CITY OF SAN ANTONIO

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September 9, 2010

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SUBJECT: Audit of Office of Emergency Management Homeland Security Reimbursements Audit Report

We are pleased to send you the audit report of the Audit of the Office of Emergency Management Homeland Security Reimbursements. This audit began in July 2009 and concluded with an exit meeting with department management in August 2010. Management's verbatim response is included in Appendix C of the report. The Office of Emergency Management should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

Park E. Pearson

Park E. Pearson, CPA
City Auditor
City of San Antonio

Distribution:

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Erik Walsh, Assistant City Manager
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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of Office of Emergency Management

Homeland Security Reimbursements

Project No. AU09-010

September 9, 2010

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Fire Department's Office of Emergency Management (OEM). The audit objectives, conclusions, and recommendations follow:

Are controls in place to ensure that expenditures are properly tracked and submitted for federal and state reimbursement?

Yes, overall controls are in place to ensure that OEM is properly tracking and submitting expenditures for federal and state reimbursement. However, excessive time elapsed prior to OEM requesting reimbursement for grant program expenditures. In addition, controls over grant assets were not sufficient. We attribute these conditions to the absence of formal written internal policies and procedures for grants management.

We recommend the Fire Chief implement Administrative Directive 8.10, "Financial Management for Grants," by developing formal written internal policies and procedures for grants management to help ensure compliance with federal, state, and local guidelines.

In compliance with government auditing standards, we included follow-up audit procedures for recommendations made in the *Audit of Homeland Security Grant Fund Expenditures and Controls* report dated December 7, 2006. See **Appendix A** on page 7 for a detailed summary of the recommendations reviewed. Management successfully implemented all of these recommendations.

Management of OEM agrees with the audit report. Its verbatim response is in **Appendix C** on page 10.

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Background

The US Homeland Security Grant Program (HSGP) reimburses state and local governments for expenditures incurred to prevent, prepare for, respond to, and recover from both natural and man-made disasters. The Texas Division of Emergency Management - State Administrative Agency (SAA) is responsible for administering the HSGP. At the City of San Antonio, the Fire Department through its Office of Emergency Management (OEM) is responsible for managing disaster related functions, acquisitions and grant funds in compliance with grant program guidance.

Since 2003, the US Department of Homeland Security (HS) awarded the City over $39 million in HSGP grant funds. These funds are used to hire personnel, purchase disaster response vehicles and personal protective equipment, and increase training of personnel.

Audit Scope and Methodology

OEM has the responsibility for managing $8.6 million in grant funds related to the 2007 award year. **Table 1** illustrates the grants and award amounts for the 2007 Federal Grant Award Year.

Table 1

2007 Federal Grant Award Year	
Grant Name	**Award Amount**
Urban Area Security Initiatives (UASI)	$ 4,517,775
Public Safety Interoperable Communications	2,133,500
State Homeland Security Program (SHSP)	743,830
Law Enforcement Terrorism Prevention Program	486,557
Metropolitan Medical Response System	258,145
Hurricane Preparation	252,500
Emergency Management Performance Grant (EMPG)	140,366
Law Enforcement Terrorism Prevention Program 2005	60,000
Total Grant Award Amount	$ 8,592,673

We selected the 2007 UASI, SHSP, and EMPG grants totaling $5.4 million for review. Grant award periods typically span two and a half years and transcend the City's fiscal year (FY) periods. Therefore, transactions that occurred during the City's FY 2010 were also included in the review.

We interviewed personnel from OEM to gain an understanding of the Homeland Security Grant Program. Testing criteria included Administrative Directive 8.10 - "Financial Management for Grants," FY 2007 Homeland Security Grant Program Guidelines, and Texas Uniform Grant Management Standards.

To determine if requests for reimbursements were appropriately supported and submitted timely, we reviewed source documents that included vendor invoices, billing documents, payroll support, and other documents required by the State to support requests for reimbursements. In addition, we evaluated the sufficiency of inventory controls over grant assets.

We relied on computer-processed data in the City's accounting system to validate grant expenditures and revenues (reimbursements). We performed direct tests on the data rather than evaluate the system's general and application controls. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from July 2009 to June 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate information to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the information obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Policies and Procedures

Excessive time elapsed prior to OEM requesting reimbursement for grant expenditures. In addition, the tracking of grant assets was not sufficient.[1] We attribute these conditions to the absence of formal written internal policies and procedures for grants management.

The City's Administrative Directive 8.10 requires all departments administering grants to maintain, review, and update their respective departmental policies and procedures related to grants management

1) Submission of Grant Expenditures for Reimbursement

Excessive time elapsed prior to the City requesting reimbursement for expenditures incurred for the 2007 UASI and SHSP grant programs.

2007 UASI

We reviewed all 30 reimbursements totaling $857,077 received by the City as of December 10, 2009. On average, five months elapsed prior to OEM submitting reimbursement requests for expenditures incurred for the UASI grant program. We determined that the City typically received payment within 24 days of submitting the requests for reimbursements. **Table 2** illustrates the elapsed days that expired prior to OEM submitting requests for reimbursements.

Table 2

2007 UASI Timing of Requests for Reimbursements		
# of Days	# of Invoices	$ Value
30 or less	3	272,819.80
31 to 60	4	163,350.25
61 to 90	1	10,145.76
91 to 120	4	22,888.05
121 to 150	7	154,516.32
Over 150	11	233,356.32
Total	30	$857,076.50
Average Elapsed Time		
Days	153	
Months	5	

Note: Elapsed time begins from the date expense was paid.

[1] These observations relate to City tracking requirements for grant assets under $5,000 and grant asset tracking according to State requirements.

OEM expended approximately $413,000 for six grant-funded positions from May 2008 to December 2009. However, OEM did not submit requests for reimbursements to the State of Texas for these expenditures until April 2010.

We also reviewed nine adjusting journal entries totaling $122,519 for expenditures related to training the Fire staff. OEM did not effectively coordinate with other Fire Divisions to identify these grant expenditures. Therefore, OEM recorded five adjusting journal entries totaling $67,054 in the City's accounting system four to six months after the expenditure date. OEM recorded the remaining four adjusting journal entries totaling $55,465 at least six months subsequent to the expenditure date.

2007 SHSP

We reviewed all 10 reimbursement payments totaling $215,175 received as of December 10, 2009. On average, 10 months expired prior to OEM requesting reimbursements for these SHSP program grant expenditures. **Table 3** illustrates the elapsed days that expired prior to OEM submitting requests for reimbursements.

Table 3

2007 SHSP Timing of Requests for Reimbursements		
# of Days	# of Invoices	$ Value
30 or less	0	0.00
31 to 60	0	0.00
61 to 90	1	624.45
91 to 120	1	89,740.00
121 to 150	0	0.00
Over 150	8	124,810.32
Total	10	$215,174.77
Average Elapsed Time		
Days	309	
Months	10	

Note: Elapsed time begins from the date expense was paid

The City requires departments to request reimbursement within 30 days of incurring expenditures. The untimely submission of expenditures for reimbursement adversely affects the cash flow position and cash management efforts of the City.

2007 EMPG

Requests for reimbursements submitted to the state were allowable under this grant.

2) Tracking Grant Assets

OEM did not track assets purchased with Homeland Security Grant funds according to City and state requirements. Administrative Directive 8.10 requires departments to track any grant asset with a useful life greater than one year. Additionally, the State's Uniform Grant Management Standards require jurisdictions to maintain specific asset information for tracking purposes.

As of November 30, 2009, there were no records in the City's accounting system for assets under $5,000 purchased with 2007 UASI or SHSP grant funds. We conducted an inventory of 50 high-risk assets valued at $98,422 purchased between October 2008 and June 2009. Although, there were no missing items, we determined that OEM had not tracked these items in accordance with existing guidelines.

Recommendation

We recommend the Fire Chief implement Administrative Directive 8.10 by developing formal written internal policies and procedures for grants management to help ensure compliance with federal, state, and local guidelines.

Prior Audit Recommendations

B.1 Inadequate Needs Assessment
The City Manager should require a citywide threat and needs assessment, or gap analysis, that extends beyond departments that are authorized in HS grant applications.

Status: Implemented
OEM is conducting meetings on a regular basis with departments and Homeland Security partners regarding grant funding.

B.2 Management Proficiency Issues
The City Manager should ensure that the current OEM Manager and supervisor Staff receive adequate training in grants management. Alternatively, the City Manager should consider assigning OEM's non-emergency task of grant management to civilian personnel with adequate skills and experience.

Status: Implemented
OEM hired a Senior Management Analyst tasked with managing grants. OEM staff has also received periodic training related to grants management.

B.3 Inadequate System for Safeguarding HS Grant Equipment
The City Manager should designate someone responsible for implementing guidelines, training, and enforcement to ensure that all Departments utilizing grant funds become familiar, and comply with, all appropriate Federal and State grant standards, including OMB Circular A-133:

- Periodically survey the availability of HS grant purchased items.

Status: Implemented
OEM has conducted several physical inventories of grant assets.

B.4 Inadequate System for Recording Grant Expenditures
The City Manager should designate someone responsible for implementing guidelines, training, and enforcement to ensure that all Departments utilizing grant funds become familiar, and comply with, all appropriate Federal and State grant standards, including OMB Circular A-133:

- Develop a process that ensures Prime Vendor expenditures are recorded in the City's ERM/SAP System.

Status: Implemented
OEM has implemented a process to record assets in the SAP system.[2]

[2] This observation relates to the City requirement for recording grant assets over $5,000.

Appendix A – Recommendation Status Summary

No.	Prior Audit Recommendation	Status
B.1	The City Manager should require a Citywide threat and needs assessment, or gap analysis, that extends beyond departments that are authorized in HS grant applications.	Implemented
B.2	The City Manager should ensure that the current OEM Manager and supervisor Staff receive adequate training in grants management. Alternatively, the City Manager should consider assigning OEM's non-emergency task of grant management to civilian personnel with adequate skills and experience.	Implemented
B.3	The City Manager should designate someone responsible for implementing guidelines, training, and enforcement to ensure that all Departments utilizing grant funds become familiar, and comply with, all appropriate Federal and State grant standards, including OMB Circular A-133: • Periodically survey the availability of HS grant purchased items.	Implemented
B.4	The City Manager should designate someone responsible for implementing guidelines, training, and enforcement to ensure that all Departments utilizing grant funds become familiar, and comply with, all appropriate Federal and State grant standards, including OMB Circular A-133: • Develop a process that ensures Prime Vendor expenditures are recorded in the City's ERM/SAP System.	Implemented

Appendix B – Staff Acknowledgement

Barry Lipton, CPA, DABFA, Deputy City Auditor
Brian K Williams, MBA, CIA, CFE, CGAP, Audit Manager
Buddy Vargas, MBA, CFE, Auditor in Charge
Cynthia Brown, MBA, CIA, CFE, Auditor
Doug Frances, MSA, Auditor

Appendix C – Management Response

CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

August 30, 2010

Park E. Pearson, CPA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Homeland Security Reimbursements

Office of Emergency Management has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	**Policies and Procedures** We recommend the Fire Chief implement Administrative Directive 8.10 by developing formal written internal policies and procedures for grants management to help ensure compliance with federal, state, and local guidelines.	6	Accept	W. Nim Kidd, Emergency Management Coordinator David Coatney, Assistant Fire Chief	September 3,2010
	Action plan: See Attached				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

W. Nim Kidd,
Emergency Management Coordinator
Office of Emergency Management

8/30/2010
Date

David Coatney,
Assistant Fire Chief
Office of Emergency Management

8/30/2010
Date

Appendix C – Management Response – continued

Charles Hood,
Fire Chief
Fire Department

8/30/2010
Date

Erik J. Walsh
Assistant City Manager
City Manager's Office

8/30/2010
Date

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Appendix C – Management Response – continued

Response to Audit AU09-010

Homeland Security Reimbursement Audit

Office of Emergency Management

August 30, 2010

Lack of Grant Management Internal Policies and Procedures

The Office of Emergency Management (OEM) currently does not have a formal written internal policy and procedures established for grant management. In the past, the OEM division has primarily used the Department of Homeland Security and State Administrative Agency grant guidance to manage their grant process. The City of San Antonio established an Administrative Directive 8.10 to give Departments guidelines on processing and financial management of grants. In order to comply with this Administrative Directive and address the findings of the Auditors, OEM has written internal policies and procedures that addresses two main areas: 1) Program Management and 2) Financial Management. These policies and procedures are in the final draft stage. The Program Management portion addresses grant application solicitation, application procedure, application content and review, solicitation of projects, monitoring of projects, and program review. The Financial Management portion addresses the financial timelines, audits, accounting procedures, reimbursements, purchasing, inventory tracking and procedures, and recording of obligations and expenditures.

Untimely Requests for Reimbursement

OEM did not have a procedure to identify expenditures ready to submit for reimbursement. OEM is currently in the process of streamlining their reimbursement process. With the hiring of a Department Fiscal Administrator, OEM has been able to shift several duties and responsibilities around in order to become more efficient. OEM has split the responsibility for reimbursement. There are now two people responsible. One is assigned to Police and one assigned to Fire. They are responsible for processing the grant reimbursements and expenditure request from the State. New procedures for submitting grant personnel costs have been implemented. Reimbursements have been submitted in a timely manner for the last two quarters.

Assets not being tracked according to City requirements

OEM did not conduct regular monitoring activities to ensure that assets are tracked appropriately. In order to comply with Federal guidelines, OEM had to conduct an inventory of assets every two years. OEM had taken a proactive approach to account

Appendix C – Management Response – continued

for their assets prior to notification of the City Audit, by assigning an inventory team to this task. This inventory team has completed 98% of the inventory and is due to have a completed inventory list by September 2010. OEM hired a Management Analyst who is now in charge of Inventory Control. This person will be in charge of tagging all assets as well as entering the tracked property information into SAP (City Accounting System) as it is being received at the warehouse or at the different delivery sites. OEM is also looking at Inventory Control Software systems in order to record the movement of the assets.

Assets not being tracked according to State requirements

OEM did not conduct regular monitoring activities to ensure that assets are tracked appropriately. Along with the duties of ensuring that the City requirements are being met, the Inventory Control Management Analyst is responsible for ensuring that the state requirements are being met. This person will be responsible for maintaining the inventory sheets on a daily basis. She is receiving grant purchases and upon receipt is logging them onto the inventory sheet, tagging the property as required by the City of San Antonio and the Department of Homeland Security, and is distributing the items as necessary. She will be conducting onsite inspections to ensure that grant inventory is maintained and will comply with federal requirements of conducting an inventory every two years.

Non-Compliance with Administrative Directive 8.10

OEM primarily uses the Department of Homeland Security and State Administrative Agency grant guidance to manage the grant process. OEM personnel, through the efforts of the Department Fiscal Administrator and the Finance Department, have all been trained on Administrative Directive 8.10. They are also in the process of retraining with the Finance Department on the SAP Grant Budget module. As a backup to the Administrative Directive, the staff will also be fully aware of the Internal Control Policies and Procedures that are being developed.

Untimely Recording of Expenditures

OEM did not coordinate effectively with departments to identify grant expenditures. The primary focus of the fiscal section of OEM is to bring all recording of expenditures up to date. The fiscal section has divided responsibilities into sections in order to expedite the expenditure reimbursements. New practices and procedures have been put into place with regards to the approval process and the entering of the information into

Appendix C – Management Response – continued

SAP. The fiscal section will be completely up to date with these entries by end of this fiscal year.