

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
OFFICE OF FINANCIAL ACCOUNTABILITY
222 THIRD AVENUE NORTH, SUITE 650
NASHVILLE, TENNESSEE 37201

September 2, 2005

Mr. David Manning
Department of Finance
225 Polk Avenue, Suite 250
Nashville, TN 37203

Dear Mr. Manning:

In response to your request, our office conducted a review of the Mayor's Office of Emergency Management grants management and financial operations. We have assembled the results of our review below. We have also attached a resource allocation schedule and a sample grant worksheet to further communicate our conclusions and recommendations.

Background Information

The Mayor's Office of Emergency Management (OEM) is the agency designated for coordinating Davidson County's emergency management program to mitigate, prepare, respond and manage the city's recovery from relatively minor to major emergencies. Currently the OEM is managing eight (8) grants including two (2) direct federal grants from FEMA and six federal pass-through grants through the State – Tennessee Emergency Management Agency. Most of the grants are highly specialized and involve other Metro departments' participation to achieve the desired security objectives. In addition to the grants listed below, OEM has eight (8) other grants that have expired or concluded but are not formally closed which require tracking or some administrative action to finalize the grant closure.

GRANT	TITLE	AMOUNT
Z-05025386-00	Emergency Management Assistance EMA-2004-GR-5007	\$117,656.00
Z-05-025148-00	Homeland Security 05-07	\$2,001,147.00
233-03-0082	FEMA Metro Medical Response Systems 03-04	\$280,000.00
GG-04-11378-00	Multi-Hazard Mitigation Planning 04-06	\$104,429.00
Z-04-019754-00	State Domestic Preparedness Program - 04	\$150,000.00
Z-04-022433-00	U.S. Homeland Security Part II 2004-GE-T4-0006	\$3,536,966.00
Z-03-017740-01	US Homeland Security Part I Equip 03-04	\$250,000.00
EMW-2004-GR-0686	FEMA Medical Response System Program	\$400,000.00
		\$6,840,198.00

Like most grant administering departments, OEM faces several administrative challenges to ensure compliance with grantor requirements, however several indicators point to a greater need in grants management at OEM far beyond the needs of other grant administering departments. OEM has 16 employees most of whom are in operations, including 4 administrative staff (the director, administrative assistant, the deputy director who supervises operations and the grants manager). It must be noted that the agency has recently gone through a turnover of key personnel. These changes have occurred at the same that the organization has received a tremendous increase in federal funding in response to the events of September 11, 2001 and increased awareness of terrorists' threats.

Scope of the review

The Office of Financial Accountability (OFA) is responsible for monitoring the federal and state grants to Metro departments and direct appropriations to nonprofit organizations. A monitoring review is substantially less in scope than an audit. The OFA did not audit nor conduct a full scope monitoring review of the Mayor's Office of Emergency Management grants. This review is a limited scope review of the OEM grants management processes.

Our objectives for this inquiry were:

- To assess the challenges and gaps in OEM's grant management processes.
- To determine whether OEM needs a unique grant accounting system such a Job Cost.
- To assess the adequacy of internal controls and make recommendations as to how to best address the challenges, in the short-term and in the long-term.

The OFA interviewed key OEM personnel involved in grants management including the Executive Director and the grants manager. The OFA also interviewed and inquired

of 2 members of the Homeland Security Grants and Finance Committee including the chair of the committee and also interviewed the representative of the Shared Business Office assigned to OEM. The OFA also reviewed financial reports, contracts and correspondence to gain better understanding of OEM operational needs. Also the OFA, through knowledge gained reviewing other Metro departments, selected and interviewed personnel from three other grants administering departments as best practices for grants management within Metro Nashville Government.

Conclusions:

1. Resource allocation

The grant process within the OEM is typical to other Metro Nashville Government grants administering departments. There are 3 phases; the Pre-award, Award, Program Administration (including compliance/reporting). The grants manager is the only person dedicated to grants management covering programmatic, contractual, and fiscal issues. The OFA determined the OEM is not equipped for complete and comprehensive grant management because the current OEM staffs do not have financial and accounting skills necessary to handle the fiscal issues. As a result, OEM has focused on procurement and program administration while the financial and compliance issues have been less a priority.

In reviewing the OEM grants management process, the OFA determined that a significant portion of the OEM grants oversight activities; both program and fiscal, from Pre-award to Award and Program Administration are being handled by one employee, the grants manager. This individual, appears overwhelmed by the programmatic oversight tasks, but is also responsible for fiscal issues even though she does not have any financial education or training.

The results of a survey the OFA conducted of comparable grant administering departments indicates OEM, unlike most grant administering departments, has only one program employee for all 8 grant programs and no fiscal officer. Other Metro Nashville Government departments managing grants of this magnitude have at least one fiscal officer dedicated to managing the financial transactions and reports preparation. It must be noted that the General Services Department, Shared Business Office (SBO) supports the OEM by handling the financial transactions entries but their support does not encompass all of the duties expected of a designated finance officer. The SBO only provides the services requested by the OEM, which does not include preparation of reimbursement requests, financial report preparation and

comprehensive tracking of grants expenditures including those incurred by partner departments.

	OEM	Police	NCAC
Number of Grants	8	8	21
Multiple years open	Yes	Yes	Yes
Dollar Value of grants	6,840,198.00	4,859,000.00	6,193,487.00
Administer grants (A) or Pass thru (P) or both (B)	B	B	B
Sub-grants/with partners	Yes	Yes	Yes
Number of staff involved in managing the grants	1*	7	9
Program	1	6	5
Fiscal	0	1	4
Average Staff Grants Experience	1 year	4 years	15 years

The weaknesses, gaps and violations of grantor requirements identified through the review that need to be addressed are noted in the accompanying Resource Allocation Schedule. The recommendations listed below and those noted on the Resource Allocation Schedule if implemented will enhance the OEM grants management and eliminate the grantor violations.

Recommendations:

- o OEM should reevaluate the role of the grants manager. To the extent possible, the OEM should separate the program oversight from the fiscal responsibilities. The OFA recommends that the program manager concentrate on the program aspect of the grant requirements and processes while someone with financial training and grants accounting experience handle the grants financial requirements and processes.
 1. In the short term, the role of the financial officer should be handled within the General Services Shared Business Office by the Finance Officer currently supporting the OEM operations.
 2. SBO Finance Officer should prepare the grantor reimbursement reports on monthly basis.
 3. OEM grants manager should assemble and submit to SBO finance officer all necessary attachments to the reimbursement reports.
 4. In the long-term, there is a need for a Finance Officer position either within the Office of Emergency Management or in the Shared Business Office but dedicated to OEM grants management.

- o The OFA further recommends the OEM to:
 1. Revise/update its policies and procedures manual to provide participating departments staff more specific instructions.
 2. Offer training to participating depts. The training must be mandatory for all participating departments.
 3. Require periodic reports (preferably monthly) from participating departments indicating the status of their share of the award with supporting documentation. Such reports should be shared with the Homeland Security Grants and Finance Committee
 4. Require that the grants manager review periodic reports and communicate any concerns to the participating departments.
 5. Require that the grants manager communicate any fiscal issues to the SBO finance officer to update the grant expenditures and commitments files.

2. Slow implementing grant programs and expending awarded grants

The OEM has been slow implementing grant programs primarily due to the resource and management issues mentioned above. During the fiscal year ended June 30, 2003, the OEM expended 63% of the available grants funds. In FY 04 the expenditures dropped to 7 percent and in the past year ending June 30 32005, it expended 40 percent of the available grant funds.

Typically grants are awarded for a specific grant period, referred to as the period of availability, beyond which grants expenditures may not be allowable. The contracts state the grant is effective for the grant period only and it further states "The State shall have no obligation for services rendered by the grantee which are not performed within the specified period."

Period	Grant Funds Available	Expenditures	Percentage Used
FY2002/2003	\$ 671,893.24	420,350.51	63%
FY2003/2004	\$ 3,097,354.73	220,200.84	7%
FY2004/2005	\$ 6,969,116.92	2,753,441.88	40%

Failure to expend grant funds in a timely manner could result in Metro losing any unused funds at the end of the grant period. Such action could also increase Metro's vulnerability to the very actions the grants are intended to address.

Recommendations:

The OEM should take all necessary measures to expedite the implementation of grant programs and utilization of available funds within the stipulated grant period.

3. Lateness in filing claims and reimbursements requests.

The OEM has severe problems accounting and reporting grants expenditures in a timely manner which has resulted in long delays in receiving reimbursements for qualified and allowable expenditures. These delays while using Metro Nashville Government funds to cover federal government expenditures for such expensive projects have resulted in interest expenses to Metro which are unallowable according to federal guidelines.

The majority of the OEM grants require the grantees to submit expenditure reports to document costs incurred prior to being reimbursed, however, the two direct federal grants, allow for drawdowns in advance of expenditures. The FEMA allows grantees to choose either an advance drawdown or reimbursement option for receiving payment. The rest are federal pass-thru state grants which allow for at least monthly reimbursements claims, however the OEM is extremely late submitting the necessary claims. The OEM has over \$800,000 outstanding in claims on the USHS SHSG Domestic Preparedness 04 – 04305012 grant; the SBO Finance officer has identified the eligible cost for the claim but OEM is yet to file the appropriate request for reimbursement. The federal pass-thru state grants contracts states “...*the Grantee shall submit invoices, in form and substance acceptable to the State, with all of the necessary supporting documentation, prior to any reimbursement of allowable costs.*” The total outstanding revenues unclaimed as of June 30, 2005 amounted to approximately \$1.86 million.

The OFA determined the OEM’s challenges/difficulties in accounting and reporting grant expenditures accurately and in a timely manner, is primary due to lack of having individuals with grants and accounting expertise and management skills in the appropriate positions, especially during a period of increased federal spending in homeland security grants. According the OEM, the delay is sometimes caused by the partner departments’ failure to submit the necessary supporting documentation to the OEM to facilitate filing the claim on time.

Recommendations:

- The OEM should establish a process to ensure partnering departments provide the necessary information in a timely manner to allow OEM to comply with

grantor requirements and facilitate the preparation and receipt of reimbursements on time.

1. The OEM should formalize its agreement with the partnering departments by executing Memorandum of Agreements (MOU). This will increase all parties' awareness and compliance level. The MOU process would also afford auditors and monitors measures to evaluate all parties and help identify the underlying causes for lateness, insufficient information and breakdowns in compliance with grantor requirements.
2. OEM should establish a process to ensure partnering departments provide the necessary documents on time.
3. OEM should file expenditures claims timely. The OEM should delegate the responsibility for filing the claims to the current finance officer in the SBO dedicated to OEM operations until a permanent finance officer position is established within the OEM or in the SBO but fully dedicated to OEM operations.
4. The OEM grants manager should provide the finance officer all necessary supporting documentation to facilitate the filing of the claims in timely manner.
5. The OEM should take advantage of the Federal Advance drawdown system for those grants that allow advance drawdowns.

4. Need for Grant Accounting System.

The OFA determined the OEM, like other grant administering departments, would benefit from a Job Cost accounting system designed to address specific grant issues, such as the ability to compile and report job/project costs transcending business units, departmental and fund boundaries. Another benefit of Job Cost is the ability to report project/grant costs from inception-to-date beyond fiscal year-ends. Despite the enhancement that could be gained utilizing a Job Cost module, the OFA also determined several other grant administering departments fare quite well using the current FastNet. Though not the ideal solution, several other departments rely on shadow systems, mainly Excel spreadsheets, to track grants beyond fiscal years, combining the costs incurred by multiple departments toward the same grant.

The OEM currently does not have personnel with grants accounting experience to manage responsibilities internally. The SBO finance officer who currently supports the OEM maintains a detail schedule that tracks total expenditures by grant. The OFA determined that by including information about the participating departments, and extending the current grants schedule being maintained by the SBO finance officer to include costs incurred by the participating departments, the OEM could readily report

costs accurately by grant and by participating department over the life of the grant. An example of such simple worksheet is attached.

Recommendations:

The OFA recommends:

1. All necessary actions should be taken to transfer OEM accounting to the Job costs module as soon as possible after the EBS is operational.
2. In the interim before Job Costs is implemented, the SBO finance officer assigned to OEM should begin tracking the grant expenditures by the department/partner as demonstrated in the accompanying Sample Worksheet. The worksheet should indicate the total award and the expenditures and remaining balances in total and by department/partner.
3. The partner departments should be required to inform the OEM grants manager of any pending purchase orders, requisitions and others commitments. The grants manager should to communicate such fiscal issues to the SBO finance officer in a timely manner.
4. The SBO finance officer should also note any encumbrances, outstanding purchase orders and reserves for specific items not captured in FastNet, when known.

4. Need for Grants and inventory database.

The OEM has expressed a need for a grants database to keep track of its grants. It has also expressed a need for an inventory database to keep track of equipment, assets and pharmaceuticals purchased with grants funds in addition to tracking quantities on hand and reorder points for various medicines. The OFA does not recommend a grants database by itself, however there is a need for an inventory system. When the new Enterprise Business System (EBS) is operational later this year, its inventory module should be able to meet this need.

Recommendations:

1. All necessary action should be taken to transition the OEM to the Inventory module in EBS. This issue should be addressed as soon as EBS becomes operational.

Please note the accompanying Resources Allocation Schedule and the Sample Grant Worksheet are an integral part of this report. We appreciate the assistance the OEM, SBO, Department of Finance, NCAC, and the Police Department staff provided us during the course of this review. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom, CPA
Director

cc: Bill Phillips, Deputy Mayor
Richard Byrd, Office of Emergency Management
Talia Lomax-O'dneal, Deputy Director of Finance
Kim McDoniel, Financial Operations
Don Dodson, Internal Audit
Michelle Lane, Chair - Homeland Security Grants and Finance Sub Committee