

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

Audit of Grant 2004-TK-TX-003 and
2005-GH-T5-0001 Awarded to the
National Domestic Preparedness
Coalition of Orlando, Florida



Office of Audits

OIG-06-34


May 2006



**Homeland
Security**

May 5, 2006

MEMORANDUM FOR: Tracy A. Henke
Assistant Secretary
Office of Grants and Training
Preparedness Directorate

FROM: David M. Zavada 
Assistant Inspector General for Audits

SUBJECT: *Audit of Grant 2004-TK-TX-0003 and 2005-GH-T5-0001
Awarded to the National Domestic Preparedness Coalition of
Orlando, Florida Audit Report No. OIG-06-34*

INTRODUCTION AND BACKGROUND

The Office of Inspector General audited State Domestic Preparedness Equipment Support Program grant funds awarded by the Office of State and Local Government Coordination and Preparedness (SLGCP)¹ to the National Domestic Preparedness Coalition Incorporated of Orlando, Florida (NDPCI) under grants 2004-TK-TX-0003 and 2005-GH-T5-0001. The audit objective was to determine whether NDPCI accounted for and expended grant funds in accordance with federal regulations and grant guidelines.

The September 11, 2001 terrorist attacks identified a need for a uniform comprehensive method of performing community vulnerability assessments that would identify critical facilities, infrastructure, and events and identify and prioritize the threats to each. In January 2003, employees with the Orange County Sheriff's Office organized NDPCI as a Florida non-profit corporation that is comprised of public and private partners. The Sheriff's Office played a major role in organizing the management of, and providing technical expertise to NDPCI whose current Executive Director is a former Sheriff Captain. NDPCI developed the Homeland Security Comprehensive Assessment Model (HLS-CAM) to perform comprehensive vulnerability assessments for communities and community leaders.

SLGCP's Office for Domestic Preparedness (ODP)² publishes a catalog of commercially available products to assist communities combat terrorism. ODP awarded NDPCI \$654,383 under grant number 2004-TK-TX-0003 to demonstrate and evaluate the HLS-CAM for inclusion in that catalog. ODP approved a grant performance period of March 2004 to August 2004.

¹ SLGCP is now the Office of Grants and Training under the Preparedness Directorate. ODP was disbanded and incorporated into the Office of Grants and Training.

The grant required NDPCI to identify one urban and one rural community and provide training to 24 officials in each community so that those officials could use the HLS-CAM to conduct vulnerability assessments in their respective communities. NDPCI's grant had three objectives as follows:

1. Demonstrate the HLS-CAM methodology and automation and exhibit its applicability to metropolitan, urban, suburban, and rural areas and present the defined demonstration communities with a completed HLS-CAM.
2. Complete the HLS-CAM demonstration within a 5-month period, not including holidays, beginning in the first quarter of 2004.
3. Publish the results on the HLS-CAM demonstration.

As of March 20, 2006, NDPCI completed the HLS-CAM demonstration in the urban area and nearly completed the rural assessment. The publication of results is currently in progress and NDPCI has requested a performance period extension to June 2006 to satisfy the three objectives of the grant award.

In June 2005, SLGCP awarded \$405,816 to NDPCI under grant number 2005-GH-T5-0001 to demonstrate and report on the HLS-CAM in one additional rural location. ODP approved a performance period of June 2005 through May 2006; however, NDPCI did not receive funding until August 2005, and the project did not begin in earnest until January 2006.

SCOPE AND METHODOLOGY

We performed the audit during September 2005 and March 2006, under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included tests of NDPCI's accounting records, a judgmental sample of expenditures, and other auditing procedures considered necessary under the circumstances.

Audit fieldwork was performed at NDPCI's Orlando, Florida offices, NDPCI's independent Certified Public Accountant's office in Orlando, Florida, and at SLGCP in Washington, D.C. To evaluate NDPCI's program cost and compliance with financial and program requirements, we applied regulations and directions contained in the Office of Justice Programs (OJP) Financial Guide, OMB Circular A-122, Cost Principals for Non-Profit Organizations, OMB Circular A-110, Uniform Administrative Procedures for Grants and Agreement with Institution of Higher Education, Hospital, and Other Non-Profit Organizations; Principals of Federal Appropriations Law;³ and the grant award documents.

Generally, the audit covered the period March 2004 to December 2005. However, we also reviewed checks written by NDPCI in the month of January 2006. Table 1 below, identifies the cash received, expenses reported, and unexpended balance under NDPCI's grants as of December 31, 2005.

³ GAO/OGC-92-13 Appropriation Law- Vol .II, Chapter 10, *Federal Assistance: Grants and Cooperative Agreements*.

sample period (October 9 through October 21, 2004) that represented only a small portion of the grant performance period. That narrative, however, did not contain hours worked per day or start and end times. Lastly, NDPCI told us that the five Sheriff Office employees spent an average of 4 hours a day on their off-time performing grant-related activities such as receiving and sending e-mails, preparing travel claims, and buying equipment and supplies. We reviewed copies of e-mails provided to us by NDPCI and noted that the employees prepared most of the e-mails during their regular work hours.

NDPCI stated that it paid the Sheriff's Office \$208,544 in salary costs as if it were a NDPCI contractor. However, NDPCI did not provide us any formal agreement or contract identifying the Sheriff Office as a contractor or provide us Sheriff Office invoices (or time record) supporting the off-time hours costs incurred by the employees. Despite NDPCI's representation that all Sheriff Office salary costs claimed related to grant activities, we continue to question the \$134,386 because NDPCI could not support the compensation paid and claimed for personal services with adequate documentation.

Finding B - Ineligible General, Administrative, and Accounting Cost

NDPCI claimed \$16,186 in general and administrative (G&A) costs and \$675 accounting service costs not related to grant 2004-TK-TX-0003 activities. Accounting records showed that for the period May 2004 to December 2005, NDPCI allocated \$58,060, or all of its G&A expense (e.g., facilities rental costs, supplies, and equipment) to the grant. Those records also showed that during the same period, NDPCI earned revenue from both grant and non-grant activities, and that at least \$16,186 of the G&A expense was not related to the grant. In addition, NDPCI separately claimed \$675 in unrelated accounting service costs. According to Part III of the OJP Financial Guide, for a cost to be allowed, it must be reasonable, allocable, and necessary for the project.

NDPCI agreed that the accounting service costs were unrelated to grant activities and stated that "...the G&A costs would not have been necessary without the grant." We concluded, however, that since the expenses were incurred for both grant and non-grant activities, NDPCI should allocate to the grant only those G&A costs that are reasonable and allocable to grant activities. Therefore, we continue to question \$16,861 (\$16,186 + \$675) as ineligible grant costs.

Finding C – Credits Received by NDPCI

NDPCI received \$87,770 in license fee reimbursements from a software developer but did not credit the grants as required. OMB Circular A-122, Attachment A, paragraph A.5.a. defines credits as receipts or reduction of expenditures which operate to offset or reduce expense items allocable to awards as direct or indirect costs. The Circular states, "To the extent that such credits accruing or received by the organization relate to allowable cost, they shall be credited to the Federal Government either as a cost reduction or cash refund, as appropriate."

The two SLGCP grants reimbursed NDPCI for license fees related to the use of HLS-CAM software in one urban and two rural communities. NDPCI paid the license fees to a software developer with whom it had a pre-existing agreement. In that agreement, NDPCI gave the developer an exclusive right to automate and sell licenses for the HLS-CAM. The agreement also provided that the developer reimburse 28 percent of any such license sales revenue to NDPCI. Table 2 identifies the

Table 1

Grant Number	Grant Award	Cash Received	Financial Status Report Expenditures	Unexpended Balance
2004-TK-TX-0003	\$654,383	\$654,383	\$647,528	\$ 0
2005-GH-T5-0001	\$405,816	\$103,000	\$115,663	\$302,816
Total	\$1,060,199	\$757,383	\$763,191	\$302,816

Our audit included a review of the appropriateness of the expenditures shown above.

RESULTS OF AUDIT

NDPCI did not account for grant funds in accordance with federal regulations and grant guidelines because its claim consisted of \$134,386 in unsupported labor costs, \$16,861 in overstated operating and administrative expenses, and \$1,500 in unallowable travel costs (total questioned costs equal \$152,747). In addition, NDPCI did not credit the grants for \$87,770 in licensing fee reimbursements it received from its software developer. Also, as noted in Finding E, NDPCI needs to improve its grant management procedures regarding: (1) the preparation and submission of Financial Status Reports (FSRs), (2) cash management, and (3) compliance with grant requirements for travel.

Finding A - Unsupported Salary and Fringe Benefits Cost

NDPCI claimed \$134,386 in unsupported salary costs under grant 2004-TK-TX-0003. Part III of the OJP Financial Guide requires NDPCI to support compensation paid for personal services with adequate documentation, and that such documentation at a minimum should include the time and services provided.

As of December 2005, NDPCI claimed \$208,544 in salary costs for five full-time Sheriff Office employees that included hourly wage rates and fringe benefits for hours worked during the employees' regular work schedules and during off-times. Accounting records showed that as of December 2004, NDPCI advanced the Sheriff's Office most of the grant funds provided for salaries although the performance period ran through September 14, 2005. To support grant costs incurred, NDPCI provided us copies of two checks issued to the Sheriff's Office and employee time sheets that did not differentiate between hours worked for the Sheriff's Office or hours related to the grant. The information provided to us by NDPCI was insufficient to support the costs claimed.

In an attempt to substantiate NDPCI's claim for salary costs related to grant activities, we reviewed associated travel and grant-related documents. We determined that of the salary costs claimed, \$57,175 could be supported with the time the employees were on grant-related travel. We also determined that \$17,301 of the claimed amount was associated to time the employees spent in appropriate grant administrative tasks, such as receiving and sending e-mails and preparing travel claims. However, NDPCI accounting records did not include any documentation supporting \$134,386 paid to the Sheriff's Office for employees' off-time hours.

While NDPCI subsequently prepared a worksheet identifying the employees' names, and the dates and hours worked, it did not have documentation to support the source of the data entered in the worksheet. Further, the worksheet erroneously included costs for two employees during a period when the employees were on vacation. As additional support for the off-time hours claimed, NDPCI also provided us a written narrative describing the tasks performed by the employees during a

license fees paid by NDPCI under the grants, the credits under the grant funded activities received by NDPCI, and the net costs of the fees claimable under the two grants.

Table 2

Grant Number	Cost of License Fee	Credits Received by NDPCI	Net Cost of License Fee
2004-TK-TX-0003	\$210,464	\$58,930	\$151,534
2005-GH-T5-0001	103,000	28,840	74,160
Total	<u>\$313,464</u>	<u>\$87,770</u>	<u>\$225,694</u>

NDPCI officials did not agree that the reimbursement received from the software developer should be treated as program income (as we originally concluded) or as credits to the grant funded activities. Rather, these officials explained that the revenue was royalty income and that OMB Circular A-122 allowed NDPCI to retain the funds. OMB Circular A-110, Subpart C, Section __.24(h) allows a grantee to retain program income earned from licensing fees or royalties for copyrighted materials, patents, trademarks, and inventions produced under the award. In this case, HLS-CAM was not produced under either of the grants reviewed. Moreover, NDPCI was reimbursed under the grants for the licensing fees it paid, 28% of which was returned to NDPCI. Therefore, we are questioning the \$87,770 in reimbursements not credited to the awards.

Finding D – Unallowable Travel Costs

NDPCI claimed \$1,500 in unallowable costs related to travel expenses incurred by two employees while on vacation. According to Part III of the OJP Financial Guide, for an item of cost to be allowed it must be reasonable, allocable, and necessary for the project. Accounting records supporting the costs claimed indicated that two NDPCI employees incurred travel expense for grant-related activities in October 2005. However, our review of documents supporting grant salary costs for grant 2004-TK-TX-0003 showed that the two employees were on vacation at the time the expenses were incurred. NDPCI officials agreed that the travel costs related to a period when the employees were on vacation and noted the costs were erroneously charged to the grant.

Finding E – Grant Management

Generally, NDPCI’s accounting system and financial records did not provide proper accountability for grant funds. Our review of NDPCI accounting records identified inconsistencies on how grant transactions were recorded and reported to SLGCP. As a condition of receiving federal funding, NDPCI is required to follow the OJP Financial Guide and OMB Circular A-122 to fulfill its fiduciary responsibility to safeguard grant funds and ensure that funds are used for the purpose for which they were awarded.

Specifically, NDPCI did not: 1) properly prepare Financial Status Reports, 2) follow federal cash management practices, and 3) ensure compliance with grant requirements for travel.

1. Financial Status Reports were not Completed Properly

NDPCI submitted Financial Status Reports (FSRs) to SLGCP that were incorrectly prepared and did not reflect actual financial operations. According to Part III of the OJP Financial Guide, NDPCI was required to submit quarterly FSRs that contained actual expenditures and program outlays and revenue in accordance with NDPCI’s accounting system.

During our two field visits to NDPCI, we requested that officials provide documented evidence to support the expenditures reported on the seven FSRs submitted for grant 2004-TK-TX-0003 (see Table 3 below). In both instances, NDPCI provided the OIG conflicting information. During our September 2005 visit, NDPCI provided accounting information showing total expenditures of \$607,291. During our March 2006 visit, NDPCI's accounting information showed total expenditures of \$587,266. During the second visit, NDPCI further reduced the expenditures recorded in their accounting system to \$545,628. Since the FSR submitted to SLGCP for quarter ending December 2005 showed expenditures of \$647,528, NDPCI has overstated the grant costs by \$101,900 (\$647,528 - \$545,628). NDPCI was unaware of this condition and deferred further comment.

We do not question the \$101,900 overstatement at this time because NDPCI has requested a time extension from SLGCP to June 2006 to complete remaining work under the scope of the grant (2004-TK-TX-0003). The extension, if granted, will allow NDPCI time to correct errors in the FSRs.

2. Cash Management Practices not Followed

Under grant 2004-TK-TX-0003, NDPCI drew down federal funds earlier than required. Part III of the OJP Financial Guide, required NDPCI to time its cash draw downs to ensure that federal cash on hand was the minimum needed for disbursements to be made immediately, or within 10 days.

As noted in item 1 above, NDPCI accounting records for the grant identified expenditures of \$545,628 and the FSR submitted for quarter ending December 31, 2005 showed expenditures of \$647,528. However, cash draw downs for the same period were \$654,383 or \$108,755 in excess of allowable amounts (\$654,383 less \$545,628). Table 3 below, shows the inconsistencies between the expenditures NDPCI reported to SLGCP on the FSRs and cash draw downs for the same period, and the cumulative excess cash.

Table 3

FSR Reporting Period	Cash Drawn	FSR Expenditures	Cumulative Excess Cash
06-30-2004	\$321,093	\$107,573	\$213,520
09-30-2004	74,041	253,031	34,530
12-31-2004	216,528	212,066	38,992
03-31-2005	42,721	21,727	59,986
06-30-2005	0	9,993	49,993
09-30-2005	0	4,622	45,371
12-31-2005	0	38,516	6,855

Our review of NDPCI's accounting records showed instances where NDPCI unnecessarily prepaid expenses. For example, as of December 23, 2004, NDPCI prepaid \$208,544 to the Sheriff's Office for the salary costs of five employees but a summary worksheet provided to us by NDPCI showed that the labor services continued through October 2005. In another instance, in November 2004, NDPCI drew down \$83,028 in grant funds budgeted for future payments to subcontractors and \$53,000 for facilities rental. Despite these premature draw downs, NDPCI's accounting records showed that as of December 2005, it had not spent about \$32,000 in funds for subcontractors and

\$5,000 in funds for facility rental. NDPCI was unaware of this condition and deferred further comment.

3. Federal Travel Requirements not Followed

NDPCI did not always follow federal requirements when reimbursing for grant-related travel costs. According to Part III of the OJP Financial Guide, travel costs must be in accordance with federal regulations or an organizationally approved travel policy that establishes reasonable travel rates.

NDPCI paid grant-related travel expenses that were more than those allowed under federal travel guidelines and regulations. For example, the NDPCI generally paid travelers full day meal per diem for 1-day trips to nearby locations and the first and last day of travel for overnight trips where as these expenses are not generally reimbursed to federal government travelers. In other instances, NDPCI reimbursed travelers lodging per diem that exceeded federal rates without sufficient justification. NDPCI stated that its policy was to follow federal travel regulations and agreed to ensure that the noted deficiencies did not re-occur.

RECOMMENDATIONS

We recommend that the Office of Grants and Training:

1. Disallow \$152,747 in unsupported salary, fringe benefits and ineligible G&A costs claimed by NDPCI;
2. Disallow \$87,770 of NDPCI's claim for licensing fees because it received credits in this amount from the software licensor;
3. Require NDPCI to implement grant management procedures to ensure that Financial Status Reports are properly completed;
4. Direct NDPCI to draw down federal cash only as needed for actual incurred expenditures; and
5. Direct NDPCI to strictly follow federal regulations and guidelines for future travel, and make a retroactive adjustment to the travel costs that have already been reimbursed.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The audit results were discussed with NDPCI officials on March 10, 2006 and again on April 7, 2006. NDPCI did not agree with most of our findings and questioned costs. We have reflected NDPCI's views on our findings and conclusions in Results of Audit section above.

Please provide written comments on the report and specific responses to each recommendation within 30 days. Should you have any questions concerning this report, please call me, or your staff may contact Belinda J. Finn, Deputy Assistant Inspector General for Audits, at (202) 254-0037.

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