoo	100,000	70,000	70,000	70,000	100,000	410,000
Minority Health Summit	-	-	-	40,000	-	40,000
Partnership for Neighborhood Improvement	2,500	2,000	5,000	5,000	-	14,500
Parkridge Harbor (Formerly Positively Living)	2,000	2,000	2,000	2,000	2,000	10,000
Senior Citizens Home Assistance Service, Inc.	770,000	320,000	70,000	70,000	70,000	1,300,000
South Haven Community Organization	-	-	-	500	-	500
Southeast Community Capital Corporation - Technology 2020	-	400,000	150,000	150,000	100,000	800,000
TennCorp Community Services Volunteers, Inc.	10,000	9,000	17,500	20,000	20,000	76,500
Tennessee Conference Community Development, Inc.	-	50,000	50,000	51,788	25,000	176,788
Young Women's Christian Association	5,000	6,500	4,000	7,000	25,000	47,500
Total	\$925,500	\$897,500	\$416,000	\$595,788	\$454,200	\$3,288,988

DRAFT

Knox County Community Grants

Changes Not Recorded in the Commission Minutes

	<u>Proposed</u> <u>(In</u> <u>Minutes)¹</u>	<u>Printed</u> <u>(Not in</u> <u>Minutes)²</u>	<u>Difference</u>
2006			
ET Community Design Center	\$10,000	\$15,000	(\$5,000)
East TN History Center	-	50,000	(50,000)
ET Public Communications Co	30,000	35,000	(5,000)
ET Television & Film Comm.	70,000	90,000	(20,000)
Free Health Clinic	-	5,000	(5,000)
Heiskell Volunteer Fire Dept.	10,000	12,000	(2,000)
Knoxville Open	38,000	43,000	(5,000)
Seymour Volunteer Fire Dept.	11,500	15,000	(3,500)
Year Round Santa Charities	-	2,000	(2,000)
Total - 2006	<u>\$169,500</u>	<u>\$267,000</u>	<u>(\$97,500)</u>

	<u>Proposed</u> <u>(In</u> <u>Minutes)¹</u>	<u>Printed</u> <u>(Not in</u> <u>Minutes)²</u>	<u>Difference</u>
2007			
Alzheimer's Association ET Chap.	\$4,000	\$20,000	(\$16,000)
ET Community Design Center	15,000	20,000	(5,000)
Farragut Youth Baseball	-	1,500	(1,500)
Keep South Knoxville Beautiful	-	5,000	(5,000)
Literacy Imperative, Inc.	2,500	10,000	(7,500)
Pacesetters	1,000	5,000	(4,000)
Volunteer Health Clinic	-	5,000	(5,000)
Year Round Santa Charities	2,000	4,000	(2,000)
Total - 2007	<u>\$24,500</u>	<u>\$70,500</u>	<u>(\$46,000)</u>

	<u>Proposed</u> <u>(In</u> <u>Minutes)¹</u>	<u>Printed</u> <u>(Not in</u> <u>Minutes)²</u>	<u>Difference</u>
2008			
African American Appalachian Arts	\$40,000	\$45,000	(\$5,000)
Centro Hispano de East TN	5,000	15,000	(10,000)
Community Action Comm. North	-	15,000	(15,000)
ET Technology Access Center	8,000	10,000	(2,000)
Knoxville Botanical Gardens	-	75,000	(75,000)
Knoxville Zoological Gardens	70,000	100,000	(30,000)
Lonsdale Comm. Development	2,000	2,500	(500)
Martin Luther King Commission	10,000	11,500	(1,500)
Second Harvest Food Bank	24,000	26,500	(2,500)
Sertoma Center	25,000	30,000	(5,000)
Seymour Volunteer Fire Dept.	7,500	15,000	(7,500)
Total - 2008	<u>\$191,500</u>	<u>\$345,500</u>	<u>(\$154,000)</u>

¹ - Proposed budget presented to Knox County Commission - in the minutes of commission.

² - Printed budget document purported to be "adopted" - not in commission minutes.