

Civic Life's response to grantee non-compliance and poor communication within the City resulted in waste and inefficiency

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**Portland
City Auditor**
Fraud Hotline



Contents

Summary.....	1
Tip to the Fraud Hotline.....	1
Background.....	1
Investigation Findings.....	3
Civic Life’s response to grant non-compliance was wasteful and inefficient because it spent more money than intended, did not follow City policy, and did not pursue potential remedies that could have addressed issues	3
The City’s lack of a formal process to remove vendors and communicate grant non-compliance issues across the City is inefficient	6
There is an opportunity to build on new Grant Administration policy to address the identified waste and inefficiency in this case	7
Recommendations	8
Response from Civic Life’s and Grants Management Division’s service area administrators.....	9

Summary

The Auditor's Office found evidence of waste and inefficiency in the Office of Community and Civic Life's handling of a grant non-compliance issue. Civic Life spent more money than intended and disregarded City policy. Investigators also found inefficiency in the City's grant management because it did not foster communication between bureaus and shifted the responsibility to a small organization.

Tip to the Fraud Hotline

The Auditor's Office operates a Fraud Hotline to receive tips about suspected fraud, waste, inefficiency, and abuse of position.

In October 2023, a member of a neighborhood association contacted the City Auditor's Ombudsman about receiving a check for a grant that bounced. The neighborhood association received the check from East Portland Neighbors (EPN), a nonprofit organization providing financial services as the association's fiscal sponsor. While this grant was not from the City of Portland, EPN had previously worked with the Office of Community and Civic Life and the complainant was also in contact with Civic Life about the issue. The Ombudsman team referred the complaint to the Hotline team after learning of potential waste and inefficiency. Civic Life said that it ended its relationship with EPN after it identified financial issues with EPN. While Civic Life ended its relationship with EPN, other bureaus in the City still had grant agreements with EPN and concerns about EPN's financial issues appeared to be ongoing.

Our Hotline team opened an investigation to determine whether Civic Life wasted money to resolve issues with EPN. We also investigated whether the lack of communication between different parts of the City resulted in bureaus inefficiently continuing to work with a grantee with known financial issues.

This report explains the results of the Auditor's Office's investigation into the tip, as well as recommendations for addressing the issues identified.

Background

The City of Portland has committed to partnering with nonprofit organizations, government agencies, local businesses, and community members to support initiatives and programs that align with the City's mission, priorities, equity goals, and core values. These partnerships may take the form of direct financial support such as grants,

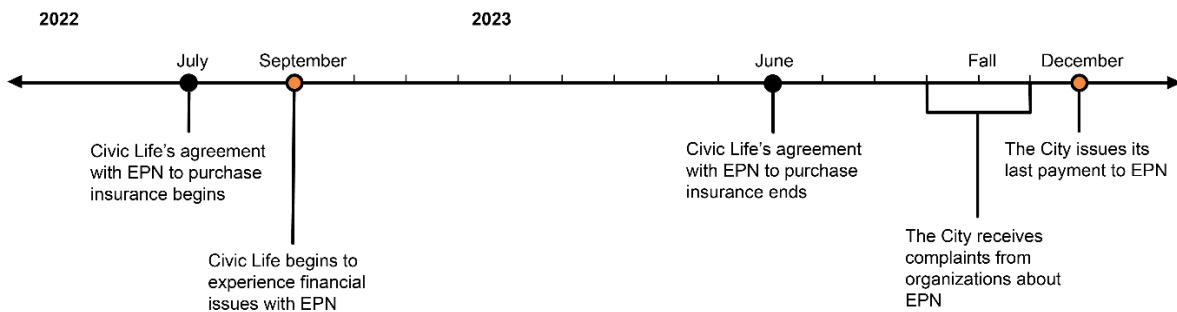
sponsorships, or other financial assistance. When small nonprofit organizations receive grants and do not have tax-exempt status, other nonprofit organizations serve as fiscal sponsors for the grantee by taking on the responsibility of receiving and administering financial contributions on behalf of the sponsored organization. The City partnered with EPN both as a direct grantee and as a fiscal sponsor for other grantees.

EPN was the direct grantee in a grant agreement with Civic Life to purchase liability insurance coverage. This coverage was for the neighborhood associations and community groups that fell under the City-run district coalition offices that provided support to these groups within a geographic area. Civic Life expected EPN to purchase these insurance policies and provide an invoice to the City for reimbursement. Civic Life's grant agreement with EPN to purchase liability insurance for neighborhood associations and community groups began in July 2022 and ended in June 2023. This grant agreement spanned from the end of Civic Life's assignment to Commissioner-in-Charge JoAnn Hardesty and the beginning of Civic Life's assignment to Commissioner-in-Charge Dan Ryan.

In September 2022, Civic Life said that EPN did not respond to requests for an invoice the Bureau needed to pay EPN back for purchasing insurance policies. Neighborhood associations then began contacting Civic Life and the Commissioner-in-Charge's Office to ask when they would be covered by insurance policies. Civic Life contacted the insurance brokers directly and learned EPN had not paid for the insurance policies and that there were additional fees because of delayed payment. EPN then told staff in Civic Life that it didn't have enough funding to purchase the insurance. Civic Life spent about seven months trying to resolve the insurance lapse issue without terminating the grant agreement with EPN. Instead of terminating the grant agreement, Civic Life decided not to renew the grant agreement with EPN when the grant agreement ended in June 2023.

In fall 2023, the City received complaints from small organizations about not receiving grant money from their fiscal sponsor, EPN. These complaints were not related to City grants, but because complainants believed that EPN was part of the City, they contacted Civic Life anyway. At the same time, the City had active grant agreements for which EPN acted as a fiscal sponsor for other small organizations. One small organization that received a Portland Clean Energy Fund (PCEF) grant from the City asked to amend its grant agreement to replace EPN as its fiscal sponsor during this time. In November 2023, the PCEF grantee stopped using EPN as a fiscal sponsor and the City's final payment to EPN was in December 2023. As of September 2024, EPN is no longer included on the State's list of active nonprofit corporations.

Figure 1. The City continued to work with East Portland Neighbors (EPN) for 14 months after identifying financial issues



Source: Fraud Hotline team's visualization of data from grant agreements, staff interviews, and financial software.

Investigation Findings

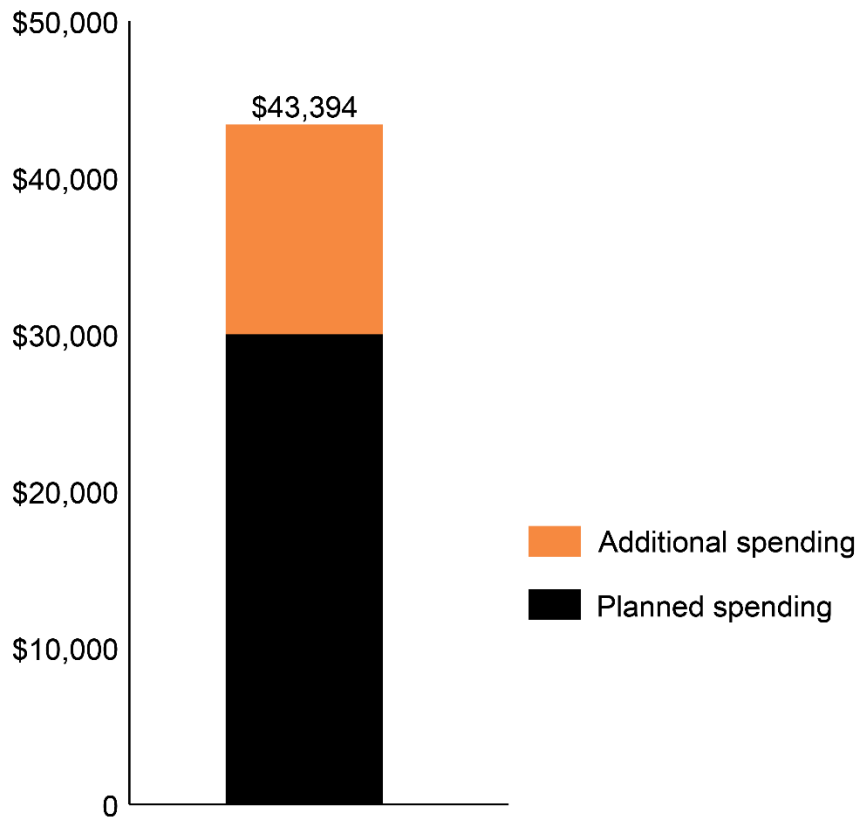
Our investigation found that there was waste and inefficiency in how Civic Life responded to the grant non-compliance issue with EPN. We also found evidence of inefficiency because the City does not have a formal process for resolving grant non-compliance issues Citywide. We found that Civic Life had reason to believe the grantee violated the grant agreement, but the Bureau did not pursue potential available remedies. This led to wasteful spending and non-compliance with the City's procurement card policy. In addition, other City bureaus continued to work with EPN without being aware of EPN's financial issues. We also found that there was a delay in resolving financial issues with EPN that impacted the City and the responsibility to resolve these issues was passed on to a smaller organization with limited capacity.

Civic Life's response to grant non-compliance was wasteful and inefficient because it spent more money than intended, did not follow City policy, and did not pursue potential remedies that could have addressed issues

Civic Life spent more money than intended to resolve the grant non-compliance issue with EPN. The original grant agreement was a \$30,000 reimbursable grant to EPN for the purchase of liability insurance coverage. Civic Life staff said that EPN did not have enough funding to complete the purchase. We found that Civic Life paid EPN for liability

insurance coverage for two of the three City-run district coalition offices. Civic Life reimbursed a separate nonprofit organization for the remaining insurance coverage that EPN was supposed to pay for. Finally, Civic Life directly paid insurance brokers for liability insurance that was supposed to be paid for by EPN. We calculated that Civic Life paid a total of \$43,394 for liability insurance coverage. That was \$13,394 beyond the original grant agreement with EPN.

Figure 2. Civic Life spent an additional \$13,394 beyond the planned \$30,000 agreement



Source: Fraud Hotline Team’s visualization of data from 2022-2023 grant agreement and Civic Life invoices from February to July 2023.

The additional Civic Life funds came from its centralized account, which uses underspending from programs to pay for other programming. The additional spending to address EPN’s financial issues could have been used for Civic Life’s programming to promote a culture of civic engagement and to build inclusive, safe, and livable neighborhoods and communities. For example, grants to community organizations to

design and implement culturally-specific leadership development programs and investments to help build inclusive and livable neighborhoods.

Civic Life's use of a procurement card to purchase insurance also violated City procurement card policy. Civic Life did not follow City policy in its attempt to address the issues caused by EPN's non-compliance with the grant agreement. One reason purchasing insurance is a prohibited use of a procurement card is that the City's Risk Management function oversees direct insurance purchases for the City, both to ensure proper coverage and to eliminate duplication of coverage. Risk Management staff also negotiate with carriers to prevent unnecessary and wasteful insurance purchases.

Civic Life also chose not to pursue available remedies, such as termination of the agreement. Other remedies could have prevented wasteful spending and could have prevented other parts of the City from continuing to work with EPN. The grant agreement contains a variety of tools for bureaus to address disputes and poor performance issues, but it is the bureau's decision whether to pursue remedies available under the grant agreement. It is good practice for a bureau to carefully document how a grantee is falling short and the City's actions to bring the grantee back into compliance.

Civic Life could have given written notice to trigger a 30-day period for the grantee to fix the problem of not meeting an obligation. The grant agreement specifies that the grantee would be solely responsible for any expenses associated with resolving issues caused by noncompliance or failure to perform. Following this remedy could have prevented unnecessary spending by Civic Life. After the 30-day period, termination for cause of the grant agreement was also available. If terminated for cause, the City could have sought repayment and declined to approve or award future grants to EPN. Following this remedy could also have prevented other City bureaus from working with EPN given the organization's known financial issues.

The City also could have terminated the grant agreement at any time for convenience. The agreement stated that if for any reason the grantee's anticipated services are terminated, the City could suspend, or reduce payment. Although a Civic Life staff member acknowledged there was likely a material breach of the agreement with EPN, Civic Life chose to address EPN's non-compliance by allowing the agreement to expire.

While it was up to Civic Life to decide whether to pursue remedies, had it done so, it could have prevented financial waste and inefficiencies and possibly prevented the City from continuing to work with EPN. Other bureaus continued to work with EPN, and around a year later, the City began to receive complaints from nonprofit organizations about not receiving their grant funding from EPN.

Civic Life's handling of issues with EPN may have been due to external pressure to quickly address the issue. Civic Life and its then-Commissioner-in-Charge received pressure from neighborhood associations to resolve their lack of insurance. Civic Life said it was focused on keeping neighborhood association activities running. Given the need for a timely response, Civic Life could have benefited from having clear procedures and guidance to help navigate the issue and prevent waste and inefficiency.

The City's lack of a formal process to remove vendors and communicate grant non-compliance issues across the City is inefficient

Best practices for grants include utilizing federal, state, and local government's official lists to update the government's list of contractors. This process protects government from fraud, waste, and abuse by using tools to avoid doing business with non-responsible contractors. However, there is no formal process for the City to create a debarment list and remove vendors. The removal of vendors is a bureau business decision. The City's lack of a formal process for removing vendors led to increased time for resolving financial issues with EPN. City staff described the current process for removing vendors as based on inactivity in the City's financial system or based on notification from bureaus. Civic Life said they did not pursue removal of EPN as a vendor since it no longer had an agreement with EPN after June 2023. There was no formal process to address EPN's financial issues even though the City knew about these issues for around a year. This was a concern because the City continued to work with EPN as a fiscal sponsor for other grants, for example a PCEF grant of approximately \$100,000. EPN was unable to purchase \$30,000 of insurance for Civic Life due to funding issues and may have struggled to provide financial services for the small organizations that it was acting as fiscal sponsor for.

Civic Life knew that EPN was having issues fulfilling the financial services required by the grant agreement to purchase insurance and allowed the agreement to expire, but not all bureaus had this same knowledge. Civic Life said they were unaware that the Bureau of Planning and Sustainability had an approximately \$100,000 Portland Clean Energy Fund grant agreement with EPN acting as fiscal sponsor. Planning and Sustainability did not receive communication about Civic Life's financial issues with EPN. Civic Life said that because bureaus were siloed, they didn't know about other agreements the City had with EPN. Best practices for grants include governments ensuring grant information is available to internal stakeholders and developing processes to ensure that quality, supportable information is utilized in grant decision making. Best practices also dictate that program deficiencies should be communicated to all responsible parties, including management and elected and appointed officials.

The lack of a formal process for communicating grant non-compliance issues contributed to the City shifting responsibility for resolving a known financial issue to a small organization.

The small organization that received funding from the PCEF grant agreement requested to no longer use EPN as its fiscal sponsor. The grantee had difficulty reaching EPN. Planning and Sustainability also tried to reach EPN on the grantee's behalf and said they did not get a response. The PCEF grant agreement was amended to fulfill the PCEF grantee's request for a change in fiscal sponsorship in November 2023. The PCEF grantee had to expend time and resources to figure out its fiscal sponsorship even though Civic Life knew about EPN's financial issues. Working to resolve any fiscal sponsorship issues could have taken away from the organization's capacity to research and design a new food garden intended to deliver climate and health benefits for BIPOC communities and people living with low incomes as outlined in the grant agreement.

There is an opportunity to build on new Grant Administration policy to address the identified waste and inefficiency in this case

In September 2024, the City adopted a new Outgoing Grant Administration policy. This policy, FIN-6.17, establishes guidelines and a process for awarding grants and aims to provide consistent, transparent, and equitable processes for the distribution of grant dollars. This policy applies to outgoing grants administered by the Grants Management Division in the Budget & Finance Service Area or other City service areas. As of July 1, 2024, the City's organizational chart is organized by service areas to unify bureaus, programs, and services under the leadership of a City Administrator. As part of the policy, the Grants Management Division will develop guidelines to address grant agreement non-compliance and dispute resolution issues. The development of these guidelines could address the lack of clear guidance and procedures that led to the waste and inefficiency found in this investigation.

Communication about grantee and fiscal sponsor issues would benefit all City grantmaking activities. For example, the policy says that one software platform will be used for all outgoing grants and could be used to communicate Citywide. The policy states that the details of each grant program will be set by the service area's leadership and that grant program policies should be documented and codified in the service area's policy documents. Additional work is needed at Civic Life's service area level, under the City Administrator's Office, to develop processes for addressing non-compliance and dispute resolution in a way that prevents waste and inefficiency.

Recommendations

To address the inappropriate use of a procurement card:

1. Civic Life should ensure that staff with procurement card responsibilities are trained in and understand procurement card policies and prohibited uses of procurement cards.

To strengthen grantee compliance and improve efficiency in resolving grantee non-compliance issues:

2. Civic Life should collaborate with the Assistant City Administrator and the rest of the City Administrator's Office Service Area to clarify and document procedures for addressing grantee non-compliance and dispute resolution for decisions that are at the discretion of the Service Area.
3. The Grants Management Division of the Budget & Finance Service Area should include the following as it develops guidelines to address grant agreement non-compliance and dispute resolution issues:
 - a. Guidance for documenting grantee non-compliance and for deciding and documenting which remedies to pursue.
 - b. A process for sharing relevant information about grantees and fiscal sponsors across the City, ensuring information is also available for outgoing grants programs that are not included in FIN 6.17 (for example, PCEF grants).
 - c. Guidance for when and how grantees and fiscal sponsors can be removed as vendors Citywide.

Response from Civic Life's and Grants Management Division's service area administrators

The Assistant City Administrator and Deputy City Administrator for Budget & Finance jointly responded to the investigation with a statement agreeing with our recommendations. They believe that the new form of government presents more opportunities to improve coordination and address areas of inefficiency. The response detailed actions already taken for our first recommendation and actions taken and planned for our second and third recommendations.

Date: January 17, 2025

To: The Auditor's Office

From: Annie Von Burg, Assistant City Administrator, and Jonas Biery, Deputy City Administrator, Budget & Finance Service Area

Subject: Management response for the Hotline report recommendations

Thank you for sharing the report from the Fraud Hotline review of alleged waste in Civic Life's handling of a grant compliance issue with the nonprofit organization East Portland Neighbors. We appreciate your review and providing us with the opportunity to respond to the recommendations. Overall, we agree with the recommendations of this report and are encouraged that with the new form of government we have more opportunities to improve coordination and address areas of inefficiency. We have taken important steps to address this issue and will continue to do so.

The recommendations and responses are listed below.

To address the inappropriate use of a procurement card:

- 1. Civic Life should ensure that staff with procurement card responsibilities are trained in and understand procurement card policies and prohibited uses of procurement cards.**

Response: All Civic Life and other City staff who have a PCard or are approvers for PCard holders are required to complete a training and pass a test in City Learner exam with a score of 80% or higher. Aaron Thompson, P-Card Program Coordinator, confirmed that all Civic Life staff have gone through the training and are in compliance.

To strengthen grantee compliance and improve efficiency in resolving grantee non-compliance issues:

- 2. Civic Life should collaborate with the Assistant City Administrator and the rest of the City Administrator's Office Service Area to clarify and document procedures for addressing grantee non-compliance and dispute resolution for decisions that are at the discretion of the Service Area.**

Response: To strengthen grantee compliance and improve efficiency in resolving grantee non-compliance issues, the city took an important step in September 2024 when Council passed the Outgoing Grants Administration Policy (ordinance language below). This policy increases city wide coordination, tracking and monitoring. The Grants Management Division will take the lead on developing procedures for addressing grantee non-compliance and dispute resolution. The Grants Management Division is currently establishing general concepts and enhanced processes for administering and managing outgoing grant programs, including protocols for investigating and communicating grant compliance issues. Civic Life will work closely with the Grants Management Division to implement these new procedures.

The City Administrators Office Service Area will get regular updates on the progress of implementing these new citywide procedures.

- 3. The Grants Management Division of the Budget & Finance Service Area should include the following as it develops guidelines to address grant agreement non-compliance and dispute resolution issues:**
 - a. Guidance for documenting grantee non-compliance and for deciding and documenting which remedies to pursue.**
 - b. A process for sharing relevant information about grantees and fiscal sponsors across the City, ensuring information is also available for outgoing grants programs that are not included in FIN 6.17 (for example, PCEF grants).**
 - c. Guidance for when and how grantees and fiscal sponsors can be removed as vendors Citywide.**

The Grants Management Division will coordinate with the Controller, AP Manager, and the City Attorney's Office to develop the procedures. The procedures will be drafted and shared with the Grant Makers Group for input. The Grant Makers Group includes representatives from all city bureaus with outgoing grant programs. After input from the Grant Makers Group the final draft will be sent to the ACA and the Budget and Finance DCA for review, approval and implementation.

Per city policy Webgrants is the City's designated grant tracking software for all outgoing grants. All bureaus will be required to utilize Webgrants as of 7/1/25. The procedures will be finalized to align with the 7/1/25 requirements to use Webgrants. Implementation will involve:

- sharing the procedures with the Citywide Grant Makers Group, Business Operations Leadership Team and Enterprise Leadership Team.
- updating grant application and award templates.
- including the procedures in the Outgoing Grant Policy and Procedures Manual currently being developed.

On September 4, 2024, Portland City Council adopted FIN 6.17, City of Portland, Outgoing Grants Administration Policy. Below are the Roles and Responsibilities of the policy.

Roles and Responsibilities from the Outgoing Grant Policy, FIN 6.17

[191883 | Portland.gov](https://www.portland.gov/191883)

Roles and Responsibilities

1. City Council: The City Council approves funding for grant programs through the annual budget process, the budget monitoring process, or through a special ordinance.
2. Mayor: The Mayor or the Mayor's designee authorizes the City Services Areas to enter into individual grant agreements.
3. Grants Management Division:

- a. Collaborate with City leadership to establish the criteria for tracking and monitoring outgoing grant funds to ensure public funds are distributed and used in alignment with the City's mission, priorities, equity goals, core values, and applicable laws and regulations.
- b. Establish general concepts and processes for administering and managing the outgoing grant programs.
- c. Administers Webgrants software and provides technical assistance to project managers in each Service Area.
- d. As needed, initiates independent audits on grants to determine compliance with policy, financial, and performance requirements.
- e. As requested, provides technical assistance to Service Areas. EXHIBIT A
- f. Periodically review and revise this policy as necessary to ensure the grants program remains aligned with the City's goals, applicable laws and regulations, and grant-management best practices.
- g. As assigned, the Grants Management Division oversees and administers a portfolio of grant programs funded by other City Service Areas.

Thank you again for sharing this report and the opportunity to address this important issue. If you need any further assistance or information, please let us know.

Thank you,

Annie Von Burg and Jonas Biery