



# **CITY COUNCIL GRANTS:** No competition and limited oversight

January 2016

**Mary Hull Caballero**  
City Auditor

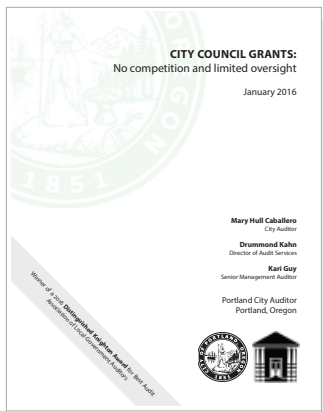
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TO: Mayor Charlie Hales  
Commissioner Nick Fish  
Commissioner Amanda Fritz  
Commissioner Steve Novick  
Commissioner Dan Saltzman  
Andrew Scott, Director, City Budget Office

SUBJECT: Audit Report – City Council Grants: No competition and limited oversight  
(Report #479)

The attached report contains the results of our audit of the City Council's special appropriation and grants process. The Mayor and City Budget Office moved quickly to respond to the audit recommendations. Their response letter is included in the back of the report.

We appreciate the cooperation of the City Budget Office during the course of the audit. We will follow up in one year with the Mayor and the Budget Office for a status report detailing steps taken to address the audit recommendations.

Mary Hull Caballero  
City Auditor

Audit Team: Drummond Kahn  
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Attachment





# CITY COUNCIL GRANTS:

## No competition and limited oversight

### **Summary**

Portland City Council grants funds to outside organizations for activities ranging from arts performances to social service programs. The grants may be 'special appropriations' or funded directly through a City bureau's budget. These amounts ranged from \$9 million to \$17 million in each of the last five fiscal years. Because the budget approach to these grants varies, the total is hard to quantify.

The City Council does not conduct any upfront planning to define the program objectives for grants they fund, but instead provides grants directly to specific organizations and activities. There is no competition to ensure that public money is provided to organizations best able to provide the services. Transparency of these grant awards is also limited, and it is difficult for the public to track who receives grants.

Once the grants are issued, grant monitoring is inconsistent and cannot ensure that intended results are achieved. Many of the grants are for arts, education, or social service activities that don't fit into the City's bureau structure. Instead, these grants are often managed in a Commissioner's Office. Commission staff receive no training in grant management and have no procedures to follow, so monitoring is minimal. Only very rarely are grant results reported or used to inform the next year's budget decisions.

The organizations receiving grants directly from City Council may be excellent organizations providing critical services to Portlanders. But there are many excellent organizations providing critical services in Portland. Without a competitive grant selection process, Council can't know if they are funding the most effective organization – and if an

organization doesn't know to request grants directly from Council, it would never have an opportunity to receive a grant. Once funded, the inconsistent approach to contract monitoring leaves the City at risk of paying for activities that are not fully delivered, or not delivered well.

Council has the discretion to determine budget priorities, and there may be projects that don't fit within the City's normal budget process but are worthy of Council support. But these grants should be exceptions, not standard practice. Approving new direct grants each year and providing ongoing funding to prior grantees takes resources from core services and may be unfair to other potential service providers. We make recommendations to limit direct Council grants, increase competition, and develop procedures for City grant managers to improve grant monitoring.

## **Audit Results**

The total amount of direct grants we identified in the City budget and through a search of the City's financial system ranged from about \$9 million to \$17 million in each of the last five fiscal years. We did not include established, recurring grant programs such as the Children's Levy or Watershed Improvement Grants in this total. Not all grants were coded consistently in the City's financial system, so the management information available may not be complete. Examples of recent grants include:

Downtown sobering station	\$1,300,000
Community college scholarships	\$561,000
Symphony in the park	\$190,000
Tax preparation assistance	\$75,000
A community learning center for sustainable food systems	\$50,000
Youth workforce development	\$40,000

We compared the City’s current practice of selecting and managing direct grants against City policy and best practices. Best practices address both grant selection and grant oversight, as shown in Figure 1.

**Figure 1 Best practices in grant management**

Best practice	City practice
<b>Project selection</b>	
Establish program objectives	No
Award grants competitively	No
<b>Project oversight</b>	
Develop clear contract terms	Yes
Monitor performance	Mixed
Evaluate and report results	No

Source: Audit Services

**City Council does not define objectives for grant programs**

Before providing public funds to an external organization, the programmatic goals and objectives of the funding should be aligned with the core services and budget priorities of the City. Competition for grants would help the City ensure that grantees have the capacity to use grant funds to achieve the desired results. Competition would also promote fairness and openness in the selection of grantees.

In Portland, grants are proposed by Council members, either with a Special Appropriation Request Form or informally to the Mayor or other Council members. We found no evidence of upfront work by Council to define the objectives they are hoping to achieve. So, for example, instead of identifying the general objective of improving workforce readiness for youth and then selecting the best organization after a competitive process, Council provided funds directly to a hand-picked workforce development provider.

If the program to be funded does not fit within a specific bureau, there is a good chance it does not align with a City service area. However, there is no requirement to link grants to City services or budget priorities, and this information is not part of the Special Appropriation Request Form. In the budget review conducted by City Budget Office staff, analysts routinely recommend against funding direct grant requests because the activities do not align with core City services or budget priorities.

**Grants are not awarded through a transparent, competitive process**

Grants are specifically exempted from the City's Purchasing Code, so requirements to promote competition, enhance economic opportunity and stimulate hiring among all of Portland's residents do not apply. The City Council recognized the need for a competitive process for grants in 2014, adopting financial policy revisions proposed by the City Budget Office to state:

*"Grants should be issued after a competitive application process, unless Council waives the policy in the grant ordinance." - Financial Policy 2.04*

Despite the policy change, there was no move toward greater grant competition in the FY 2015-16 budget, which was developed and approved after the policy was amended. In the ordinances approving each grant, City Council now routinely waives the requirement for competition. Without a competitive selection process, the City has no system to evaluate the ability of the grantee to complete the work efficiently or to produce the desired results. Also with no formal selection process, many potential grantees are excluded from the City's direct grants. Only those organizations that know to appeal directly to Council members may be funded.

A competitive process would also provide information to the public and other service providers on grant selection. The City Budget Office moved to make the direct grant process more transparent by posting Special Appropriation Request Forms online during development of the FY 2015-16 budget. However, of the nine one-time direct grants funded in that budget (totaling \$3.4 million), only two submitted the forms. So there was no public information available for grants such as the \$500,000 for an emergency psychiatric facility or \$150,000 to expand a railroad exhibit hall. While these purposes and grants may meet a Council intent, the lack of transparency and competition could leave other organizations, the public, and Council without complete information.

Many grants are proposed as one-time occurrences, but then in future years Council will designate the funding as 'ongoing' and part of the City's base budget. Once a grant is ongoing there is no longer a request form submitted or a specific City Budget Office review. Some grants are also approved during budget adjustments or directly in individual bureau budgets. Ongoing grants in bureau budgets are no longer listed in the budget documents. For example, a \$1.7 million



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grant managed by the Police Bureau for treatment and transitional housing services has not appeared in the budget documents since FY 2013-14. Under current City practice, many direct grants funded each year will not be visible to the public or Council.

**Grant oversight is not sufficient to ensure results are achieved**

Prior to providing any grants, the City should have clear procedures to hold both the City and grantees accountable for achieving results. Key aspects of grant oversight include:

- *Prepare a detailed grant agreement.* Detailed terms and conditions in a grant agreement make all parties accountable for how funds will be spent.
- *Monitor grant performance.* Monitoring grant performance helps ensure that required deliverables are completed, and can help identify and address potential financial or performance problems early.
- *Evaluate results.* Program results information can provide evidence of actual performance, aid future budget decisions, and improve transparency.

The City has no procedures for management of Council-directed grants. Since grants are exempt from the City's Purchasing Code, the Procurement Services office does not have a role in grant selection or oversight. Instead Procurement provides a general Frequently Asked Questions guide and a model contract for use by City staff. Neither document provides guidance on how to manage and monitor grants to ensure funded services are provided.

**Detailed grant agreements are approved by Council**

City Code requires all grants over \$5,000 to be approved by the City Council by ordinance. The City Budget Office assists Commission and bureau staff by providing sample contracts and ordinances. In the sample of grants we reviewed, we found ordinances and contracts for most grants. All of the grant contracts we reviewed required some kind of annual report form, and some contracts included detailed requirements for information and outcome reporting. Most contracts also required grantees to submit an independent financial audit or review.



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### **Grant monitoring is inconsistent**

Once a grant is funded in the budget, a Commissioner's Office or City bureau must develop a contract, distribute funds, and monitor the activities. We found varying approaches to grant monitoring depending on whether a bureau or Commissioner's Office acts as the contract manager. Even the question of which City office is responsible for grant management is not always clear and can change from year to year or with changes in elected officials. For example:

- A grant to provide support to victims of human trafficking had five different City project managers over six years.
- A summer internship program that started in the City's Bureau of Human Resources was transferred to the Mayor's Office for management in subsequent years.
- One contract is paid by the City Budget Office, report forms are signed by the Mayor's Office, and yet the contract states the Commissioner in Charge of Arts and Culture should approve all work.

This shifting or divided responsibility can be confusing and can lead to a loss of accountability for grant program results.

Commission staff manage grants infrequently, have no policies or procedures to follow, and receive no training. They are unlikely to build up staff expertise in grant management. Of the grants we reviewed, the required monitoring reports were rarely provided by the grant recipient. For example, an organization that received an ongoing appropriation of \$200,000 per year had no reports on grant activities on file since FY 2011-12. Other grants had no monitoring reports on file. Commission staff we interviewed said the system is confusing and that clearer structure or procedures would be helpful.

The lack of monitoring does not mean that grant deliverables weren't completed, but without monitoring the City does not have assurance services were provided, could not intervene if there were financial problems, and may not have information needed to determine whether grant funding should continue.

Recognizing the limited capacity in Commissioners' Offices for grant management, the Mayor's Office has moved some direct grants out

of the special appropriations section of the budget to bureau budgets. The bureau with the most direct grants to manage is the Police Bureau. Grants are also managed by other bureaus such as Parks, Environmental Services, Portland Development Commission, and the Office of Equity and Human Rights. The bureaus with completed direct grants that we reviewed monitored the grants and received annual or quarterly reports of grant activities. One bureau staff member noted they are collecting reports as required, but do not conduct site visits or otherwise actively monitor grant activities. Neither bureaus nor Commissioner's offices collected the independent financial audits from grantees as required in the standard contract.

There are tradeoffs for the better monitoring achieved when direct grants are moved to the bureaus. Direct grants provided in bureau budgets may not be requested by the bureau and do not go through the bureau's budget development process or review by the bureau budget advisory committee. When the final budget is approved, bureau staff many not even have information about the grant's purpose. Bureaus then must identify bureau staff with some logical connection to the program and assign the role of developing a contract and monitoring grant activities. That additional workload likely would not have been anticipated during the budget development process.

Some bureau managers we interviewed said that ideally Council would identify the objective they want to achieve and work with the bureau on how to achieve it. If the bureau had a role in program development and grantee selection, staff said they would have better control of the program and could ensure better accountability.

### **Results are rarely reported**

With limited monitoring of Council-directed grants, there is little reporting of results to demonstrate that grant outcomes are achieved. Even for the bureau-managed grants with monitoring reports, there is no mechanism to provide this information back to Council, the City Budget Office, or the public to inform future budget decisions.

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As with monitoring, a lack of outcome reporting does not mean outcomes weren't achieved. But with no documented evidence of results, the City may continue to fund activities with no assurance that the programs are effective.

## **Recommendations**

City Budget Policy requires the Mayor to develop and present a proposed budget to City Council, and the City Budget Office to issue guidelines and rules for the budget. To limit direct funding of organizations without competition or provision of funds not consistent with City goals and service areas, the Mayor and City Budget Office should:

1. Appropriate funds for specific objectives and services to be provided in the budget, and allow bureaus to design a competitive program and allocate funds to meet the desired objective. Avoid appropriating funds to specific service providers.
2. Develop budget procedures to govern direct grants for any exceptional projects that Council determines should not be subject to a competitive process. All Council-directed grants should follow these procedures each year, whether one-time or ongoing. Procedures should require documentation for each grant to be made available as part of budget deliberations for such issues as:
  - a. How the proposed grant is consistent with the City's core services and budget priorities
  - b. Why a competitive grant process cannot be used for these services
  - c. Whether other service providers were considered
  - d. Who will manage the grant
  - e. Which outcomes will be achieved (or have been achieved, for ongoing programs)
  - f. How outcomes will be reported to City Council

To ensure that the City adequately monitors provision of services in Council-directed grants, the City Budget Office should:

3. Develop procedures for oversight of Council-directed grants. The procedures should include:
  - a. Defined roles for contract development
  - b. Steps in contract development, approval, project monitoring, and results reporting
  - c. A central database for grant tracking to ensure monitoring is completed
  - d. A method for grant managers to report information on grant results to decision makers to inform budget decisions each year

Ongoing success of this recommendation will depend not only on City Budget Office implementation, but on the Commissioners' Offices following the new procedures.

### **Objective, scope and methodology**

The objective of this audit was to determine whether the City has reasonable controls around the selection and ongoing management of City Council's direct grants and special appropriations.

The City budget consists of sections for separate 'appropriation units.' Generally, these are the Commissioners' Offices and City bureaus, but there is also one budget section devoted to Special Appropriations. Within the Special Appropriations budget, as well as some Commissioner and bureau budgets, Council may grant funds directly to outside organizations. These direct grants from Council to outside organizations are the subject of this audit.

These grants do not include established grant programs such as the Children's Levy Grants or Watershed Improvement Grants. In those programs, Council does not identify specific service providers through the budget process, but relies on bureau staff to manage a competitive process and track grant results.

To gain an understanding of the special appropriations and grants budget process, we interviewed City staff and managers in the City Budget Office and City Grants Office.

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We reviewed best practices for government budgeting and grants management from government and nonprofit agencies, and audits from other government entities. For grant management best practices we relied heavily on the “Guide to Opportunities for Improving Grant Accountability,” a guide prepared by the Grant Accountability Project of the Domestic Working Group, a collection of federal, state, and local audit organizations.

To identify grants and special appropriations, we started with a list of named special appropriations in the City’s budget document. We then ran reports from the City’s financial system to identify all contracts with contract type ‘Grants.’ We eliminated grants issued under an established City grant program. We combined the resulting grants and special appropriations lists for five fiscal years.

During our audit, we noted a number of grants that were misclassified in the City’s financial system as ‘value contracts.’ From prior audit work, we know that City staff are aware of the error and are working to address it. However, because some grants were misclassified, we cannot be sure that we identified all Council-directed grants, and cannot present a complete list of grants and special appropriations.

To review grant selection and management, we selected a judgmental sample of grants to include a range of fiscal years, bureau and Commissioner’s Office managers, and amounts. We reviewed documentation for each grant, and interviewed the City grant managers. We did not audit the organizations receiving grants.

We also interviewed budget managers from five other jurisdictions about their special appropriation and direct grant process.

We conducted this performance 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 objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.





# RESPONSE TO THE AUDIT





Office of Mayor Charlie Hales  
City of Portland

January 15, 2016

Mary Hull Caballero  
City Auditor  
1221 SW 4<sup>th</sup> Avenue, Room 310  
Portland, OR 97204

Dear Ms. Hull Caballero:

Thank you for the opportunity to respond to your audit of the City Council's grantmaking process. We have reviewed and are in agreement with your recommendations to promote consistency, transparency, and oversight of grant funding that is provided to outside organizations.

In response to the concerns noted in the audit, the City Budget Office has drafted a Special Appropriations Grant Management Guide outlining policies and procedures for allocating, monitoring, and evaluating special appropriations grant funding. This letter details the steps that we are taking to improve the grantmaking process.

*Appropriate funds for specific objectives and services to be awarded through a competitive process, rather than appropriating funds to specific providers.*

We concur that the City and the public benefit from a competitive application process for allocating grant funding. The Grant Management Guide focuses on bolstering the project planning process to 1) identify how requested grants align with City core services, budget priorities, and needs; 2) assess the City's capacity to monitor the grantee and the service(s) to be provided; and 3) consider how to approach the selection process to identify the best grantee to carry out the project on behalf of the City.

*Develop budget procedures to govern direct grants for any exceptional projects that Council determines should not be subject to a competitive process.*

In response to a request from Council, in 2013 CBO created a Special Appropriations Request Form to better track and manage Council grants. As noted in the audit, CBO has worked toward increasing transparency by making these documents available online. We have proposed revisions to this form that include detailed justification for allocating grant funds outside of a competitive process. We anticipate that this will enhance the form's value as a tool for both project planning and public accountability.

*Ensure adequate grant monitoring through developing oversight procedures for Council-directed grants.*

The new Grant Management Guide includes definitions of monitoring roles and responsibilities, as well as guidance for selecting and implementing appropriate project-specific oversight mechanisms. In particular, the guide emphasizes the importance of regular grantee monitoring throughout the lifecycle of the project, including progress updates, financial reports, site visits, required audits, and other documentation to help communicate grant results to the City and to the public.

Please express our gratitude to your staff for their work on this audit. We appreciate the opportunity to improve the transparency and management of City Council grants. We look forward to working with our valued grantees to forge an even better partnership in order to provide the most efficient, effective, and equitable services for our community.

Sincerely,



Charlie Hales  
Mayor  
City of Portland



Andrew Scott  
Budget Director  
City of Portland



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*City Council Grants: No competition and limited oversight*

Report #479, January 2016

Audit Team: Kari Guy

Mary Hull Caballero, City Auditor  
Drummond Kahn, Director of Audit Services

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