



# Fairfax County Internal Audit Office

**Homeland Security Grants Compliance Audit  
Final Report  
March 2007**

*"promoting efficient & effective local government"*

# Background

Over the past several years Fairfax County has received significant funding related to homeland security grants. During our audit period there were fourteen county agencies which had homeland security grant funding, totaling approximately \$72 million. The majority of grant funding involved five agencies: Office of Emergency Management (OEM), Fire & Rescue Department (FRD), Police Department (Police), Health Department (Health), and Department of Information Technology (DIT).

The Office of Emergency Management is responsible for helping coordinate emergency response planning efforts among the various public safety, health, and other agencies in the county, as well as with the government jurisdictions in the national capital region and the Commonwealth of Virginia. OEM, formerly part of the Police Department, was established as a separate agency in July 2004. As part of their coordination efforts, OEM's role included oversight responsibility and preparation of a grant summary report for most county homeland security grants, and also providing guidance and assistance to agencies. This work has been done with minimal staff assigned to the administrative oversight of homeland security grants.

## Executive Summary

The responsibility for homeland security grant applications, processing, billing, reporting, and compliance varied on a grant-by-grant basis. Some grants were being handled completely by one applicable agency, while for certain multi-agency grant programs OEM was responsible for loading the budget appropriations in the financial system and submitting required reports and revenue billings to the grantors. However, written policies and procedures establishing and clarifying OEM's role and responsibilities as the coordinating agency for homeland security grants were not documented.

We tested a sample of grants covering eighty percent of the total homeland security grant funding. One of the most critical objectives of our audit was to determine if expenditures charged to the homeland security grant programs appeared to be appropriate, and we found that expenditures reviewed were generally in accordance with grant requirements. Most homeland security grants did not require the achievement of specific benchmarks or other readily measurable outcomes, other than the purchase of certain types and quantities of approved equipment, and the grant programs we reviewed appeared to meet those requirements. We commend the agencies reviewed during this audit in meeting guidelines for appropriateness of spending and for successfully completing substantial procurement efforts, especially given the rapid increase in the number and dollar amount of homeland security grant funds, the multitude of detailed grant requirements, and often short timeframes in which funds had to be expended prior to expiration dates.

There were some areas of control weaknesses noted which provided the following opportunities for improvement:

- In some instances, OEM and Police were not billing for grant receivables in a timely manner. For example, OEM did not bill \$4.4 million in grant expenditures for over a year. In another example, the Police had over \$500,000 in expenditures for one grant that remained unbilled for over six months. Delayed billings for reimbursable grant expenditures resulted in less funds available for investment in the county's pooled cash, and a significant loss of potential investment earnings.
- The Police Department incurred over \$300,000 in grant expenditures for two grants that had to be charged to the county's general fund budget, rather than reimbursed through the individual grants, because grant deadlines were not met.
- Both OEM and Police consistently failed to meet grant reporting deadlines. Only five of the 48 required reports selected for review for these two agencies were evidenced to be completed and submitted timely.
- Grantor required supporting documents were not maintained for several expenditures within two OEM grants. These records of accounting transactions are necessary to evidence the propriety of grant expenditures and to ensure that the county will be reimbursed for purchases made.
- When billing for reimbursable expenditures, OEM, Police, FRD and Health were not establishing accounts receivable records in the county's financial system (FAMIS), as required by county policy.

A lack of documented internal control procedures and effective supervisory review appeared to affect the overall success of the grant reporting and billing processes within OEM and Police. OEM did not have a sufficient tracking system to ensure that grant reports, billings, and other requirements were completed timely; and the internal controls and supervisory review were not sufficient to achieve compliance. Police had recognized the need to develop a grant tracking system prior to our audit, and had made substantial progress in that endeavor, but a lack of other effective internal controls and supervisory review resulted in the conditions noted.

## Scope and Objectives

This audit was performed as part of our fiscal year 2006 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of July 1, 2004, through April 30, 2006, and the audit objectives were to determine if:

- Grant funding was used in accordance with grant requirements, and there was appropriate and sufficient supporting documentation to indicate how grant funds were expended
- The responsible agencies were able to demonstrate achieved outcomes required by the terms and purpose of the grants
- There was a timely billing process and collection of grant funds due

- Required grant reporting was done in a complete and timely manner

There were fourteen county agencies which had homeland security grant funding totaling approximately \$72 million during the audit scope period. The \$72 million was comprised of over 100 grant funding allocations, as tracked and reported by OEM. For our audit, we looked at all grant allocations greater than \$500,000 for OEM, Police, FRD, Health, and DIT. This resulted in an audit sample of 25 homeland security grant allocations totaling approximately \$58 million, which was 80 percent of the total funding.

## Methodology

Our audit approach included reviewing the applicable grant documents, and interviewing the management and staff of agencies responsible for the grants, to obtain an understanding of the requirements for propriety of grant expenditures, financial and programmatic reporting, billing, document retention, and required program goals or outcomes. We also obtained samples of invoices and purchasing documents, revenue billings, and grant reports for our review from each of the departments selected for audit. Our audit did not examine the system controls over purchasing, financial, and payroll applications. Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data from CASPS, FAMIS, and PRISM may have been erroneous, which could have affected the conclusions of the audit.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted 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 the county executive and the Board of Supervisors, and reports are available to the public.

## Findings, Recommendations, and Management Response

The management responses for each finding have been consolidated below, as received from the agencies audited. An attachment is included which contains the individual responses from each agency.

### 1. Grant Receivables

We noted the following issues related to the timeliness of grant revenue billings and the posting of accounts receivable:

- a) The county incurred \$4.4 million in expenditures for the State and Local Emergency Preparedness (SLEP) grant during the period of September 2004 through June 2005, but OEM did not complete the billing until October 20, 2006. OEM was responsible for completing consolidated billings for the SLEP grant

- program on behalf of all the other participating agencies during the period of our audit (July 1, 2004 through April 30, 2006). In addition, we noted untimely billings for the Northern Virginia Web EOC component of the 2004 Urban Area Security Initiative (UASI) grant program, as expenditures totaling nearly \$200,000 by the end of December 2005 remained unbilled until OEM completed the first grant billing for \$600,000 in May 2006.
- b) Police waited over a year to submit the first billing for the Law Enforcement Personal Protective Equipment component of the 2003 UASI grant, by which time a nearly \$1 million balance had accumulated. Expenditures for this grant began in May 2005 and grew to over \$500,000 by November 2005, but the first billing was completed in June 2006.
  - c) FRD was consistently processing grant billings on a quarterly cycle. However, for certain grants that incurred substantial expenditures at the beginning of the quarter, a more frequent billing process would allow for better cash flow and increased interest earnings on pooled cash. We noted several instances where total amounts exceeding \$1 million were incurred during the early period of a quarterly cycle but were not billed until the end of the quarter.
  - d) OEM, Police, FRD and Health were not posting accounts receivable documents in the county's financial system (FAMIS), as required by the county's Accounting Technical Bulletin 036, Billing and Collection Procedures for Billable Revenue (ATB036). ATB036 also requires agencies to invoice for billable revenues as soon as possible after the service is provided.

Failure to bill a grantor for reimbursement for an extended period of time reduces the potential investment earnings the county may earn on cash balances. Not establishing accounts receivable in FAMIS may render certain internal controls ineffective (i.e., the aging of accounts receivable and monitoring of revenue collections performed by the Department of Finance) and increases the possibility that billed grant revenue may remain uncollected without sufficient oversight of the collection process.

**Recommendation:** We recommend that OEM and Police complete grant billings for expenditure reimbursements on a timely basis, and that that FRD work with the Department of Finance (DOF) to determine the most suitable billing frequency that will achieve effective cash flow management objectives and maximize the county's pooled cash interest earnings. We also recommend that OEM, Police, FRD and Health establish accounts receivable records in FAMIS at the time of billing.

**Management Response:** OEM, Police and FRD agree to complete grant billings on a monthly basis, or work with the county's Department of Finance (DOF) staff to determine the appropriate billing frequency. For grants that would not be practical or feasible to bill monthly, the agencies will document the related guidance from DOF and the agency management's decision to adopt a less frequent billing cycle, and include this documentation in the grant files for future reference. Additionally, department management will regularly monitor grant billing activities and ensure that the billings are done timely.

OEM, Police, FRD and Health all agree to post accounts receivable documents to

the county's financial system (FAMIS) at the time of billing.

## 2. Timely Utilization of Grant Funds

There were two Police grants for which substantial grant funds totaling \$138,142 from the SLEP program and \$162,866 from the Law Enforcement Terrorism Prevention (LETP) program expired without being utilized. The department had incurred expenditures related to the balances for these programs, but was not able to seek reimbursement because the expenditures occurred after the grant deadlines. As a result, the \$301,008 total expenditures for the two grants were absorbed in the department's general fund budget. An additional amount over \$380,000 could have potentially been required to be absorbed for the LETP grant due to a considerable delay in processing payments to other participating jurisdictions, but the department obtained retroactive approval from the pass-through grantor after the Internal Audit Office brought the matter to the department's attention. These payments were completed over a year after the deadline for closing out the grant.

**Recommendation:** Police management should implement the necessary oversight, tracking, and monitoring controls so that grant expenditure deadlines and other grantor requirements are met. Such controls help to ensure that the county is properly reimbursed for amounts expended on homeland security grants.

**Management Response:** Police management will implement the necessary oversight, tracking, and monitoring controls to ensure that grant expenditure deadlines and other grantor requirements are met. Staff will regularly monitor the spend-down progress of each grant on a monthly basis, and flag a grant program for management review and action when there appears to be a likelihood that all grant funds will not be utilized prior to the end date at the current rate of expenditure activity. Staff and management will pay particular attention to grant awards which are scheduled to end within six months, and will work with the grantors and/or appropriate county agencies to resolve issues which may otherwise cause a delay in procurement or expenditure activity that could result in unutilized grant funds expiring.

## 3. Timely Reporting to Grantors

We noted a general lack of compliance with grant reporting deadlines for Police and OEM. Only one of the 20 financial and programmatic reports we reviewed for Police was submitted by the required deadline, and we were able to verify timely submission for only four of the 28 grant reports we reviewed for OEM. In addition, OEM and Police did not comply with grant close-out report deadlines for some of the grants. Failure to meet reporting requirements may lead to denial of grant reimbursements.

**Recommendation:** We noted during our audit that Police had developed a comprehensive grant tracking system that included reporting requirements and deadlines for each grant, and we recommend that Police management utilize the

tracking system to monitor the department's compliance with the grant requirements. We recommend OEM implement a comprehensive tracking system as well, and that the agencies' compliance with reporting requirements, such as specific report forms and due dates, be periodically reviewed by someone other than the grants coordinators, to ensure sufficient grant reporting oversight.

**Management Response:** Police and OEM grant staff and supervisors will utilize the reporting compliance capabilities of grant tracking systems, on at least a monthly basis, to ensure that all financial, programmatic, close-out, and other required reports are completed and submitted timely. Department management other than the grant coordinator/administrator and grant program managers will utilize the grant tracking system and spot-check selected grant reports on at least a quarterly basis to ensure compliance with grant reporting deadlines.

#### 4. **Records Retention - Missing Documents**

OEM lacked sufficient supporting documents for eight of the 30 expenditures we selected for review for two grants. Each of these expenditures had occurred after OEM had become an independent agency, separate from the Police Department. These grants had record retention requirements, which included that grantees maintain "source documents supporting accounting transactions;" and that records be retained for a three-year period that starts from the grant close-out, or three years after the resolution of any litigation or audit.

**Recommendation:** OEM should develop and implement procedures to help adhere to all grantor requirements including the records retention requirements.

**Management Response:** OEM will develop a written policy for grant records retention and better ensure that all required information is retained and filed appropriately.

#### 5. **OEM's Role and Responsibilities as Coordinating Agency**

OEM's role and responsibilities as the coordinator for multi-agency homeland security grant programs were not clearly defined and documented, nor were there policies and procedures to identify the responsibilities of the other agencies. Without the accountability that results when each agency's responsibilities and related deadlines are clearly defined, there is an increased likelihood that the administrative requirements for homeland security grants will not be performed timely, efficiently, or effectively.

**Recommendation:** OEM should develop policy for the administration of homeland security grant programs and forward the proposed policy through the applicable deputy county executive for consideration by the county's senior leadership team. Such policy should define roles and responsibilities for homeland security grants that involve multiple Fairfax County agencies. The policy should include procedures for communicating grant issues to senior management, particularly when another agency's failure to perform a required task causes a delay which adversely impacts

grant compliance or effectiveness. The policy should define the responsibility for the following tasks:

- Grant applications (including any required budgets, charts, etc.)
- Board items
- Budget loadings
- Preparation of financial, programmatic, close-out, and other required reports
- Regular budget/funding status
- Revenue billings
- Procurement
- Tracking of statistics/ program results (when applicable)
- Documenting grant-specific operating procedures
- Secondary review at the agency level to ensure agency oversight for their own grant programs

**Management Response:** OEM will work with the county executive, appropriate deputy county executives, and county agencies' representatives to develop policies that better outline OEM's oversight responsibilities and the responsibilities of the agencies receiving homeland security grant funds.

OEM will develop a charter, membership and other documents to better identify the roles and responsibilities of the Homeland Security Grant Committee.

## Other Observation

During our audit we noted the centralized oversight and monitoring role of agencies' compliance with grant administrative requirements did not appear to be functioning as documented in established county procedural directives. Several procedures and controls outlined in the county's Procedural Memorandum No. 06-02, Grant Administrative Procedures (PM 06-02) were not currently being performed by either the Department of Finance (DOF) or the Department of Management and Budget (DMB). These oversight duties include reviewing and verifying the agencies' grant reports and requests for funds, conducting quarterly reviews of status of grant expenditures and revenues received, and approving final grant financial reports prior to submission to the grantors. The Internal Audit Office has discussed the central oversight responsibilities with DOF and DMB management, and they have agreed to work together to update PM 06-02, if necessary, or resume central oversight responsibilities as currently documented.

While the frequency and degree of compliance exceptions noted during our audit may have been mitigated to some extent if the county's documented central oversight requirements had been performed, effective supervisory oversight within each agency would have helped to prevent or uncover each of the noted control breakdowns.