



## **INTERNAL AUDIT REPORT**

DATE: October 13, 2016

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Office  
Glenn Brown, Deputy Chief Administrative Officer  
Aldona Valicenti, Chief Information Officer  
Ronnie Bastin, Commissioner of Public Safety  
Pat Dugger, Director of DEM  
Irene Gooding, Director of Grants and Special Programs  
Phyllis Cooper, Director of Accounting  
Susan Straub, Communications Director  
Urban County Council  
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Teresa Gipson, CFE, Internal Auditor

RE: Chemical Stockpile Emergency Preparedness Program (CSEPP) Audit

### **Background**

In 1986, Congress directed the Army to destroy their chemical stockpiles by passing Public Law 99-145, Title 14, Part B, Section 1412. To accomplish this mandate, the Army established the Chemical Stockpile Emergency Preparedness Program (CSEPP) in 1988. CSEPP is a partnership between the Army, the Federal Emergency Management Agency (FEMA), and state and local emergency response agencies in the vicinity of each stockpile.



Blue Grass Army Depot, located just southeast of downtown Richmond in Madison County, is the focus of Kentucky's CSEPP program. Ten counties, including Fayette County, participate in continuous planning and annual full-scale exercises to ensure their readiness for any incident involving the depot's chemical weapons. Because emergency management deals with all hazards and all phases of disasters, much of this work is the responsibility of the LFUCG Department of Emergency Management (DEM) and its counterparts in other counties.

DEM coordinates the CSEPP program at LFUCG. Federal money is awarded to the Commonwealth of Kentucky by the U.S. Department of Homeland Security. LFUCG has an agreement with the Commonwealth of Kentucky to develop preparedness plans for a catastrophic event in Fayette County by providing necessary training, administering cooperative agreements and public awareness of protective actions, and purchasing and distributing communication and alert notification systems (e.g. computer hardware and software, telephone and radio upgrades, siren and tone-alert radios). Once those expenditures are incurred, the Division of Grants & Special Programs coordinates with DEM to invoice the Commonwealth of Kentucky for those expenditures and obtain reimbursement from the available grant funding. According to the Annual A-133 Single Audit Report Schedule of Federal Expenditures for FY 2013 through FY 2015, CSEPP expenditures were \$4,599,425.

### **Scope and Objectives**

The general control objectives for the audit were to provide reasonable assurance that:

- Grant expenditures are allowable under CSEPP regulations
- Allowable goods and services are processed accurately
- Reimbursement invoices are submitted to the state on a timely basis to optimize LFUCG funds
- Expenditures occur during their period of availability for grant reimbursement
- Equipment purchases are adequately tracked and quarterly reports are submitted timely and accurately

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place



during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of our audit included payment activity from July 1, 2013 through April 30, 2016.

### **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

### **Audit Opinion**

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

### **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.



Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

## SUMMARY OF AUDIT FINDINGS

### **Finding #1: CSEPP Grant Funds Forfeited**

**Priority Rating: High**

#### **Condition:**

DEM has a contract with the Kentucky Division of Emergency Management to carry out the functions of the CSEPP program within Fayette County. DEM compiles a Request for Funding CNB Report on an annual basis which provides an explanation for the proposed use of funds in benchmark categories. These benchmark categories are submitted to the state and FEMA for funding approval for an allotted performance period. We determined that LFUCG had forfeited a total of \$131,857 in CSEPP grant funds pertaining to CSEPP 2012 (see Attachment). We were informed by Grants & Special Projects that the time required for expenditure processing and reimbursement may have prevented the use of all grant funds, and DEM informed us that grant rules changed regarding how BOC costs were paid along with the disallowance of using multiple grant years to split projects. We determined that extensions on performance periods may be granted for non-recurring grant costs at the discretion of the state and FEMA; however, some unreimbursed funds were for recurring expenditures.

The Division of Grants and Special Programs processes reimbursement invoices and manages grant finances in PeopleSoft. The Grants Manager has access to the state's computer system and the CSEPP Manager at DEM has access to PeopleSoft. It therefore appears that Grants and DEM have the necessary information to coordinate effectively on the processing of grant payments. However, discussions with Grants personnel conducted during audit fieldwork indicated a need for improved communication between the Division of Grants & Special Projects and DEM regarding this process.



**Effect:**

When federal grant funds are not used during their performance period, CSEPP goods and/or services may have to be funded with local tax dollars or otherwise not be incurred.

**Recommendation:**

We recommend that DEM work consistently with Grants and Special Programs to identify all benchmark categories with available funding and ensure that performance periods are extended in advance of any grant expiration dates where the extension option still exists. We also recommend that coordination and cooperation between Grants and DEM be increased to ensure all available grant funds are maximized.

**Director of DEM Response:**

One overall general comment is that the priority ranking should be reconsidered and changed to LOW for all of the findings.

I feel it is important to provide some background of the funding process prior to the response to this specific issue. All jurisdictions in the CSEPP program make budget projections 3-4 years in advance. These projections become the budget dollars you are given to prepare a budget within going into the next budget year. Even though the federal fiscal year begins Oct 1<sup>st</sup>, the budget may or not be approved for months after the year begins, this is a congressional approval. The money flows for the DOA to FEMA headquarters to FEMA Region IV to KYEM to LFUCG; each having its own timeline and approval process. The last several years the money was not available to be spent until our system opened back up at the beginning of July. Not knowing if this process will take many months or longer, a budget is submitted for one year of reoccurring expenses. During my tenure of receiving the CSEPP grant, (since its inception in 1988), the guidance, federal law and polices have changed many times even within a single grant year.

2012 was an unusual year. Grant guidance policy was changed in that it was no longer allowable to use two grant years to fund a single project. The plan had been to fund part of our new alert and notification system with 2012 dollars. At the time of the purchase we were told that this was no longer allowable and it was past the deadline to reallocate the funding in this benchmark to another project.

DEM does not forfeit funds and works very hard within all the financial system to utilize grant funds to the maximum.



**Commissioner of Public Safety Response:**

In both findings of this audit, communications between DEM and the Division of Grants and Special Programs was highlighted as an area for improvement. My office will coordinate meetings between both as needed until the communications process has been refined and functions appropriately. This should enhance communications and optimize qualified expenditure of allotted funds, procurement processes, and timely processing of invoices.

**Director of Grants & Special Programs Response:**

The Division of Grants and Special Program's Financial Coordinator has read-only access to the state's system—SharePoint. Expiration dates of the various benchmarks are displayed/updated in SharePoint as they are approved by the state agency and the Region IV office. Upon notification by CSEPP Manager that performance periods for project benchmarks have been extended, the Division of Grants and Special Programs staff updates the project end dates in PeopleSoft. Access to PeopleSoft functions is controlled by LFUCG's Division of Enterprise Solutions. If DEM staff needs access to additional PeopleSoft functions, they can make this request for access to DES; however, information on grant balances and encumbrances should be readily available to DEM staff.

The Grants Manager of DG&SP regularly attends the regional CSEPP meetings so that she can effectively coordinate grant management activities with DEM staff.

Regarding CSEPP 2012 funds that were foregone, our file indicates that DEM personnel made efforts to request extended performance periods and to request approval of movement of funds from one benchmark to another from the state agency who then evaluates the request and then sends forward for federal agency consideration and approval/disapproval. The start date for CSEPP\_2012 was October 1, 2011; however, notification of funds available for expenditure did not come to LFUCG until March 2012 (these awards are typically made by the state agency six months into the performance period) with an end date of September 30, 2013. This late award notification decreases the time to expend 24 months of planned recurring operating expenditures into a period of 18 months or less. Only during the initial 24-month period can funds be reallocated from one benchmark to another and extended performance periods for projects be requested. Of the identified "forfeited" funds on the attachment, the largest amount is \$69,910 for the alert notification system. FEMA Region IV had determined in March 2014 (well after Sept 30, 2013)



that we could not pay for the A/N system (Everbridge) with funding from two different years; therefore, this project was paid for entirely from CSEPP\_2013. It was too late to request reallocation of funds from this benchmark for CSEPP\_2012.

**CAO Response:**

The CAO's office supports the recommendations that have been outlined in this section of the audit report. Our office will work with the Commissioner of Public Safety's Office to ensure coordination between the two divisions to make sure all available grant funds are expended to the maximum need.

**Finding #2: Improvements Needed Regarding Procurement and Grant Reimbursement**

**Priority Rating: High**

**Condition:**

To receive grant funding from the Commonwealth of Kentucky, LFUCG must process and make payment to vendors for all expenditures prior to obtaining reimbursement through the state. DEM initiates the procurement of goods and services through the process as outlined in the LFUCG Purchasing Manual. After payment has been submitted to vendors, Grants and Special Programs compiles the reimbursement invoice (master invoice 1801) that is ultimately submitted to the State by DEM for reimbursement of those expenditures. We noted the following issues related to this process:

- We evaluated the length of time it took DEM to submit invoices to the State after payments were made to the vendor. We noted that there were five months in our test period where grant reimbursement requests were submitted to the State more than 30 days after the accounting period end.
- There were four expenditures from the CSEPP 2012 grant that were moved between other grants. The expenditures were initially approved by CSEPP under benchmark code 471 in CSEPP 2012 and moved to CSEPP 2013 under benchmark code 455 (the State reimbursed these expenditures even though they indicated through an e-mail that they did not approve them).
- We noted some issues with timely processing of invoices. It appears that DEM receives some invoices directly and these may not be immediately forwarded to Accounts Payable for processing. As a result, there were two vendor invoices processed from 5 to 18 days late during FY 2013, seven vendor invoices processed from 5 to 87 days late during FY 2014, 18 vendor invoices processed from 3 to 149



days late during FY 2015, and three vendor invoices processed from 6 to 129 days late during FY 2016. We also noted one expenditure item (Mackie Pro FX22 audio mixer) appeared to be incorrectly coded as Office Supplies instead of Equipment Under \$5,000.

**Effect:**

Delays in processing invoices ultimately increase the amount of time needed to request reimbursement for approved grant expenditures. These delays do not allow LFUCG to maximize grant funding. Not processing invoices immediately upon receipt of goods or services does not allow LFUCG to meet our Accounts Payable obligations of Net 30.

**Recommendation:**

We recommend that DEM personnel submit all invoices to Accounts Payable immediately upon receipt, and encourage vendors to submit invoices directly to Accounts Payable. We also recommend that in the event that goods or services have been partially received or rendered, a partial invoice should be requested from the vendor so LFUCG can maintain their obligation of submitting payment within 30 days of receipt. According to the Director of Purchasing, the Requisition can request partial payment options, and the related purchase order can be set up for partial payment processing. We further recommend that Grants & Special Programs continue to coordinate their efforts with DEM to submit reimbursements to the State no later than 30 days after the accounting period end, but preferably within 15 days to expedite reimbursement from the state.

**Director of DEM Response:**

Background of the 1801 review process. I will not discuss the process that Grants have, that I will leave up to Irene. Both the CSEPP Manager and the Administrative Manager review the 1801 for correctness after it is received by Grants, then the review is done by myself. After I complete the review it goes back to the government center to be signed by the Commissioner of Finance. If Tammy or I are out of the office for training or on vacation then the review of the 1801 sits; unfortunately there is no one else that can do these reviews. The expectation that the claim be assembled and reviewed by Grants and Accounting, sent to DEM and be reviewed by 3 persons and signed, sent back to the government center, be signed by CF (Commissioner of Finance), be sent back to DEM and upload to KYEM within 15 days is an unrealistic expectation. We will continue to make the processing of claims a priority and will expedite them in a way that can be done.



Some vendors are willing to submit a partial invoice and some are not, this may continue to be an issue. Advertisements that run over a month or several months are not processed as received until the last advertisement has run. Many times the vendor invoices at the beginning, but does not anticipate payment until the last add has run.

**Commissioner of Public Safety Response:**

In both findings of this audit, communications between DEM and the Division of Grants and Special Programs was highlighted as an area for improvement. My office will coordinate meetings between both as needed until the communications process has been refined and functions appropriately. This should enhance communications and optimize qualified expenditure of allotted funds, procurement processes, and timely processing of invoices.

**Director of Grants & Special Programs Response:**

The Division of Grants and Special Programs makes every effort to complete the reimbursement request within 15 days after the accounting period. Compilation of a request for reimbursement includes invoices for services and copies of cancelled checks, time sheets, and time and earnings report to reflect salaries paid and benefits supported. After DG&SP completes the request for reimbursement, it goes to DEM, where it is reviewed and signed off on by the CSEPP Manager, the Director of Emergency Management, and the Commissioner of Finance and then uploaded into SharePoint for state agency review and approval. DG&SP would like to be able to upload these requests for reimbursement directly into SharePoint in order to ensure timely submission; however it recognizes that the Director of Emergency Management and the Commissioner of Finance would still have to sign off on the request for reimbursement.

**CAO Response:**

The CAO's office supports the recommendations made in this section of the audit. Our office will work with the Commissioner of Public Safety's office to develop a more systematic plan for the invoicing of goods/services upon receipt, and to maintain our obligation of submitting payments to vendors within 30 days.



**CSEPP AUDIT  
CSEPP FORFEITED FUNDS-2012**

**ATTACHMENT**

<b>Benchmark</b>	<b>Agency Explanation of Allowable Expenditure</b>	<b>CSEPP 2012</b>	<b>Available Budget</b>
KY-FAY- 000012	Maintenance Cost Share: Maintenance share of copy lease	9/30/2013	4,705.78
KY-FAY- 000014	Radio Replacement: Replace systems in Fayette County as part of the radio upgrade project for LFUCG and other communication related items as needed.	9/30/2013	1,156.10
KY-FAY- 000061	CSEPP Salaries: Cost to include 0.5 FTE coordinator, 0.5 FTE public information officer, and 0.5 FTE admin support.	9/30/2013	3,564.16
KY-FAY- 000062	Burden/Benefits: Burdens and benefits for CSEPP personnel.	9/30/2013	11,000.00
KY-FAY- 000063	Share of Office Supplies and Phone Service: Provide supplies and equipment to support CSEPP activities, includes cell phones.	9/30/2013	1,160.10
KY-FAY- 000064	CSEPP Exercise Program: Monies for CSEPP exercise materials, general exercise materials, exercise food, and for backfill exercise costs for Lexington Police Department and Lexington Fire Department.	9/30/2013	93.90
KY-FAY- 000076	To provide travel dollars for Fayette Co. EM office program employees and other agencies who work with the CSEPP program.	9/30/2013	2,160.91
KY-FAY- 000449	Cost to include enhancements to the existing communication system. Specifically cost are for wireless service at Jacobson Park.	9/30/2012	32.48
KY-FAY- 000453	Public Outreach program/education program: Line to include costs for development, printing and copying of CSEPP related informational materials, volunteer incentives and preparedness/educational items.	12/31/2014	178.47
KY-FAY- 000456	Traffic control/Reception Center/Evacuee Support: Cost to include supplies and support activities associated with reception and support of evacuees.	6/30/2015	249.02
KY-FAY- 000458	Service/Maintenance Contracts: WebEoc	9/30/2013	25.00
KY-FAY- 000462	Communications System Maintenance: Maintenance costs for all communication devices.	9/30/2013	3,500.00
KY-FAY- 000465	Computer, Software, Hardware: Hardware, software and computer equipment for CSEPP personnel and other agencies that are part of the CSEPP response plan.	Ext 6-30-15	3,174.32
KY-FAY- 000468	Medical Supplies: Monies to be spent for CSEPP medical supplies.	12/31/2015	4,391.79
KY-FAY- 000471	WEBEOC Support Administrative: Contract support for a full-time WebEoc/IT position.	9/30/2013	26,554.59
KY-FAY- 000473	Alert notification system: This is cost share for an interoperable system that allows activation of the sirens, call down system, EAS and alertus beacons through one system.	12/31/2014	69,910.00
<b>Total Forfeited Funds</b>			<b>131,856.62</b>