



Department of Homeland Security Office of Inspector General

Management Advisory Report: Accountability for Property Purchased through Grant Funding





Homeland
Security

May 4, 2009

MEMORANDUM FOR: Elaine C. Duke
Under Secretary for Management

FROM: *Richard L. Skinner*
Richard L. Skinner
Inspector General

SUBJECT: *Management Advisory Report: Accountability for Property Purchased through Grant Funding (OIG-09-81)*

In determining whether to conduct additional forensic auditing of the State Homeland Security Program (SHSP) grants, we reviewed the government's policies concerning property accountability and inventories applicable to grantees and subgrantees. The federal requirements for maintaining property records and internal control systems as well as conducting physical inventories apply only to equipment subject to capitalization, i.e., a tangible, nonexpendable item of personal property with a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. Given the sensitive nature of much of the equipment falling below this threshold, we recommend that DHS impose additional property accountability requirements in grant programs with a significant amount of funding available for equipment purchases such as SHSP, the Urban Area Security Initiative, the Buffer Zone Protection Program and the Assistance to Firefighters Grant Program.

Background

FEMA will award in Fiscal Year 2009 more than \$3 billion dollars to assist state and local governments to strengthen preparedness via 14 different grant programs and more than \$500 million for Assistance to Firefighters grants. Significant amounts of this funding will be used to purchase equipment from the Authorized Equipment List (AEL). Available data shows that over \$2.6 billion in equipment and vehicle purchases were made through Assistance to Firefighters Program alone from FY '03-'07.

Common grant property accountability requirements (maintaining records and inventory) only apply to equipment with an acquisition cost of \$5,000 or more per unit. See 44 CFR § 13.32(d) and 28 CFR § 66.32(d). This amount matches the capitalization threshold for

federal grants and has not been changed in over twenty years. Only if the state or local government imposes more stringent limits will a substantial amount of property funded through federal dollars be tracked.

In the private sector, capitalization thresholds serve to identify assets that need safeguarding. According to a Government Accountability Office survey, private sector capitalization thresholds are substantially lower than those in the public sector. If a private sector asset is not capitalized, it is usually not tracked. As stewards of public funds, federal, state, and local governments need to track and account for certain assets—especially those that are sensitive or pilferable—below the capitalization threshold.

Many items on the AEL below the \$5,000 threshold are sensitive and/or pilferable. Examples include:

- laptop computers and handheld computing devices,
- cameras, and
- communications equipment.

These items warrant increased accountability for various reasons: 1) the property may be of a dangerous nature; 2) it may have a heightened risk of theft (“walk away” or pilferable items) being easily transportable, readily marketable, or easily diverted to personal use (e.g., laptop computers and handheld computing devices, cameras, communications equipment); or 3) it may contain sensitive information.

The condition of assets affects costs, service quality, and effectiveness within state and local governments acting as first responders and protecting the Nation from dangerous goods and people. Maintaining internal controls over certain items not capitalized serves to enhance the safeguarding of federally funded property and supports these critical state and local government operations. Procedures such as bar coding and periodic inventories aid in shielding sensitive and pilferable items from loss or misuse.

Our prior audit work has noted internal control problems with equipment purchased through homeland security grant programs.¹ Additionally, state and local auditors have identified the need for controls over items under the applicable capitalization threshold which are dangerous or easily pilfered.²

According to Management Directive 0565, Personal Property, DHS requires an annual inventory of sensitive personal property regardless of dollar value. Sensitive property is defined as dangerous and hazardous property, firearms, property with data storage capability, property authorized for processing and/or storing classified information, and

¹ See, for example, OIG-08-03, The Commonwealth of Pennsylvania’s Management of State Homeland Security Grants Awarded During fiscal Years 2002 through 2004, at page 10.

² See Performance Audit 06-27 from the Georgia Department of Audits and Accounts, (Oct. 2007); Report No. 2002-11 from the Office of the Missouri State Auditor, (Feb. 6, 2002); and Internal Auditor’s Report #2005-014, Riverside County, California, (Jun. 19, 2006).

portable property that can easily be converted to private use or that has a high potential for theft. FEMA also requires annual inventories of sensitive and serialized property, even if the acquisition cost is under its capitalization threshold (currently \$15,000). Serialized property is anything with a serial number on it. FEMA's Personal Property Management Program manual contains a specific list of sensitive items, which includes cameras, cell phones, video recorders, etc.

Recommendation

DHS has yet to publish uniform administrative procedures for federal grants, frequently referred to as the common grant rule. The last Unified Agenda and Regulatory Plan contained no timetable for publication. As DHS considers promulgating the required common grant rule, we recommend that the Under Secretary for Management require grantees and subgrantees that receive a significant amount of funding for equipment purchases, such as through SHSP, the Urban Area Security Initiative, the Buffer Zone Protection Program and the Assistance to Firefighters Grant Program, to provide assurances that management controls are in place to safeguard all assets purchased with grant funds against waste, loss, unauthorized use, and misappropriation. We also recommend that the Under Secretary for Management instruct grantees and subgrantees to maintain records of property acquired with federal funds from the date of acquisition through final disposition. Considering both the magnitude of federal grants awarded for the acquisition of sensitive and pilferable items and the importance of these items to state and local governments' ability to effectively carry out their homeland security responsibilities, we believe these accountability efforts are worthwhile.

The nature and brevity of this inquiry precluded the use of normal auditing standards. Therefore, it was not conducted according to generally accepted government auditing standards.

We hope our recommendation will be of assistance in improving the effectiveness of homeland security grant programs. Should you have any questions, please call me, or your staff may contact Frank Deffer, Assistant Inspector General, Information Technology, at (202) 254-4100.



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