

DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General

**The Commonwealth of Virginia's
Management of State Homeland
Security Grants Awarded During
Fiscal Years 2002 and 2003**



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Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the Homeland Security Act of 2002 (*Public Law 107-296*) by amendment to the Inspector General Act of 1978. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

This report presents the results of the audit of the Commonwealth of Virginia's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003. We contracted with the independent public accounting firm Cotton & Company to perform the audit. Cotton & Company is responsible for the attached auditor's report dated January 6, 2006, and the conclusions expressed in the report.

The recommendations herein have been developed to the best knowledge available to our office, and have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in cursive script that reads "Richard L. Skinner".

Richard L. Skinner
Inspector General



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January 6, 2006

Ms. Belinda Finn
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Dear Ms. Finn:

Cotton & Company performed an audit of the Commonwealth of Virginia's (Commonwealth) management of the Department of Homeland Security, Office for Domestic Preparedness, State Homeland Security Grants for Fiscal Years (FY) 2002 and 2003. The audit was performed in accordance with our Task Order dated August 27, 2004.

This report presents the results of the audit and includes recommendations to help improve the Commonwealth's management of the FY 2002, FY 2003 Part I, and FY 2003 Part II grant programs. These grant programs are commonly referred to as first responder grant programs.

Our audit was conducted in accordance with applicable *Government Auditing Standards*. The audit was a performance audit as defined by Chapter 2 of the *Standards* and it included a review and report of program activities with a compliance element. Although the audit report identifies questioned costs claimed by the Commonwealth, we did not perform a financial audit, the purpose of which would be to render an opinion on the agency's financial statements or the funds claimed in the Financial Status Reports submitted to the Department of Homeland Security.

We appreciate the opportunity to have conducted this audit. If you have any questions, or if we can be of any further assistance, please call me at (703) 836-6701.

Very truly yours,

COTTON & COMPANY LLP

Sam Hadley, CPA, CGFM
Partner

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Acronyms

AEL	Authorized Equipment List
CBRNE	Chemical, Biological, Radiological, Nuclear, or Explosive
CFR	Code of Federal Regulations
DHS	Department of Homeland Security
FY	Fiscal Year
G&T	Office of Grants and Training
ISIP	Initial Strategy Implementation Plan
OCP	Office of Commonwealth Preparedness
ODP	Office of Domestic Preparedness
OIG	Office of Inspector General
OJP	Office of Justice Programs
SAA	State Administrative Agency
SDPP	State Domestic Preparedness Program
SDPS	State Domestic Preparedness Strategy
SEL	Standardized Equipment List
SHSGP	State Homeland Security Grant Program
SLGCP	State and Local Government Coordination and Preparedness
VDEM	Virginia Department of Emergency Management
VPSP	Virginia Preparedness and Security Panel
WMD	Weapons of Mass Destruction

I. EXECUTIVE SUMMARY

Cotton & Company completed an audit of the Commonwealth of Virginia's (Commonwealth) management of the Department of Homeland Security (DHS), Office for Domestic Preparedness (ODP) State Homeland Security Grants to determine whether the State (1) effectively and efficiently implemented the first responder grant programs, (2) achieved the goals of the programs, and (3) spent funds in accordance with grant requirements. The goal of the audit was to identify problems and solutions that would help the Commonwealth prepare for and respond to terrorist attacks. Appendix A discusses the details of our objectives, scope, and methodology of this audit.

ODP awarded about \$53.5 million to the Commonwealth from the Fiscal Year (FY) 2002 State Domestic Preparedness Program, and from Parts I and II of the FY 2003 State Homeland Security Grant Program. The Virginia Department of Emergency Management (VDEM) managed the first responder grant programs for the Commonwealth.

Our audit disclosed several areas where the Commonwealth could improve its grant performance. Specifically:

1. The Commonwealth did not adequately document its plan and implementation of the grant programs.
2. The Commonwealth did not allocate ODP grant funds based on its risk assessment or stated needs and goals.
3. The Commonwealth could not effectively monitor local jurisdictions.
4. The Commonwealth did not have adequate internal controls over monitoring cash advances.
5. The Commonwealth did not adhere to grant requirements regarding equipment purchases.

As a result of the issues noted above, we made eight recommendations to ODP. The DHS Office of Inspector General (OIG) requested comments on the draft report from ODP on April 14, 2006. On June 5, 2006, the Office of Grants and Training (G&T, formerly ODP) provided comments to the draft report and the recommendations contained therein. G&T identified planned or completed actions to address the recommendations made.

While this audit included the amount of claimed costs that were within the scope of our review, we did not perform a financial audit of claimed costs. Accordingly, we do not express an opinion on the Commonwealth's financial statements, or the costs claimed in the Financial Status Reports submitted to ODP. During our review of sampled claimed costs, we did identify unallowable program costs that are shown in Appendix F, Schedule of Questioned Costs. We did not expand our testing to identify all questioned costs claimed; only those identified during our review are listed in Appendix F. The Commonwealth may identify additional questioned costs as closeout packages (identifying actual purchases) are submitted by the local jurisdictions and reviewed by the Commonwealth. While this report addresses the Commonwealth's management of the three grant programs, we also identified potential opportunities for improved oversight by the ODP staff. The OIG will consider reporting these opportunities under separate cover when the results of other State audits are available.

II. BACKGROUND

ODP was transferred from the Department of Justice to DHS in March 2003. In March 2004, the Secretary of Homeland Security consolidated ODP with the Office of State and Local Government Coordination to form the

Office of State and Local Government Coordination and Preparedness (SLGCP) and in January 2006, SLGCP was renamed the Office of Grants and Training.¹ ODP is responsible for enhancing the capabilities of state and local jurisdictions to plan for, prepare for, prevent, respond to, and mitigate the consequences of incidents of domestic terrorism. During FY 2002 and FY 2003, ODP provided grant funds to aid public safety personnel (first responders) to provide specialized training/exercises and acquire equipment necessary to safely respond to and manage terrorist incidents involving weapons of mass destruction (WMD). First responders include firefighters, police, paramedics, and others. These grants are commonly referred to as first responder grants.

FY 2002 State Domestic Preparedness Program (SDPP): This program provided financial assistance to each of the nation's states, U.S. Territories, the District of Columbia, and the Commonwealth of Puerto Rico. ODP provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to respond to incidents of terrorism involving the use of WMD; (2) the protection of critical infrastructure; (3) costs related to the design, development, conduct, and evaluation of WMD exercises; and, (4) administrative costs associated with the implementation of the statewide domestic preparedness strategies.

FY 2003 State Homeland Security Grant Program - Part I (SHSGP-I): This program provided financial assistance for (1) the purchase of specialized equipment to enhance the capability of state and local agencies to prevent and respond to incidents of terrorism involving the use of chemical, biological, radiological, nuclear, or explosive (CBRNE) weapons; (2) the protection of critical infrastructure and prevention of terrorist incidents; (3) costs related to the design, development, conduct, and evaluation for CBRNE exercises; (4) costs related to the design, development, and conduct of state CBRNE training programs; and, (5) costs associated with updating and implementing each state's homeland security strategy.

FY 2003 State Homeland Security Grant Program - Part II (SHSGP-II): This program supplemented funding available through FY 2003 for the SHSGP to enhance first responder preparedness. SHSGP II funds were also available to mitigate the costs of enhanced security at critical infrastructure facilities during the period of hostilities with Iraq and future periods of heightened threat.

The Commonwealth received about \$53.5 million from these three grant programs. The funded activities and amounts are shown in Table 1:

Table 1

Funded Activities	Grant Programs			Totals
	FY 2002 SDPP	FY 2003 SHSGP-I	FY 2003 SHSGP-II	
Equipment Acquisition Funds	\$6,572,450	\$8,924,000	N/A	\$15,496,450
Exercises Funds	313,000	2,231,000	N/A	2,544,000
Training Funds	N/A	669,000	N/A	669,000
Planning and Administration Funds	176,550	892,000	N/A	1,068,550
First Responder Preparedness Funds	N/A	N/A	\$29,192,000	29,192,000
Critical Infrastructure Protection Funds	N/A	N/A	4,491,000	4,491,000
Totals	<u>\$7,062,000</u>	<u>\$12,716,000</u>	<u>\$33,683,000</u>	<u>\$53,461,000</u>

The Commonwealth has two organizations that assist in administering the homeland security grants. The Office of Commonwealth Preparedness is primarily responsible for planning while the Virginia

¹ For the purposes of this report, we will use 'ODP' to discuss the first responder grant programs.

Department of Emergency Management does the day-to-day grant administration and subgrantee oversight.

Office of Commonwealth Preparedness (OCP)

The mission of OCP is to work with and through others including federal, state, and local officials as well as the private sector, to develop a seamless, coordinated security and preparedness strategy. The Governor of the Commonwealth created this cabinet level office in order to promote security measures at the highest level. The Office of the Assistant to the Governor for OCP matters is supported by a deputy, administrator and assistant and is charged primarily with ensuring that state resources are directed toward safeguarding Virginia and its citizens. Other areas of responsibility include:

- Working with federal officials to obtain additional federal resources and to coordinate policy development and information exchange.
- Coordinating working relationships between state agencies and the Governor's cabinet.
- Serving as the point of contact with the Department of Homeland Security.
- Serving as the Governor's representative on regional efforts.
- Serving as a direct liaison between the Governor and local governments and first responders on issues of emergency preparedness.
- Educating the public on homeland security and overall preparedness issues.
- Chairing the Secure Commonwealth Panel which makes recommendations on preparedness (legislation, regulation, policy, budget, outreach, organization) to the Governor.
- Reviewing/developing all disaster, emergency management, and terrorism management plans for the state and its agencies.

Virginia Department of Emergency Management

VDEM, as grantee, is responsible for the Commonwealth's administration of the first responder grants. VDEM is the coordinating agency for the Commonwealth on all matters relating to the mitigation of, preparation for, response to, and recovery from all emergencies and disasters resulting from terrorist incidents. As such, ODP designates VDEM as the State Administrative Agency (SAA). Currently, VDEM's homeland security grants management staff is comprised of three members who are responsible for managing and administering the ODP grants. Accordingly, the division managed the FY 2002 and FY 2003 ODP grants, as well as other first responder grants.

III. AUDIT RESULTS

1. The Commonwealth did not adequately document its plan and implementation of the grant programs.

The Commonwealth's *1999 Statewide Domestic Preparedness Strategy (SDPS)*, published in February 2002, did not appear to adequately assess threats, vulnerabilities, or capabilities, or prioritize homeland

security needs within the Commonwealth. In addition, the SDPS did not define or state the Commonwealth’s goals and objectives, or define the methods the Commonwealth would use to evaluate performance.

ODP required SAAs to administer annual grant awards in accordance with its *Fiscal Year 2002 State Domestic Preparedness Program* grant instructions and to allocate grant funds in accordance with the states’ domestic preparedness strategies. ODP also defined the various types of equipment, exercise, and administrative funds that were authorized to the states. In addition, ODP issued the *Fiscal Year 1999 State Domestic Preparedness Equipment Program* (subtitled *Guidance for the Development of a Three-Year Statewide Domestic Preparedness Strategy*), effective May 15, 2000. This guide identified nine tasks that each SAA should undertake to develop a strategy. We compared these tasks to the ones completed in the Commonwealth’s SDPS and found several that were not included in the Commonwealth’s strategy. Table 2 shows our results.

Table 2

Task No.	Task	Included in Commonwealth’s Strategy?
1	Address Jurisdiction Identification and Coordination Issues	No
2	Conduct Risk Assessment	Yes*
3	Conduct Capabilities and Needs Assessments	No**
4	Complete Jurisdiction Prioritization Matrix	Yes
5	Prepare Three-year Projection Forms	Yes
6	Complete Additional Training Information Form	Yes
7	Complete Emergency Response Team Surveys	Yes
8	Complete Forms for Recommendations for State and Local Response to WMD Terrorism Incidents	No
9	Three-year Statewide Domestic Preparedness Strategy	Yes

* The risk assessment was completed, but not directly coordinated among all stakeholders.

** The Commonwealth assessed its *needs*, but because it did not conduct an inventory of equipment on hand, it could not assess *capabilities*.

This guidance also recommended that SAAs form a multi-disciplined team at three levels of government that would be responsible for assessing threats, vulnerabilities, capabilities, and needs. However, no disciplines from the federal level were included in the plan. Finally, ODP issued additional program guidance, *Fiscal Year 1999 State Domestic Preparedness Equipment Program Assessment and Strategy Development Tool Kit* (tool kit), which also outlined a comprehensive approach for developing a strategy.

Although some guidance was available, the Commonwealth did not develop an effective strategy. For example, the Commonwealth did not create a planning team with the seven types of professional disciplines at levels of government as ODP envisioned. Additionally, the development of the strategy, which was the byproduct of the risk assessment (Task No. 2) and the capabilities and needs assessment (Task No. 3) processes, was not a coordinated, interrelated effort among state agencies and critical stakeholders such as local jurisdictions within the Commonwealth.

Under ODP’s nine-step approach, the data collected from the threat assessment and needs assessment would become the basis for developing and defining the Commonwealth’s strategy. However, OCP informed us that it authored the narrative section of the 1999 Strategy late in calendar year 2001 without

coordinating its efforts with, or requesting information updates from, either VDEM or the State Police. With no coordination between the threat assessment and needs assessment efforts, the Commonwealth was further impaired because information was outdated by the time the strategy was developed 12-15 months later. Conducting separate but interrelated processes over a span of 12-15 months without coordinating them at any level was an ineffective method for developing a cohesive strategy for the Commonwealth.

In recognition of the Commonwealth's desire to update its strategies, on September 25, 2001, under Executive Order 85 (01), the Governor created the Virginia Preparedness and Security Panel (VPSP) and mandated that it "undertake...a swift analysis of security threats within the state in order to identify risks to Virginians..." Accordingly, the Governor specified that the responsibilities of the VPSP would include: conducting a threat analysis in the Commonwealth; assessing risks, abilities and capabilities; and, addressing funding priorities to resolve gaps and threats within the Commonwealth. The Governor set November 30, 2001, as a deadline for the VPSP to submit a report.

Once the VPSP carried-out and fulfilled its responsibilities regarding assessing threats and needs, it had the ability to develop the Commonwealth's Strategy. However, while the VPSP identified numerous goals and made over 35 recommendations in its report to the Governor, we found no empirical evidence, documentation, or statements made throughout the report indicating that the VPSP assessed threats, capabilities, risks, and needs, or identified any resultant and necessary changes to the Commonwealth's homeland security funding priorities.

Additionally, ODP noted in its analysis of the strategy in February 2004 that the Commonwealth's strategy did not establish adequate performance measures, giving the Commonwealth a mechanism to monitor the progress of subgrantees needed to evaluate its overall program goals and objectives. ODP reported on this weakness in March 2005, stating that the Commonwealth's 1999 strategy did not contain an effective program evaluation process. Accordingly, without adequate program evaluation or processes to monitor program performance, funds may not be allocated to areas of highest need.

The Commonwealth stated that it started analyzing performance measures in 2002; however, the measures and results were not documented. Recognizing a void in performance measures, the Commonwealth issued a 34-page document titled *Performance Measures for Commonwealth Preparedness*. This guidance, issued May 10, 2005, recommends periodic reviews and self-assessments, links past performance to future funding, establishes minimum performance thresholds, and ties risks to strategies. This type of quantifiable data is necessary if the Commonwealth is to achieve an effective strategy in the future.

Overall, the Commonwealth's *1999 Statewide Domestic Preparedness Strategy* led to several inter-related weaknesses. First, the Commonwealth could not determine the gap between its vulnerabilities and capabilities, which is the initial step in identifying needs. Secondly, it was also unable to identify first responder grant monies that could be used to satisfy the highest priority needs and requirements of the state. Consequently, the Commonwealth was unable to comply with ODP grant terms and conditions, which required the Commonwealth to use the strategy as a roadmap for allocating funds. Lastly, without a reliable and data-valid baseline document, the Commonwealth could not update, improve, or change its strategy.

The development of a comprehensive strategy continued to be problematic for the Commonwealth. With the 2003 Strategy, the Commonwealth included all 134 jurisdictions in the process, but did not validate or corroborate critical information and data that the jurisdictions submitted as part of the strategy. The Commonwealth stated that it had insufficient time to validate data. In addition, the Commonwealth stated

that they did not have enough time to plan, coordinate, and conduct the 2003 Strategy. However, ODP indicated in its ODP Information Bulletin No. 62 on *October 4, 2002* (our emphasis), that a 2003 Strategy would be needed. Additionally, as with the 1999 strategy, the ODP Preparedness Officer noted that the 2003 strategy did not have a formal evaluation component.

The Commonwealth has recognized that the official strategies that were submitted to ODP were deficient at various levels and is subsequently working toward completing (by the beginning of FY 2006) a strategy that accurately portrays the state's vulnerabilities and needs. The Commonwealth has indicated that they will provide a strategy with a much greater emphasis on risks, and will allocate funds accordingly. Since OCP provided us only with a Table of Contents of the 2006 Strategy, we were unable to review its contents.

Recommendation 1: We recommend that ODP require the Commonwealth to implement procedures that will assure that its 2006 Strategy is a complete, accurate, and a coordinated document that assesses threats, vulnerabilities, and risks.²

Management's Response: G&T does not believe that there was a requirement that mandated grantees to incorporate threat, vulnerability, and risk data in their updated strategies. However, they wholly supported a collaborative effort between the Commonwealth and its sub-grantees to conduct such efforts. Accordingly, the Commonwealth submitted a completely revised Homeland Security Strategy prior to applying for FY 2006 grant funding, which was approved (after the Commonwealth made suggested corrections) on May 3, 2006, by the DHS Strategy Review Board.

Auditor's Additional Comments: The updated Strategy was not included in the response to this report, nor did G&T specifically state that the revised Strategy was a complete, accurate and coordinated document that assesses threats, vulnerabilities and risks. However, we believe that G&T has adequately resolved this finding and in its memo transmitting our final report to G&T, the OIG has asked G&T to provide the Commonwealth's revised homeland security strategy or other documentation showing that the collaborative efforts between the Commonwealth and its subgrantees resulted in a FY 2006 strategy that was complete, accurate, and coordinated to assess threats, vulnerabilities, and risks.

2. The Commonwealth did not allocate ODP grant funds based on its risk assessment or stated needs and goals.

The Commonwealth allocated the majority of grant funds on a per capita basis. As discussed in Finding No. 1, the Commonwealth's strategies did not adequately represent the state's needs, nor did the Commonwealth use any risk-based approach to allocate funding. Moreover, the Commonwealth did not consider that nearly every jurisdiction in the state received some form of additional grant funding before and during the timeframe that the SDPP and SHSGP grant monies were available. While the bulk of the additional funding was aimed at the densely populated jurisdictions within the Commonwealth, and primarily within the National Capital Region, over \$200 million in other grant funds was available for first responder needs and requirements, as shown in Table 3 below:

² ODP issued additional guidance in June 2005 noting that FY 2006 funds will not be disbursed until states submit an updated strategy. Needs identified in the strategy must be risk-based, and the strategy must include goals and objectives that address prevention, response and recovery.

Table 3

Type of Funding	Amount*
2002 Direct Pass Thru	\$ 48,600,000
Assistance to Firefighters	33,100,000
Law Enforcement Terrorism Prevention	9,300,000
Citizens Corp	1,200,000
Emergency Management Performance Grant	10,500,000
Metropolitan Medical Response System	6,000,000
Port Security Grants	1,300,000
Urban Area Security Initiative	96,300,000
Total	<u>\$206,300,000</u>

* These amounts do not include over \$30 million of Edward Byrne Memorial Grant program funds awarded to the Commonwealth.

These other grant funds have some of the same objectives as the SDPP and SHSGP grant funds, allowing for the same expenditures such as equipment, training, exercises, planning, and technical assistance. Accordingly, had the Commonwealth had detailed knowledge and performed analyses of these other funding sources, they might have determined that the jurisdictions with access to additional revenue streams may have satisfied their core competency needs with non ‘first responder grant’ funds. Given that type of scenario, the Commonwealth could have redirected SDPP and SHSGP grant funds to jurisdictions whose needs and requirements remained unfulfilled. ODP’s State Homeland Security Assessment and Strategy Program stated in 2003, “...ODP funding is only one source for making the strategy a reality for the state. Other federal, state, local, and private funding can be used to reduce the identified state and local needs and requirements.”

ODP guidance regarding its grants, as well as other government guidance, was clear regarding the need for grant funds to follow the priorities identified in a state’s strategy (based on needs). For example, the FY 2003 SHSGP-I grant instructions stated that funds were to be provided “in accordance with the state’s approved homeland security strategy (or the State Homeland Security Strategy)...” In addition, the Government Accountability Office, in its audit of the first responder grant program,³ stated that strategies would target grant funds through FY 2003.

While the strategies should have been used to develop the spending plan for grant funds, the Commonwealth chose a different method to allocate funds among the jurisdictions, which was generally based on population levels. The Commonwealth stated that a base amount of funding plus additional funding allotted on a per capita basis allowed every jurisdiction in the Commonwealth to accomplish a basic level of competency. In addition, the Commonwealth noted that ODP’s distribution of grant funds nationwide was also based on a per capita formula, and subsequently reasoned that their chosen methodology would be acceptable. However, by allocating funds based on population, the Commonwealth increased the risk that jurisdictions with higher needs were not funded in that relationship.

In addition, the Commonwealth’s rationale regarding basic levels of core competencies was not followed by several jurisdictions that spent funds on items that were not fundamental to their mission. Although these jurisdictions may have met those needs with other funds, they used ODP grant monies to purchase

³ Management of First Responder Grant Programs Has Improved, but Challenges Remain, Report No. GAO-05-121, February 2005, Page 13.

items that are not core competency items. That is, these items did not appear to be the type of purchases that would provide each jurisdiction with a basic level of competence. Moreover, we noted that at least four of the jurisdictions that we visited received non-SDPP/SHSGP grant funds; these funds were used to obtain core competency items exclusive of the SDPP/SHSGP awards. Local jurisdictions purchased things like ice rescue equipment, TVs and accessories, backup cell phones, and Blackberry devices.

For more recent grants, the Commonwealth stated that it has distributed less of the grant award on a per capita basis. The Commonwealth allocated the FY 2004 State Homeland Security Grant, which totaled \$33.4 million, using the same per capita formula. Approximately half of the \$38 million award under the FY 2005 grant was distributed among state agencies, law enforcement agencies, and other homeland security components within the Commonwealth. The remaining \$19 million was available for the 134 jurisdictions. OCP allocated \$8.4 million on a base plus per capita formula to the jurisdictions, and about \$11 million based on competitive elements such as risk, critical infrastructure, and needs. Additionally, the Commonwealth informed us that the allocation methodology for FY 2006 grant funds will be almost exclusively risk-oriented. However, a report by OCP's Funding Task Force Panel, issued on May 10, 2005, states that localities need long-term strategies that will be compatible with state strategies; however, the panel continues to promote funding allocations to the locals using a base-plus-population formula. As such, it itemizes a funding formula of 35 percent population, 35 percent risk, and 30 percent competitive. Conversely, the Commonwealth's Performance Measures for Commonwealth Preparedness, also issued on May 10, 2005, recommends that the Commonwealth abandon population formulae and adopt allocation methodologies based on risks:

“Members of the task force recommend that the Commonwealth develop its security and preparedness plan and allocate resources on the basis of an assessment of ‘risks’ and not on the basis of a pre-ordained or automatic formula based on population.”

Recommendation 2: We recommend that ODP require that the Commonwealth completes its statewide strategy and needs assessment, and determines the best method to link the funds distribution to its threats, associated risks, and needs assessment. The strategy should also include any processes associated with this allocation methodology.

Management's Response: G&T required grantees to link funding to the goals and objectives identified in their State Homeland Security Strategy, and for FY 2006, the Commonwealth provided documentation to support the link between funding and its goals and objectives. G&T believes that the Commonwealth met the requirement to assess needs and subsequent funding allocations in its FY 2006 grant application process. G&T noted that the Commonwealth received technical assistance from them, as well as submitting its Enhancement Plans and Investment Justifications for peer review.

Auditor's Additional Comments: We believe that G&T has adequately resolved this finding and, in its memo transmitting our final report to G&T, the OIG requested that G&T provide the Commonwealth's revised homeland security strategy or other documentation that will demonstrate the linkage between the funding and the Commonwealth's goals and objectives.

3. The Commonwealth could not effectively monitor local jurisdictions.

The Commonwealth could not effectively monitor local jurisdictions to ensure that they maintained sufficient financial records, complied with grant and Commonwealth requirements, and met performance deadlines. The Commonwealth decentralized the majority of the grant requirements, duplicating most grant responsibilities at the local jurisdiction level. This ensured that the local jurisdictions were responsible for all grant requirements. However, the grant management functions at the local levels were

not effective primarily because the Commonwealth did not have enough staff available at the local level or within the responsible Commonwealth offices to ensure that the jurisdictions efficiently performed these functions.

While the Commonwealth spent or encumbered a significant portion of the administrative funds available, the funding was not used to enhance subrecipient monitoring or training, or to add VDEM staff for the significant amount of increased oversight and administration these grants required. The Commonwealth could have utilized grant funds from the three ODP grants included in the scope of this review to assist with the additional administrative workload that the grants created. All three grants included provisions that would have allowed the Commonwealth to add some level of staffing assistance to administer the grants. For example, the Office of Justice Program's (OJP's) *Fiscal Year 2002 State Domestic Preparedness Program*, Section II, C, 3, Administrative Funds, states that funds for this program may also be used to pay for activities associated with implementation of the goals and objectives identified in the state's domestic preparedness strategy, such as "...implementing and managing programs for equipment acquisition..." In similar manner, the FY 2003 SHSGP-I grant allowed funds to be used to complete the FY 2003 assessment and the strategy update process, as well allowing funding to be used for implementing and managing programs for equipment acquisition. Moreover, specific provisions in the FY 2003 SHSGP-II grant would have allowed grant funds to be used for additional full or part-time staffing costs associated with the implementation and administration of the state homeland security strategic plan.

In addition, ODP allotted funds⁴ to be used for administrative support purposes, requiring states to "... be sufficiently staffed to administer the full range of support programs offered by ODP and other federal agencies". While the Commonwealth used some of the administrative funds available with the FY 2002 SDPP and FY 2003 SGSGP-I grants to supplement VDEM salaries, they could have used over \$875,000 from the 2003 SHSGP-II grant for the same purposes, but chose not to use those funds. The Commonwealth has not improved local jurisdiction monitoring for current grants and has not increased its staffing level or used administrative funds to help monitor local jurisdictions. The Commonwealth's grants management staff consisted of only three individuals throughout the collective time period of the three grants included in the scope of this review.

Administrative duties and responsibilities associated with the ODP grants were unmanageable and overwhelmed the limited staff at both the local jurisdiction and state levels. As noted above, the Commonwealth did not use available administrative funds for monitoring or oversight of subrecipients in meeting significant grant responsibilities. Additionally, the Commonwealth did not provide administrative support or funds for administrative support to the local jurisdictions to assist in the application, procurement, and closeout processes. Finally, the Commonwealth did not ensure that local jurisdictions had staff in place to effectively and efficiently apply for grants, procure equipment, and closeout grants. Because of insufficient resources, local jurisdictions could not comply with grant requirements in a timely manner, nor be responsive to those requirements. Examples of situations at the local jurisdictions that cause difficulty and delays in the Commonwealth's chosen decentralized subgrant process include:

- **Local jurisdictions did not have defined needs.** While local jurisdictions were responsible for deciding how best to use allocated funds, the Commonwealth did not adequately prepare the

⁴ For the FY 2002 SDPP grant, \$176,550 was available to the Commonwealth to enhance their administrative capabilities. While the FY 2003 SHSGP-I and II grants did not specifically identify the amount of funds available for use, grantees were instructed to "assess current staffing levels and determine whether a portion (of grant funds) should be used to enhance administrative capabilities within the SAA."

jurisdictions for these responsibilities. The Commonwealth did not provide a priority of what to buy or establish priority goals, nor require that jurisdictions prepare or maintain an accurate contemporaneous account of their needs. Local jurisdictions that had needs assessments (that were updated and modified as items were acquired or as needs changed) were able to quickly identify the best use of the grant funds. For example, Bedford County was consistently prepared each time the Commonwealth provided grant funding. For the SDPP grant in FY 2002, Bedford County completed its purchases 5 months after receiving funds. For the FY 2003 SHSGP-I grant, the purchase period in Bedford County decreased to 3½ months, while for the FY 2003 SHSGP-II grant, Bedford County made purchases after grant notification, but prior to receiving funds from the Commonwealth. Other jurisdictions spent considerable time identifying the best use of grant funds before purchasing was initiated.

- **Grant application requirements and close-out processes at the local level were paper-intensive for the local jurisdiction staff.** The Commonwealth required local jurisdictions to complete a substantial amount of paperwork related to the application process and closeout package. The Commonwealth required local jurisdictions to submit an application package for each grant with various certifications. Because many of these certifications required local government approval, several months lapsed before the jurisdictions returned the necessary paperwork to the Commonwealth. Also, the Commonwealth required local jurisdictions to submit a closeout package for each grant. To complete the package, local jurisdictions were required to prepare a closeout worksheet that detailed each transaction under the grant. Further, local jurisdictions were required to submit invoices and receipts to the Commonwealth as part of the closeout package. While requiring supporting documentation is a good control, submitting transaction-level detail as part of the closeout package, which potentially could be years after receiving the award, causes an administrative burden on local jurisdictions. The Commonwealth did not have the staff available to perform periodic reviews or site visits.
- **Organizational structures at some jurisdictions consisted of several management layers which required significant time to process grant functions.** Various processes at some local jurisdictions required several layers of management review and made it virtually impossible to meet grant deadlines or follow required local procedures. Many local jurisdictions have a City Manager, or equivalent who receives the grant award from the Commonwealth, but then delegates grant responsibility to others. This causes delays as well as communication breakdowns. Some jurisdictions are so large that they distribute awards to second-tier subgrantees on a competitive basis. This second-tier award may have the same requirements and responsibilities as the Commonwealth or subgrantee grant requirements, thus adding another level of grant management.

Additionally, many of the Commonwealth's city and county laws required local jurisdiction governments to approve various aspects of the grants. For example, in Fairfax County, the Board of Supervisors was required to approve grant applications at regular meetings. Advance notice was required to add grant applications to the agenda, adding a number of days to the process. In addition, before purchases could be made, the funds had to be appropriated by the County Board.

Finally, purchases were required to go through a procurement process, which differed slightly at each local jurisdiction. The procurement process included conducting research to decide the best equipment, obtaining multiple quotes from vendors, and using certain contracts. Also, certain cities and counties allocated funds to agencies in their jurisdictions, and these agencies also had procurement processes that must be followed. A report prepared by the House Select Committee on Homeland Security identified similar local jurisdiction delays in the states that were sampled

for that report⁵. Many of the sampled jurisdictions had separate procurement rules that added significant time delays to the project. In Lynchburg City, funds were received in advance, but the city still required city council approval for expenditures in excess of \$1,000.

Because: (1) the Commonwealth passed most grant responsibilities down to the local level, (2) the Commonwealth and local jurisdictions did not have the staff available to timely perform the full range of grant management responsibilities, and (3) the Commonwealth did not effectively use the administrative funds available, we concluded that the state could not effectively comply with Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (Administrative Requirements for Grants), 28 Code of Federal Regulations (CFR) § 66.40(a), *Monitoring by grantees*. Under these provisions, grantees must:

- Manage the daily operations of grant- and subgrant-supported activities,
- Monitor grant and sub-grant supported activities to ensure compliance with applicable federal requirements, and ensure that performance goals are being achieved, and
- Monitor each program, function, or activity.

Ineffective monitoring of subgrantees had several negative effects including:

- **Local jurisdictions did not have adequate financial management systems to administer grant programs.** The Commonwealth did not ensure that local jurisdictions had adequate financial management systems to administer the grant programs. Three of eight local jurisdictions and one of three first responders sampled did not maintain accurate accounting records of costs incurred under the DHS grants. Arlington County could not reconcile expenditure records, while Lynchburg City could not support costs claimed under the FY 2003 SHSGP-I and FY 2003 SHSGP-II competitive grants to its accounting records. In addition, since Fairfax County's accounting system provided only summary accounting detail, the County used an Excel spreadsheet to support transaction-level detail. However, the spreadsheet was not regularly updated. As a result, Fairfax County was unable to reconcile (the spreadsheet to the accounting system to determine) actual funds encumbered and expended. Finally, the Arlington County Fire Department could not determine if funds allocated under the FY 2003 SHSGP-II grant had been expended.
- **Some equipment purchases were not on the approved Equipment Budget Detail Worksheet.** As noted in Finding No. 5, jurisdictions purchased items that were not on the approved equipment budget detail worksheet as required by ODP. The deviations from the approved worksheet could have been authorized by the ODP Preparedness Officer in place at the time; however, there was no documentation at ODP or the Commonwealth to support that deviations were requested or approved. Additionally, certain local jurisdictions acknowledged that they were not following their approved worksheet. While the Commonwealth may have made jurisdictions aware of these specific grant requirements, they did not have staff available to monitor purchases on a periodic basis.
- **Progress reporting was inadequate.** The Commonwealth had no procedures in place to obtain information on jurisdictions' grant progress. The Commonwealth did not require the local jurisdictions to submit progress reports, nor did it have enough staff available to

⁵ *An Analysis of First Responder Grant Funding*, not dated.

routinely contact the subgrantees to obtain project status. As a result of an inquiry made by the Secretary of Public Safety, the Commonwealth made a one-time request in November 2004 for each jurisdiction to submit a progress report that covered the FY 2003 SHSGP-I and II grants. Four of the eight local jurisdictions submitted the progress reports late, and two failed to submit them. The Commonwealth cannot adequately track grant performance if jurisdictions do not submit progress reports or when the information requested is not submitted timely.

- **Purchases were not made within the grant-established deadlines.** The Commonwealth required jurisdictions to follow grant requirements and obligate funds within the specified end dates. However, three of eight local jurisdictions did not comply with the grant period of performance identified in the award letter and have unspent funds after grant periods have expired.
- **Local jurisdictions were not prepared to identify needs or make purchasing decisions.** By not requiring the jurisdictions to update their needs, the Commonwealth unintentionally created delays within jurisdictions regarding funding decisions. In addition, regarding timely submission of grant applications, seven of eight local jurisdictions submitted applications to the Commonwealth ranging from 63 days to 364 days after receiving notification from the Commonwealth, as illustrated in Appendix B.

Further, six of eight local jurisdictions delayed procurement actions after receipt of grant funds for all three grants. The number of days ranged from 188 to 568 as detailed in Appendix C.

- **For all three grant years, five of eight local jurisdictions submitted closeout packages ranging from 54 days to 474 days after completing their final purchases.** (Appendix D provides more details on closeout delays.)
- **One county was forced to estimate information entered into the Initial Strategy Implementation Plan (ISIP) to meet the reporting deadlines in 2004 and 2005.** Thus, the Commonwealth did not have an accurate account of the projects that the county planned to fund. In addition, the county will be required to identify changes when the actual projects do not match the budgeted projects.

In managing the FY 2004 and FY 2005 grants, the Commonwealth made improvements to certain monitoring practices; however, it did not change its overall grants management practices such as the decentralized grant and procurement policies. Also, it did not increase staffing levels.

Recommendation 3: We recommend that ODP require the Commonwealth to implement a system of controls and monitoring processes over its subgrantees to comply with the requirements of 28 CFR § 66.40(a).

Management's Response: G&T concurred with the philosophy of this recommendation but emphasized that the SAA faces multiple priorities with monitoring its sub-grantees that it must continually re-evaluate. G&T will work with the Commonwealth to develop a practical and effective monitoring process, and the Preparedness Officer for Virginia will examine and comment on the Commonwealth's monitoring system.

Auditor's Additional Comments: We believe that the action planned by G&T is responsive to the recommendation.

4. The Commonwealth did not have adequate internal controls over monitoring cash advances.

The Commonwealth did not have procedures in place to minimize the time elapsing between fund transfer and disbursement. It also did not establish procedures to ensure that balances were maintained at minimum levels and adequately accounted for by local jurisdictions. The Commonwealth immediately advanced the complete subgrant award amount to local jurisdictions after it approved jurisdiction applications. For FY 2003 SHSGP-I grants, the Commonwealth disbursed the advance as it received approval from ODP of the local jurisdictions' FY 2003 I Equipment Budget Detail Worksheets and notification that those funds had been obligated in the Phone Activated Paperless Request System.

Specifically, the Commonwealth did not require the subgrantees to:

- Provide documentation to support disbursement of funds.
- Provide periodic status reports on remaining cash balances.
- Remit interest earned on cash advances.

According to Administrative Requirements for Grants, grantees and subgrantees must follow 28 CFR § 66.20(b)(7) *Cash Management*, procedures for minimizing time elapsing between transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare and complete accurate cash transaction reports to the awarding agency. Grantees must monitor cash draw-downs by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

The Office of Justice Programs (OJP) provides financial services to DHS to administer this program. Grantees, therefore are required to comply with OJP financial management provisions. The *Office of Justice Programs Financial Guide* (2005 edition), Part III, Chapter I, Payments, Minimum Cash On Hand, reminds grantees that idle funds in the hands of subrecipients (subgrantees) will impair cash management goals. All grantees must develop procedures for disbursing funds to ensure that federal cash on hand is kept at a minimal balance. Chapter I of this guide also states that all local units of government (political subdivisions of a state, including cities, towns, counties, and special districts created by state law) must account for interest earned on federal funds. Local units of government may keep interest earned on federal grant funds up to \$100 per federal fiscal year. This maximum limit is not per award; it is inclusive of all interest earned as a result of all federal grant program funds received per year.

Six of the eight local jurisdictions we visited had unspent cash balances as of our site visit. For the FY 2003 SHSGP-I and SHSGP-II awards, ODP established purchase deadlines of March 31, 2005 and April 30, 2005, respectively. While our site visits were performed within a week of the April 30, 2005 deadline, we noted on-hand cash balances at the time of our visit:

Table 4

Program	Jurisdiction	Amount*
FY 2003 SHSGP-I & II	Arlington County	\$90,846
FY 2003 SHSGP-I	Lynchburg City	2,800
FY 2003 SHSGP-II	Lynchburg City	3,993
FY 2003 SHSGP-II	Lynchburg City	1,338
FY 2003 SHSGP-II	Fairfax City	5,033
FY 2002 SDPP	Manassas City	1,714
FY 2003 SHSGP-I	Falls Church City	63
FY 2003 SHSGP-II	Falls Church City	444
FY 2002 SDPP	Fairfax County	15,794
FY 2003 SHSGP-II	Fairfax County	347,820
FY 2003 SHSGP-I	Fairfax County, Herndon Police Department	<u>1,682</u>
Total		<u>\$471,527</u>

* Represents subgrantees' remaining cash balances on hand less any unpaid encumbrances.

In addition to ending cash balances (unspent funds), some subgrantees took over a year to expend their advances, and even longer to report the results of their spending to the Commonwealth. Excess cash balances were created by several factors. Funds were received as soon as applications were approved and many jurisdictions were not prepared to spend the funds. They either did not know what their purchases would be, or, for items that they had identified, had not initiated the procurement process.

Some jurisdictions were not aware that unspent funds needed to be returned to the Commonwealth. Others contacted the Commonwealth about ending balances and were authorized to spend remaining balances on other items not necessarily identified in their spending plans. Had the Commonwealth reimbursed local jurisdictions only for actual purchases from their spending plans, it could have obligated remaining funds to another jurisdiction for a higher priority that needed to be fulfilled. Appendix E identifies the number of days between the date the funds were transferred to selected subgrantees and the date the subgrantees made their first and last purchases under that grant award.

The Commonwealth decided to advance funds to all jurisdictions because it provided the subgrantees with immediate funds to encumber or purchase items. Additionally, providing the full advance eliminated any delays that might occur due to slow cash flow. It opted for this method since it ensured compliance with the grant requirement to pass-on grant funds to the local jurisdictions within 45 day of the state's receipt of the award.

While advancing funds to subgrantees might enhance program performance, the grantee needs the ability to closely monitor subgrantee activity. However, as discussed in Finding 3, the Commonwealth did not have sufficient staff to adequately monitor subgrantees to:

- Ensure timely expenditure of the funds;
- Obtain documentation to minimize advances;
- Obtain documentation on, and receipt of, interest earned; and
- Ensure receipt of remaining unspent cash advances.

The Commonwealth has revised its cash advance policies. For the 2004 grant, local jurisdictions may only receive an advance if they have encumbered or spent 70 percent of their combined grant awards up to that point (1999-2004). Additionally, the Commonwealth is requiring that local jurisdictions provide a list of items to be purchased with the advance that they are requesting. Yet, the Commonwealth still does not have the staff necessary to adequately monitor this new compliance issue, or contact each jurisdiction to calculate and recover any unspent funds or interest earned from the older grants.

Recommendation 4: We recommend that ODP require that the Commonwealth identify all existing cash advances from past grants, and recoup excess unspent funds.

Recommendation 5: We recommend that ODP require that the Commonwealth develop and implement procedures to ensure adequate controls over existing cash advances and advances under future awards.

Management's Response: G&T will conduct a fiscal monitoring visit in FY 2007 and determine what funds, if any should be returned. G&A will also review the SAA's procedures for disbursing cash.

Auditor's Additional Comments: We believe that the actions planned by G&T are responsive to the recommendation.

5. The Commonwealth Did Not Adhere to Grant Requirements Regarding Equipment Purchases.

The Commonwealth allowed equipment purchases that were not identified on the respective authorized equipment lists for the FY 2002 SDPP, and FY 2003 SHSGP-I and II grants. In addition, the Commonwealth did not comply with the FY 2003 SHSGP-I grant provisions that required all purchased equipment to have prior ODP approval (through the approval of the jurisdiction's Equipment Budget Detail Worksheets).

Authorized Equipment List (AEL). Each grant application included a detailed AEL that identified allowable equipment. The AELs identified broad categories of allowable equipment (9 for FY 2002 SDPP grants and 12 for FY 2003 SHSGP-I and II grants) and then identified specific authorized items within each category. The Commonwealth believed that if an item fit within a broad category, it was authorized even though the item was not specifically identified on the AEL.

ODP issued specific guidance for each grant regarding authorized equipment. For the FY 2002 SDPP grant, Appendix F of the ODP *Fiscal Year 2002 State Domestic Preparedness Program, Program Guidelines and Application Kit*, contained the Fiscal Year 2002 Authorized Equipment Purchase List which states:

The Fiscal Year 2002 State Domestic Preparedness Program authorized equipment purchase list was derived from the Standardized Equipment List (SEL)... Because the SEL also contains lists of general use and support equipment, a more narrow list was derived from the SEL to identify the specific types of specialized equipment authorized for purchase under the Fiscal Year 2002 State Domestic Preparedness Program.

For the FY 2003 SHSGP-I grant, Appendix G of the Fiscal Year 2003 Authorized Equipment List stated:

The FY 2003 SHSGP [State Homeland Security Grant Program] authorized equipment list was derived from the Standardized Equipment List (SEL)... Because the SEL also contains lists of general use and support equipment, a more narrow list was derived from

the SEL to identify the specific types of specialized equipment authorized for purchase under the FY 2003 SHSGP.

For the FY 2003 SHSGP-II grant, the *Office of Domestic Preparedness, Fiscal Year 2003 State Homeland Security Grant Program-Part II, Program Guidelines and Application Kit, Section II, C, 2, First Responder Preparedness*, stated that “A complete list of allowable equipment...may be found in Appendix B.”

Additionally, ODP has rejected a DHS-OIG recommendation that grantees be allowed to use the most recent AEL when determining allowability of prior year purchases.

Table 5 lists examples of items purchased by selected subgrantees that were not on the AELs:

Table 5

Grant	Jurisdiction	Description	Amount
FY 2003 SHSGP-II	Fairfax County	Generator	\$68,733
FY 2003 SHSGP-II	Fairfax County	Message Sign Board	90,656
FY 2003 SHSGP-II	Fairfax County	Nextel Blackberry/Accessories	3,614
FY 2003 SHSGP-II	Fairfax County	Reverse 911 Database	2,051
FY 2003 SHSGP-II	Fairfax County	EOC Generator	191,088
FY 2003 SHSGP-I	Herndon Police Dept. (Fairfax County)	TV /Accessories	15,781
FY 2003 SHSGP-II	Fairfax City	Ice Rescue Equipment	2,786
FY 2002 SDPP	Falls Church City	XM Satellite Radio Weather Subscription	1,302
FY 2003 SHSGP-II	Falls Church City	Blackberry Cellular Phones	8,680
FY 2002 SDPP	Manassas City	Ventilation Fans and accessories	2,709
FY 2002 SDPP	Bedford County	General Supplies	92
FY 2002 SDPP	Bedford County	General Supplies	180
FY 2002 SDPP	Bedford County	Binoculars	80
FY 2002 SDPP	Bedford County	Traffic Cones	688
FY 2002 SDPP	Bedford County	Flashlight	180
FY 2003 SHSGP-I	Bedford County	Water Rescue Equipment	6,005
FY 2003 SHSGP-I	Bedford County	Pagers	4,052
FY 2003 SHSGP-I	Bedford County	Gas Monitor	7,500
FY 2003 SHSGP-II	Bedford County	T-Shirts	2,353
FY 2003 SHSGP-II	Bedford County	Cellular Phone	55
Total			<u>\$408,585</u>

The Commonwealth believed that neither the grant application nor the AEL contained clear guidance to indicate that an item must be specifically authorized, or conversely, if a broad category description is adequate for allowability. However, the ODP preparedness officer who had regional responsibility for the Commonwealth also stated that the items must be specifically identified on the AEL, not just contained in a general category.

FY 2003 SHSGP-I Budget Detail Worksheet. The Commonwealth was required to submit an Equipment Budget Detail Worksheet to ODP for approval under the FY 2003 SHSGP-I grant. The Commonwealth ‘packaged’ local jurisdictions’ worksheets and sent them to ODP for approval in batches. These worksheets identified the specific equipment to be purchased, number of items, estimated total costs, and

response disciplines that would receive it. In addition, local jurisdictions were required to submit revised worksheets for Commonwealth and ODP approval when they deviated from the approved budget.

We noted the following purchases for selected subgrantees that were not on the jurisdictions' approved worksheets, and found no evidence that revised worksheets were submitted to ODP for approval:

- **Falls Church City.** Falls Church City expended \$3,107 for combat ballistic helmets with unspent funds from the FY 2003 SHSGP-I grant. The helmets were in the same budget category as escape hoods, which had been approved on the worksheet. The Commonwealth did not submit a revised worksheet to ODP for approval for the deviation.
- **Bedford County.** Bedford County purchased multiple items not on the FY 2003 SHSGP-I grant worksheet, but in the same categories as items previously approved on the worksheet. The Commonwealth did not submit a revised worksheet to ODP to get approval for the deviation.
- **Arlington County.** We identified many items not on the approved FY 2003 SHSGP-I grant worksheet or not identified on annual spending plans. City representatives noted that they were unaware of the restriction.
- **Fairfax County (Herndon Police Department).** We identified items that were not on the approved worksheet. Because Fairfax County has not submitted a closeout package for the FY 2003 SHSGP-I grant (see Finding No. 3), we were unable to determine if the Commonwealth would allow the deviations. These deviations were in the same budget categories as equipment approved on the worksheet; thus it is likely that the Commonwealth would not submit a revised budget to ODP.

ODP's *Fiscal Year 2003 State Homeland Security Grant Program, Program Guidelines and Application Kit*, Section V, B, Supplemental Documents, Equipment Budget, Sub-Awards, stated:

For sub-awards,... [a]pplicants must also provide an Equipment Budget Detail Worksheet for each jurisdiction receiving funding through sub-awards. These worksheets should detail the equipment to be purchased, the number of items, the estimated total costs, and the response disciplines that will receive it (see Appendix B.)

The Commonwealth noted that actual purchases have been (and will be) identified by the local jurisdictions through the closeout process. At that time, if purchases were made that had not been approved, the Commonwealth would submit a revised worksheet to ODP for approval before it will close out the subgrant with the jurisdiction. However, ODP may not approve the revisions, and there will be little if no time available for the subgrantee to rectify the situation. Additionally, we noted that the Commonwealth will allow local jurisdictions to purchase items not specifically identified on the worksheets as long as the item was within the same equipment category as an approved item on the equipment list. However, the ODP preparedness officer noted that all items must be identified on the worksheets and require prior approval, including substitutions, or identification of new items available to be purchases with excess funds.

Recommendation 6: We recommend that ODP require that the Commonwealth establish and implement management controls to monitor purchases for compliance with ODP's AEL.

Recommendation 7: We recommend that ODP require that the Commonwealth ensure that the FY 2003 SHSGP-I closeout packages from local jurisdictions do not include purchases that were not identified and approved on the FY 2003 SHSGP-I worksheets, or submit revised worksheets to ODP for retroactive approval of those items.

Recommendation 8: We recommend that ODP require that the Commonwealth identify equipment purchases not on the AEL and resolve each with ODP.

Management's Response: G&T concurred with Recommendations 6, 7, and 8, noting that a strategic monitoring visit and a financial monitoring trip are scheduled for the Commonwealth.

Auditor's Additional Comments: We believe that actions planned by G&T are responsive to the recommendations.

APPENDICES

Appendix A

Objectives, Scope, and Methodology

The objective of the audit was to determine whether the Commonwealth of Virginia effectively and efficiently implemented the first responder grant programs, achieved the goals of the programs, and spent the funds awarded according to grant requirements. The goal of the audit was to identify problems and solutions that would help the Commonwealth of Virginia prepare for and respond to terrorist attacks.

The DHS, Office of Inspector General (OIG) is reporting the results of the audit to appropriate DHS officials.

The scope of the audit included the following three grant programs, for an aggregate total of \$53.5 million. These programs are described in the Background section of this report.

- FY 2002 State Domestic Preparedness Program (SDPP)
- FY 2003 State Homeland Security Grant program - Part I (SHSGP-I)
- FY 2003 State Homeland Security Grant program - Part II (SHSGP-II)

The audit methodology included work at ODP Headquarters, the Virginia Department of Emergency Management, the Office of Commonwealth Preparedness, various subgrantee locations and local jurisdictions. Accordingly, we visited eight subgrantee locations, and three first responder organizations. Of the eight locations, three are among the largest jurisdictions within the Commonwealth of Virginia and the National Capital Region. These subgrantees were awarded about \$6.2 million by the Commonwealth under the above three grant programs¹. The purposes of the visits were to obtain an understanding of the three grant programs and to assess how well the programs were being managed. Our audit considered DHS/ODP and Commonwealth policies and procedures, as well as the applicable federal requirements. We reviewed documentation received from ODP, as well as from the Commonwealth offices and subgrantees. We interviewed responsible officials, reviewed documentation supporting the Commonwealth and subgrantees management of the awarded grant funds, and physically inspected some of the equipment procured with the grant funds. We reviewed reports from prior audits on the first responder subject matter, such as reports from the Government Accountability Office and from the House Appropriations Committee's Survey and Investigative Staff. Finally, we reviewed recent data provided to us by the Commonwealth in order to determine if the same weaknesses or issues that we initially noted in our review still existed at the Commonwealth.

The audit of the Commonwealth of Virginia was conducted between March 2005 and August 2005. The audit was conducted in accordance with *Government Auditing Standards* as prescribed by the Comptroller General of the United States (Yellow Book). We were not engaged to and did not perform a financial statement audit, the objective of which would be to express an opinion on specified elements, accounts, or items. Accordingly, we did not express an opinion on the costs claimed for the first responder grant programs included in the scope of the audit. If we had performed additional procedures or conducted an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported. This report relates only to the programs specified. The report does not extend to any financial statements of the Commonwealth of Virginia.

¹ We visited Alexandria City, Arlington County, Bedford County, Fairfax City, Fairfax County, Falls Church City, Lynchburg City, and Manassas City.

Appendix B

Commonwealth of Virginia
Schedule of Application Delays

Local Jurisdiction	Grant	Application Notification	Application Submission	Days Delayed
Arlington County	FY 2002 SDPP	11/27/02	2/28/03	93
Arlington County	FY 2003 SHSGP-I	06/20/03	8/28/03	69
Alexandria City	FY 2002 SDPP	11/26/02	9/29/03	307
Bedford County	FY 2002 SDPP	11/26/02	3/23/03	117
Bedford County	FY 2003 SHSGP-I	06/20/03	9/23/03	95
Fairfax City	FY 2002 SDPP	11/26/02	3/17/03	111
Fairfax City	FY 2003 SHSGP-I	06/20/03	6/18/04	364
Fairfax City	FY 2003 SHSGP-II	07/21/03	6/18/04	333
Fairfax County	FY 2002 SDPP	11/26/02	3/06/03	100
Fairfax County	FY 2003 SHSGP-I	06/20/03	8/22/03	63
Falls Church City	FY 2002 SDPP	11/26/02	9/29/03	307
Falls Church City	FY 2003 SHSGP-I	06/20/03	9/12/03	84
Lynchburg City	FY 2002 SDPP	11/26/02	2/26/03	92
Manassas City	FY 2002 SDPP	11/26/02	3/07/03	135

**Commonwealth of Virginia
Schedule of Procurement Delays**

Local Jurisdiction	Grant	Funds Received	Last Purchase Invoice/ P.O.	Days Delayed
Alexandria City	FY 2002 SDPP	11/20/03	07/06/04	229
Alexandria City	FY 2003 SHSGP-I	01/12/04	03/31/05	444
Alexandria City	FY 2003 SHSGP-II	02/09/04	10/06/04	240
Arlington County	FY 2002 SDPP	03/12/03	12/29/03	292
Arlington County	FY 2003 SHSGP-I & II	02/12/04	04/26/05 ²	439
Fairfax City	FY 2003 SHSGP-I	09/10/04	03/17/05	188
Fairfax City	FY 2003 SHSGP-II	09/10/04	04/29/05	231
Fairfax County	FY 2002 SDPP	02/26/03 ¹	09/16/04	568
Fairfax County	FY 2003 SHSGP-I	11/18/03 ¹	05/18/05 ²	547
Fairfax County	FY 2003 SHSGP-II	01/20/04 ¹	05/18/05 ²	484
Falls Church City	FY 2002 SDPP	11/30/03	06/29/04	212
Lynchburg City	FY 2002 SDPP	03/21/03 ¹	11/19/03	243
Lynchburg City	FY 2003 SHSGP-I	11/18/03 ¹	03/09/05	477
Lynchburg City	FY 2003 SHSGP-II	01/20/04 ¹	04/29/05 ²	465

¹ Fund receipt date not available. The fund transfer letter date was used instead.

² All program funds had not been expended by this date.

Appendix D

Commonwealth of Virginia
Schedule of Closeout Delays

Local Jurisdiction	Grant	Last Purchase	Closeout Package Submission	Days Delayed
Alexandria City	FY 2003 SHSGP-II	10/06/04	12/01/04	56
Bedford County	FY 2002 SDPP	08/19/03	12/15/03	118
Bedford County	FY 2003 SHSGP-I	11/21/04	04/15/05	145
Bedford County	FY 2003 SHSGP-II	06/30/04	10/01/04	163
Fairfax County	FY 2002 SDPP	09/16/04	12/15/04	90
Fairfax City	FY 2002 SDPP	08/27/03	12/13/04	474
Fairfax City	FY 2003 SHSGP-I	03/17/05	05/10/05 ¹	54
Falls Church City	FY 2003 SHSGP-II	07/02/04	04/06/05	278
Manassas City	FY 2002 SDPP	09/08/03	12/20/04	469
Manassas City	FY 2003 SHSGP-I	08/28/03	01/13/04	138
Manassas City	FY 2003 SHSGP-II	07/13/04	01/31/05	202

¹ Closeout package not submitted as of this date.

Appendix E

Commonwealth of Virginia
Schedule of Days Between Funds Transferred and First and Last Purchases

Local Jurisdiction	FY 2002 SDPP		FY 2003 SHSGP Part I		FY 2003 SHSGP Part II	
	Days Between Funds Transfer and First Purchase	Days Between Funds Transfer and Last Purchase	Days Between Funds Transfer and First Purchase	Days Between Funds Transfer and Last Purchase	Days Between Funds Transfer and First Purchase	Days Between Funds Transfer and Last Purchase
Alexandria City	4	229	-64	440	-63	240
Arlington County	N/A ¹	292	56	439 ¹	56	439 ²
Bedford County	62	146	-399	102	-372	-143
Fairfax City	66	145	41	188	79	231 ²
Fairfax County	342	568	156	547 ²	101	484 ²
Falls Church City	129	212	-34	19	16	142
Lynchburg City	41	243	203	477	46	465 ²
Manassas City	111	166	N/A ¹	-82	N/A ¹	175

¹ Only one purchase was made by the local jurisdiction, therefore we only measured the number of days between funds transfer and last purchase. The measurement between funds transfer and first purchase is Not Applicable (N/A) for these local jurisdictions.

² All program funds had not been expended by the site visit; for these local jurisdictions, the site visit date was used as date of last purchase.

Appendix F

Commonwealth of Virginia
Schedule of Questioned Costs From Sampled Site Visits

A. Equipment Budget Detail Worksheet- The following schedule contains equipment purchased by select local jurisdictions/first responders that was not on the local jurisdictions' approved equipment budget detail worksheets:

Local Jurisdiction	Description	Amount Questioned
Bedford County	Prime Mover	\$4,875
Bedford County	Torch	99
Bedford County	Water Rescue Gear	760
Bedford County	Handlight, Headlamp	489
Bedford County	Goggles	1,015
Bedford County	Construction Tools	795
Bedford County	Bracing Material	529
Bedford County	Torch	251
Bedford County	Bracing Material	1,770
Bedford County	Pulley System	910
Bedford County	Air shore Mounts	480
Bedford County	Grip hoist	2,661
Bedford County	Pulley and Blowers	2,713
Bedford County	Bullet Proof Vest	7,296
Bedford County	Welding Equipment	1,332
Bedford County	Saw	3,070
Bedford County	Manifold, gloves	1,405
Bedford County	Helmet, Hearing Protection	1,332
Bedford County	Rescue Equipment	1,155
Bedford County	Rescue Helmet, Gloves	444
Bedford County	Rescue Harness	530
Bedford County	Torch Equipment	200
Bedford County	Hammer & Bit	638
Bedford County	Helmet	170
Bedford County	Storage box, tow straps	69
Bedford County	Radio/Headset	1,271
Bedford County	Miscellaneous Supplies	1,711
Bedford County	Pagers	4,052
Falls Church City	Combat Ballistic Helmet	3,107
Herndon Police (Fairfax County)	Television/Accessories	15,781 ¹
Herndon Police (Fairfax County)	Portable Radio Equipment	<u>10,603¹</u>
Subtotal		<u>\$71,513</u>

¹ Closeout package not submitted to VDEM as of the site visit. Therefore, these costs have not been claimed by the local jurisdictions.

Appendix F

Commonwealth of Virginia
Schedule of Questioned Costs From Sampled Site Visits

B. AEL- The following schedule contains equipment purchased by select local jurisdictions/first responders that was not identified on the Authorized Equipment Lists (AELs) for that grant year:

Local Jurisdiction	Grant	Description	Amount Questioned
Bedford County	FY 2002 SDPP	General Supplies	\$92
Bedford County	FY 2002 SDPP	General Supplies	180
Bedford County	FY 2002 SDPP	Binoculars	80
Bedford County	FY 2002 SDPP	Traffic Cones	688
Bedford County	FY 2002 SDPP	Flashlight	180
Bedford County	FY 2003 SHSGP-I	Pagers	4,052 ¹
Bedford County	FY 2003 SHSGP-I	Water Rescue Equipment	6,005 ¹
Bedford County	FY 2003 SHSGP-II	Gas Monitor	7,500
Bedford County	FY 2003 SHSGP-II	T-Shirt	2,353
Bedford County	FY 2003 SHSGP-II	Cellular Phone	55
Fairfax City	FY 2003 SHSGP-II	Ice Rescue Equipment	2,786 ²
Falls Church City	FY 2002 SDPP	XM Radio Weather Subscription	1,302
Falls Church City	FY 2003 SHSGP-II	Blackberry Cell Phones	8,680
Manassas City	FY 2002 SDPP	Ventilation Fans and accessories	2,709
Fairfax County	FY 2003 SHSGP-II	Generator	68,733 ²
Fairfax County	FY 2003 SHSGP-II	Message Sign Board	90,656 ²
Fairfax County	FY 2003 SHSGP-II	Nextel Blackberry /Accessories	3,614 ²
Fairfax County	FY 2003 SHSGP-II	Reverse 911 Database	2,051 ²
Fairfax County	FY 2003 SHSGP-II	EOC Generator	191,088 ²
Herndon Police (Fairfax County)	FY 2003 SHSGP-I	TV /Accessories	<u>15,781^{1,2}</u>
Subtotal			<u>\$382,747</u>

¹ Equipment was not on the 2003 I Equipment Budget Detail Worksheet, as mentioned in Schedule A above. Therefore, these costs are not included in the subtotal of questioned costs in this schedule.

² Closeout package not submitted to VDEM as of the site visit. Therefore, these costs have not yet been claimed by the local jurisdictions.

**MANAGEMENT RESPONSE
TO THE
DRAFT REPORT**

Preparedness Directorate
Office of Grants and Training
Washington, DC 20528



Homeland
Security

JUN 05 2006

MEMORANDUM TO: David M. Zavada
Assistant Inspector General for Audits

FROM: Tracy A. Henke 
Assistant Secretary

SUBJECT: Response to Draft Inspector General Report, "The
Commonwealth of Virginia's Management of
State Homeland Security Grants Awarded During
Fiscal Years 2002 and 2003"

This responds to your April 14, 2006, memorandum requesting comments on the draft Office of the Inspector General report, *The Commonwealth of Virginia's Management of State Homeland Security Grants Awarded During Fiscal Years 2002 and 2003*. The attached document provides specific comments on the recommendations, contained therein. Questions concerning specific comments should be addressed to Ellen Wesley at 202-786-9525.

Please accept our thanks for the opportunity to respond to the draft report and to work with the Office of the Inspector General during this engagement. We look forward to continuing this partnership in the future.

Attachment

cc: Jana S. White
Ellen Wesley

Office of Grants and Training (G&T)
Comments on the DHS Office of the Inspector General Audit
of the Commonwealth of Virginia
Management of State Homeland Security Grants
Awarded During Fiscal Years 2002 and 2003

The audit report covers the FY 2002 State Domestic Preparedness Program (SDPP) and FY 2003 State Homeland Security Grant Program (SHSGP) Parts I & II grants, which in turn support the 1999/2000 and 2003 Virginia State Homeland Security Strategies (both of which are specifically mentioned). Audit findings and recommendations, along with Office of Grants and Training (G&T – formerly ODP) comments follow:

Finding 1. *The Commonwealth did not adequately document its plan and implementation of the grant programs.*

Recommendation: *We recommend that ODP require the Commonwealth to implement procedures that will assure that its 2006 Strategy is a complete, accurate, and a coordinated document that assesses threats, vulnerabilities, and risks.*

Comments:

G&T stated in *Information Bulletin 183 -- Updating State and Urban Area Homeland Security Strategies* (July 22, 2005) that all states and Urban Areas must submit a revised Homeland Security Strategy prior to making application for FY 2006 grant funding. Attached to Information Bulletin 183 was *Guidance on Aligning Strategies with the National Preparedness Goal*. The Guidance stated:

- 1) The purpose of Homeland Security Strategies is to: provide a blueprint for comprehensive, enterprise-wide planning for homeland security efforts; and provide a strategic plan for use of related Federal, State, local, and private resources within the State and/or Urban Area. (p 2)
- 2) MINIMUM REQUIREMENTS FOR UPDATING STRATEGIES: At a minimum, States and Urban Areas must ensure that their updated strategies address the four mission areas (prevent, protect, respond, recover) and reflect the seven National Priorities. In updating their strategies this year, States and Urban Areas should begin the process of evolving their strategies to address not only terrorism, but a broad range of other threats and hazards, founded on a *capabilities-based planning approach*. (p 8)

At no point in the most recent guidance provided by G&T was there a requirement for grantees to incorporate threat, vulnerability, and risk data in their updated strategies. Undoubtedly G&T wholly supports a collaborative effort between the Commonwealth and its sub-grantees to conduct such efforts, and supports them with expert assistance in such efforts, but no

requirement existed that mandated this information to be included within the updated Homeland Security Strategy (HSS).

Accordingly, Virginia submitted a completely revised HSS, which, along with those of all other states, territories, and Urban Areas, was examined in detail by a DHS Strategy Review Board in December 2005. The Board identified two conditions for final approval of Virginia's strategy, which were fully met thereafter. The 2006 HSS was approved on May 3, 2006.

Finding 2. *The Commonwealth did not allocate ODP grant funds based on its risk assessment or its stated goals.*

Recommendation: *We recommend that ODP require that the Commonwealth completes its statewide strategy and needs assessment, and determines the best method to link the funds distribution to its threats, associated risks, and needs assessments. The strategy should also include any processes associated with this allocation methodology.*

Comments:

G&T required grantees to link funding to the goals and objectives identified in their State Homeland Security Strategy. The Commonwealth of Virginia accomplished this in FY 2006 and provided documentation of the linkages via the G&T semi-annual report, the Biannual Strategy Implementation Plan (BSIR).

As mentioned in the comments to Recommendation 1 above, Virginia has a fully approved 2006 HSS that complies with current G&T requirements. An assessment by the Commonwealth of its needs and the subsequent allocation of funding (from all sources) is addressed in the G&T FY 2006 grant application process.

Specifically, in FY 2006, all states were required to implement an analytical review process to assist in aligning their homeland security programs with the Interim National Preparedness Goal (the Goal) and the seven National Priorities. This review and the required Enhancement Plan that it produced were key components of the application process for Homeland Security Grant Program (HSGP) funding in FY 2006.

Virginia has subsequently taken full advantage of the Program and Capability Review Technical Assistance provided by G&T, has had its Enhancement Plans and Investment Justifications for FY 2006 reviewed by the FY 2006 HSGP Peer Review process, and is awaiting announcement of its FY 2006 grant award amount on or about May 31, 2006.

Finding 3. *The Commonwealth could not effectively monitor local jurisdictions.*

Recommendation: *We recommend that ODP require the Commonwealth to implement a system of controls and monitoring processes over its subgrantees to comply with the requirements of 28 CFR §66.40(a).*

Comments:

G&T concurs with the practical philosophy of this recommendation, but understands the reality a State Administering Agency faces with competing priorities for the available resources resulting

in difficult budget decisions. G&T will consult with the SAA and the Office of Commonwealth Preparedness so the State can work towards the implementation of a practical and effective internal state monitoring process of their sub-grantees' grants administration practices. As part of G&T's annual strategic monitoring of each state's HSGP activities, the Preparedness Officer for Virginia will examine and comment upon this internal monitoring system.

In justifying Finding #3, the Report states certain findings for which G&T would like to issue comments for the record. These findings include:

- Grant application requirements and closeout processes at the local level were paper intensive for the local jurisdiction staff.
- Organizational structures at some jurisdictions consisted of several management layers which required significant time to process grant functions.
- Local jurisdictions did not have adequate financial management systems to administer grant programs.

These are issues that concern jurisdictions within Virginia and for which the SAA cannot be held wholly accountable. As part of its fiduciary responsibility, the SAA was justified in requiring thorough documentation of expenditures from local governments for the closeout process. Many local governments within the Commonwealth (as well as in numerous other States) have established processes and requirements regarding the acceptance and expenditure of federal grant funds. Although these processes may have caused delayed action on the part of some sub-grantees, the Commonwealth was justified in expecting the sub-grantees to execute terms of their agreement within the established period of time or justify an extension request. Establishment of a more robust monitoring program by the SAA should allow them to help local jurisdictions in development of more adequate grants management systems and practices.

Finding 4. *The Commonwealth did not have adequate internal controls over monitoring cash advances.*

Recommendations:

- *We recommend that ODP require that the Commonwealth identify all existing cash advances from past grants, and recoup excess unspent funds.*
- *We recommend that ODP require that the Commonwealth develop and implement procedures to ensure adequate controls over existing cash advances and advances under future awards.*

Comments:

G&T's Office of Grant Operations (OGO) will conduct a fiscal monitoring visit in FY 2007 and determine what, if any, funds should be returned. Additionally, OGO will review the SAA's procedures for disbursing cash. It should be noted that in November 2004, prior to the IG engagement, G&T requested its legacy financial support office (Office of Justice Programs (OJP), Office of the Comptroller) to conduct a financial monitoring visit. Although initially agreeing to conduct this visit, the OJP visit was suspended once the IG engagement was initiated.

Finding 5. *The Commonwealth did not adhere to grant requirements regarding equipment purchases.*

Recommendations:

- *We recommend that ODP require that the Commonwealth establish and implement management controls to monitor purchases for compliance with ODP's AEL.*
- *We recommend that ODP require that the Commonwealth ensure that the FY 2003 SHSGP-I closeout packages from local jurisdictions do not include purchases that were not identified and approved on the FY 2003 SHSGP-I worksheets, or submit revised worksheets to ODP for retroactive approval of those items.*
- *We recommend that ODP require that the Commonwealth identify equipment purchases not on the AEL and resolve each with ODP.*

Comments:

G&T concurs with these recommendations and will work with the Commonwealth to resolve these issues. During the annual strategic monitoring visit, the Preparedness Officer will address the management and administration of Virginia's homeland security grant programs with the SAA. In addition, the Office of Grant Operations will conduct a financial monitoring trip in FY 2007.

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